

CHAPTER – I

NATURE AND SCOPE OF STUDY

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1.1 INTRODUCTION:



Organizations are established with certain vision and mission. Human resources/ employees are the critical resources that actually implement strategies to fulfill the vision and mission. The collective performance of all human resources leads to effective organizational performance and brings necessary competitive advantage. Individual performance; collectively contributing to the organizational performance cannot be left to chance, rather needs to be managed. Managers in any organization are at nodal points; responsible to manage performance of their subordinates and ensure alignment of individual performance with the overall organizational objectives. Traditionally managing the performance was done as a year-end standalone activity called as ‘Performance appraisal’, but with the evolution of strategic human resource management (SHRM), performance appraisal has evolved into an ongoing process called Performance Management or ‘Performance Appraisal System’ (PAS). Hence PAS includes a series of activities that link organization’s strategic goals to individual goals and in turn result into focused performance improvement through fulfillment of those goals. Performance is a combination of ‘outcomes’ and ‘behavior’ at the workplace. Outcomes are the ‘what’ in the performance whereas behaviors are the ‘how’ in the performance. Employees of any organization need to be directed, motivated and developed for better outcomes and behavior. Outcomes can be motivated through rewards but what will motivate a desired behavior? Development chances within an organization are assumed to be drivers of desired behavior. Contemporary PAS are seen to be designed based on outcomes and competencies for behavior. Competencies reflect the expected behaviors that can be developed through various initiatives.

1.2 RELEVANCE OF THE STUDY

Pune has been noted on the world map because of its flourishing I.T. Industry. However, the technology dominance and people intensive characteristics of this industry are inevitable for its success. Further, the organization structure of technology companies; their human resource management and development practices

logically become significant elements to be studied. In this context, the HR practices in general and Performance Appraisal Systems in particular are worth a study

The present study has **Conceptual, Research and Policy** relevance. The study attempts to delve into the concept of Performance Appraisal System (PAS) and its objectives. In the new millennium, one finds a remarkable change in the concept of Performance Appraisal especially with reference to purpose, procedure and outcomes. The researcher finds theoretical evidence regarding use of PAS for employee development. The inclusion of competency frameworks, PM models developed to incorporate company cultures and analysis of contextual factors such as interdependencies, time constraints, cost restrictions etc. as a part of performance evaluation is a testimony to this.

Further, the Review of Literature provides insights about the status of research work conducted on PAS at national and international level, particularly in the I.T Industry. The researcher observes a limited number of studies conducted on PAS in I.T. Industry in India. Furthermore, the studies conducted so far have not considered the effectiveness of PAS in development of employees. This research attempts to fill this gap to some extent.

As regards the policy relevance of the study, in the knowledge industry in general and the I.T. Industry in specific, individual performance is dependent on knowledge, skills and attitudes of its workforce. The industry, in spite of employing highly skilled manpower and giving performance linked pays, is facing a big challenge of retaining them. Especially the middle level employees like project leaders, team leaders, analysts working in managerial positions have a Global/ Virtual nature of work in varied time zones. They need to develop distinct abilities as ‘influencers’ so as to manage a cultural and gender diverse team. Even the individual contributors have an indirect influence on people working around them. Any inability in this direction leads to either a mid career crisis for managers or a high rate of attrition for companies.

The HR policies regarding objectives of PAS in the I.T. companies can be designed with an objective to develop abilities to influence behaviors.

The noted trends in this direction are observed to be use of Feedback (360 degree feedback for creating self awareness in the managers); Training; Feedforward;

Counseling as a part of PAS for development of managers. This research aims to provide the insights regarding development of such policies by studying the assessment and feedback mechanisms and assist in developing the managers into influencers or leaders.

The Performance Appraisal System in software companies is observed to be formal, structured and aimed at individual development of employees. This suggests the utility of the study to examine the extent to which Performance Appraisal Systems are utilized for employee development. Moreover in the present context where the I.T. companies want to optimize human resource productivity, utilizing the PAS for leadership development gives scope for study.

1.3 STATEMENT OF PROBLEM:

The Performance Appraisal System (PAS) is a practice that serves two different purposes: Administrative and Developmental. Performance Appraisal under its developmental purpose is taken as a communication and motivational tool in organizations. Further, Appraisers are expected to provide feedback on behaviors and identify development areas of appraisee's. Appraisee's may also get an opportunity to design their personal development plans as a part of PAS.

It has been observed by the researcher that the feedback on developmental areas identified by appraiser's are not always accepted and may sometimes lead to conflicts. The process of conducting performance appraisal is subjective and bringing objectivity is a challenge. If performed effectively, PAS is expected to positively influence results as well as behaviors of employees. Further, the results of appraisal become an input towards Individual/Team development initiatives in any organization. Hence the researcher seeks to Study the Impact of Performance appraisal systems in select I.T. Companies on Leadership Development.

1.4 RATIONALE FOR THE STUDY

The literature review on PAS put light on various aspects of PAS: concepts, purpose; benefits and challenges. Further, studies related to traditional PA tools and emergence of modern tools helped the researcher to develop a better understanding of its purpose and impact. Similarly, the review of leadership development concept and methodology also reveals distinct mention of PAS as a tool to identify developmental needs.

In the review of literature it was discovered that very few studies have been carried out to study the developmental purpose of performance appraisal systems and equally minimal are the studies focusing on developmental purpose of PAS in the I.T. sector per se. Considering the nature of work in I.T. sector, which is knowledge and skill intensive where success of the companies is entirely dependent on their employees, managers are required to interact virtually with diverse cultures and genders. Changes in their perceptions, communication and perspectives become critical for success of these companies. Studies in this area look into how these needs of development are identified and initiatives undertaken to help take decisions in this direction. Today, employee development has gained a lot of significance globally and become a logical approach to curb the problem of high level of exodus at the managerial level.

The current study is an attempt to find out to what extent the PAS contributes towards identifying leadership development needs. Performance measurement on different parameters is a communication tool to gather inputs on various areas that need improvement. These areas of improvement may be in results/ outcomes or behaviors. The study seeks to identify the extent of contribution PAS may have in developing employees of an I.T. organization. The researcher has made an effort in this direction through a “**Study of Impact of Performance Appraisal Systems in select I.T. companies on Leadership Development**”. The study would contribute positively to the field of management and business administration.

1.5 RESEARCH DESIGN:

Employees in general and managers in specific are the most critical element that brings competitive advantage to an organization. Managers are responsible to assess the performance of their subordinates and further provide them feedback on areas of improvement. The present research is based on researcher’s curiosity about how is PAS implemented in I.T. companies? What are the parameters assessed and methods implemented to assess those parameters? and to what extent PAS impacts leadership development initiatives.

The study has been carried out in Pune city where target respondents are managerial employees of I.T. companies in Pune city.

The study is based on primary and secondary data. Secondary data which is published in books, magazines, newspapers, annual reports provided valuable inputs that helped to analyse the problem under study. Further, the study involves collection of primary data by administering a survey questionnaire.

The sampling frame is based on convenient sampling where researcher selected Pune city where the IT industry shows remarkable contributions. The selection of I.T. companies was based on parameters like medium sized IT companies; headquartered at Pune, doing Software services business. Since the study aims at linking PAS to leadership development, respondents are employees at the middle and senior level. The selection of respondents was random and based on convenience sampling. The survey method used for primary data collection was administered to 339 respondents but received 300 complete responses which were analysed.

The data so collected has been systematically tabulated, classified, analysed and graphically represented.

The outcome of the study is the thesis formally called as the ‘research report’ that presents the research process undertaken in a systematic and logical manner. The problem under study, objectives, methodology, sampling process, data collection methods, analysis, findings, conclusions and suggestions are presented logically.

1.5.1 Scope of the Study:

Leadership development is very crucial for long term success of any organization and performance appraisal is a tool that identifies those developmental needs. The present study is an attempt to create awareness among I.T. companies of Pune towards effective use of PAS as a developmental tool. The researcher has chosen Pune city as the study area and mid-sized Pune based (Head Quartered at Pune) I.T. companies have been considered for this purpose. In all responses of 300 managers have been considered to fulfill the objectives.

1.5.2 Objectives of the Study:

Generally objectives are set to decide the focus of the study. It further indicates purpose and facilitates data collection and analysis. In the present study following objectives were considered:

1. To understand the nature and growth of IT industry.
2. To understand the flow of appraisal related information in select I.T. companies.
3. To understand the performance appraisal system adopted by select I.T. companies.
4. To study the impact of performance appraisal system on behavior and performance of employees.
5. To examine the relationship between performance appraisal and Leadership development.
6. To suggest appropriate measures to correlate Performance Appraisal System with Leadership Development initiatives.

Justification:

The I.T. industry has contributed spectacularly to the Indian economy in the form of revenues, GDP and employment. Hence, the researchers interest to analyse and find the present status of the industry. As employees perform to fulfill organizational goals; performance related information needs to be recorded to facilitate different decisions. The methods used to assess the performance and flow of such information are critical to administrative and development decisions. Further, the approach of feedback to employees about past performance influences their future performance. The positive and negative feedback has different impacts. Feedback based individual developmental decisions aim at leadership development, as it is seen as a means for long term success and a retention strategy for any organization. It also assists individuals to develop and get career advancements. The critical stage is identifying the needs of development for each employee and providing such opportunities to them. Performance Appraisal Systems facilitate to identify these development needs in all its stages.

1.5.3 Hypotheses of the Study:

Hypotheses are the set of presumptions that the researcher starts with and seeks to test in relation to the statement of problem. The suppositions may be proved or disproved. Hypotheses generally help in generalizing about the population parameters after testing. With this background, in the present study, researcher sets the following hypotheses:

1. **Association between Customized Performance Appraisal System and effectiveness in evaluation**
2. **Relationship between (Impact of) Customized Performance Appraisal System and Leadership Development**

Justification:

The I.T. companies have designed the PAS in house or got it designed from a vendor according to their business objectives, culture and competency expectations which increase their effectiveness.

Further, such contemporary method of customization is expected to facilitate the identification of developmental needs and impact leadership development decisions positively.

1.6 RESEARCH METHODOLOGY:

Four reasons guided the choice of the IT industry as a subject of this study. **First**, The industry has got the recognition as a creator of brand India by contributing significantly in terms of revenues, employment generation and value creation (Nasscom Strategic Review; 2010). **Second**, the dynamic work nature of the industry that includes complexity of projects; team work; rapidly changing technologies; 24x7 work culture and globally dispersed work teams. **Third**, the industry entirely thrives on its employees' tacit knowledge, capabilities and performance and **fourth**, the opportunity of professional development received by the employees. A performance management system that provides inputs to various HR systems will directly contribute to organizational goals but development inputs to employees themselves

would contribute towards achievement of personal goals and long term sustenance of the organization.

Even if the industry has been growing in its contribution, very little research has been conducted on PMS of this industry and particularly evaluating the impact of PAS on holistic development of employees. This study aims to provide the insight to organizations in this direction.

1.6.1 Universe and Sample

In the present study, mid-sized I.T. companies head quartered in Pune have been considered. The selection of the sector; companies and employee strata is done based on: contribution to economy; employment generation and significant development needs of the strata respectively. The selection of companies is based on following criteria's:

- i. IT Services Companies: Software services sector is the major contributor to the overall revenues of the IT industry in India.
- ii. Mid Sized Companies: These are companies having annual revenues between USD 100 Million– USD 1 Billion. This criterion has been considered for selection based on the assumption that Mid- sized IT services companies are major players that are contributing an equal share of revenue as large players in the Indian IT Industry.
- iii. Companies Head Quartered at Pune: Since the study pertains to Pune, the researcher found it ideal to consider IT services companies established in Pune.
- iv. A presence for at least 10 years in Pune: To recognize the well established status of the selected company.
- v. Existence of a HR department: A HR department is a logical assumption as the study links HR practice (PAS) to employee development.

Process of sample selection: The researcher found 10 IT Companies satisfying the criteria's established of which 6 (six) i.e. 60% of the population has been considered for the present study. The companies selected have major presence in Pune other than being headquartered at Pune. Further, all the companies are registered with NASSCOM, which is an industry body of I.T. companies in India.

The researcher has selected only a particular strata (managerial employees) out of the total employees as they are the future leaders of the companies and also responsible for

developing their subordinates. The researcher estimated the total number of respondents existing in this stratum and the required respondents were selected from this stratum.

The researcher selected respondents from strata by random sampling as that was the most convenient method under the present research work.

The total number of employees of the selected companies and respondents (employees in the middle and senior level) are shown in the table below:

Table 1.1: Table showing sample selection of companies and managers

Sr. No.	Name of Company	Yr. of Establishment	Total No. of Employees	Employees at middle and senior level	Manager respondents selected
1.	Persistent Systems	1990	8000+	450	80
2.	Zensar Technologies	1991	6800+	440	64
3.	KPIT Technologies	1990	10,210	500	90
4.	Cybage	1995	5,000+	300	43
5.	Tata Technologies Ltd.	1989	6,300	430	54
6.	Nihilent Technologies	2000	1500	50	8
	Total			2170	339
	Actual responses received				300
	%age				13.82%

1.6.2 Sources of data:

In the present study, both primary and secondary sources of data have been used to gather information, which can be classified in table 1.2:

Table 1. 2: Sources of Data

Sources of Secondary data	Sources of Primary Data
<ol style="list-style-type: none"> 1. Published annual reports of selected companies 2. NASSCOM Reports 3. Surveys of HR consulting agencies 4. Research of Executive search firms 5. Websites related to the subject under study 6. Theses submitted on related topics 7. Research Articles published 8. Books on related areas 9. Newspaper articles 10. MCCIA meetings 	<ol style="list-style-type: none"> 1. Informal discussion with managerial cadre employees 2. Discussion with HR heads 3. Focus group discussions on the subject 4. Questionnaire method to collect data

The secondary sources of data served different purposes:

The company annual reports provided information on Annual revenues, number of employees and information on other HR aspects. The search of Journals in print and online gave insights/updates of research aspects studied in the area of study. Newspaper articles helped to get recent knowledge by consulting agencies, research findings and contemporary concepts in the area of study. The theses submitted in various universities highlighted the different aspects studied under different industry sectors in the area of study. The books helped to gain conceptual clarity whereas NASSCOM reports helped to gain insight into industry status. The MCCIA meetings attended gave knowledge about opinions of industry experts.

1.7 PRIMARY DATA COLLECTION:

The researcher has used questionnaire method for collecting the primary data to get first hand information on major objectives. The researcher designed a structured questionnaire to administer and collect data from strata of respondents.

The net number of respondents who gave their opinions was 300. Further, the researcher tried to obtain primary data through personal views of managers and substantiate it through expert views and focus group discussions.

1.7.1 Research Instrument

The primary data has been collected by the questionnaire method as this is the most popular method of collecting first hand information. Questionnaires are the most convenient way of collecting responses for a phenomenon from a large number of respondents and help to validate generalizations. Due to constraints on time and access to respondents, the questionnaire for the study was designed and administered as an online survey. The questionnaire had four sections namely I, II, III & IV. Section I was designed to collect information of Managers as respondents; Section II dealt with Flow of performance related information in the IT organizations; Section III aimed to collect information on Performance Appraisal System in detail and Section IV contained questions that looked at the link between PAS and Leadership Development.

The questions in each of these sections were closed ended having multiple choices with some of them having open ended options. The respondents ticked or filled the necessary information. Some questions also used Likert scale.

Further, the consistency and reliability was tested by the researcher by conducting a pilot study among selected respondents. The pilot study also helped to check the validity of the tool in order to correctly measure the characteristics under study. The contents of the questionnaire were duly checked and justified by the guide, experts in the industry and respondents.

1.7.2 Pilot study

The researcher conducted an experiment to test the efficiency of the instrument in furnishing the required information. Pilot study is aimed at identifying and revealing the lacuna's and improvements required in the design of the instrument that can be addressed in time before the large scale study. The researcher conducted a pilot study on 25 respondents working at various managerial positions to test the validity of the instrument. The feedback from the respondents was incorporated and a better clarity and validity of questions was ensured by making the necessary changes.

1.7.3 Data Editing and Coding

The researcher administered the questionnaire personally to the respondents. The researcher faced difficulty of personally contacting the respondents and overcame it

by administering the questionnaire online to the respondents. The data was received in a MS-Excel sheet. The data so collected from the respondents was further checked for completeness in responses, incomplete questionnaires were rejected and the valid questionnaires were accepted. The Statistical Package for Social Sciences (SPSS) package version 11.5 for MS Windows was used to perform statistical analysis.

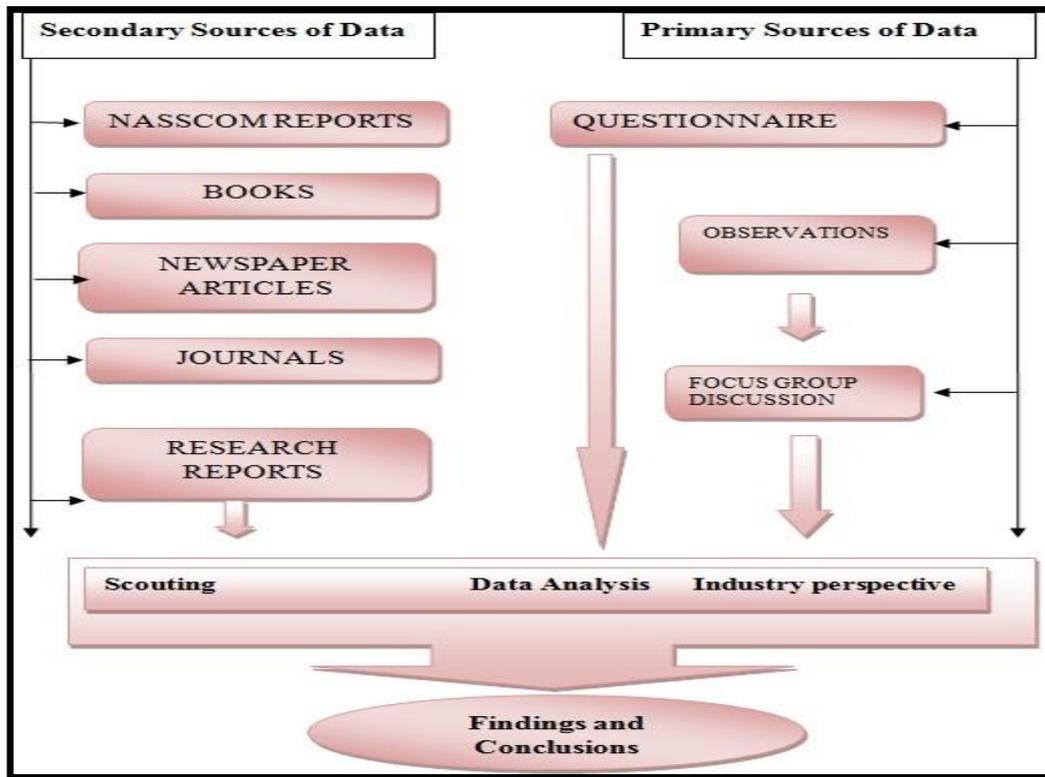
1.8 STATISTICAL TOOLS AND TECHNIQUES

In the present study, the researcher has used following statistical tools: Tabulation, Classification, Diagrams, Graphs, Averages, Percentages, Correlation and Chi-Square test to serve the purpose of clear demonstration of certain aspects. Figure 1.2 explains statistical tools used and their purpose:

Table1.3: Statistical Tools Used

Sr. No.	Tools	Purpose
1.	Diagrams	To clarify concepts
2.	Tables	To present data in tabulated form
3.	Charts	To represent data in pictorial form
4.	Percentages	To represent the proportion of the total
5.	Correlation	To establish a relation between customized PAS and effectiveness of evaluation.
6.	Chi Square test	To show the association between independent and dependent variable

1.9 FLOW CHART ON RESEARCH METHODOLOGY



1.10 LIMITATIONS OF THE STUDY:

The researcher undertook the study alone which posed constraints in selection of sample, access to respondents and collecting data. Further, time frame of the study and limited resources of researcher have restricted the researcher to limit the study to selected companies. Hence, the study has considered only 06 (Six) companies from Pune city and has a restricted coverage. Further, the sample size is 300 which is not very large sample.

Qualitative research for sensitive HR practices like PAS as considered for the present study prove effective and would give more appropriate findings if quantitative and qualitative methods of data collection are used. The researcher wanted to use triangulation to cross check the findings from quantitative method by using the qualitative method of personal interview. The researcher's effort to conduct formal personal interviews did not prove successful. The HR experts were reluctant to respond on the grounds of time constraints but researcher felt they were reluctant to express fair and honest views. The respondent's (Managers) reactions were also of

indifference on the pretext of questionnaire's length and their own work pressures. Even the online survey questionnaires were ignored by many respondents. Further, open ended questions intended to gather qualitative data in the questionnaire during the pilot study were also not responded by managers. Hence, the researcher was forced to include only closed ended questions as a part of survey questionnaire.

1.11 WORKING DEFINITIONS:

- i. **Annual Report:** The statement of annual records prepared for an accounting year that indicates the changes in financial position and provides details about other aspects like initiatives undertaken for human resource, CSR etc.
- ii. **Human Resources:** It is the set of individuals who make up the workforce of an organization, business sector or economy.
- iii. **HR Practices:** Human Resource activities undertaken by HR departments like recruitment, performance appraisal, training and development, Compensation and Reward etc.
- iv. **Human Resource Management:** It is a function of organizations that looks at maximizing employee performance in service of an employer's strategic objectives. It is primarily concerned with the management of people within organizations, focusing on policies and systems.
- v. **Human Resource Development (HRD) :** HRD is the framework for helping employees develop their personal and organizational skills, knowledge, and abilities by providing the necessary opportunities that focuses on developing a superior workforce so that the organization and individual employees can accomplish their work goals.
- vi. **I.T. Industry:** Industry comprising of IT services and Business Process Outsourcing (BPO) companies.
- vii. **I.T. Company:** Company providing IT solutions to businesses that provides operational efficiency, productivity gains and cost savings to the clients.
- viii. **Leadership:** Leadership is a dynamic interactive 'influence process' among individual and groups with the objective to lead one another to achieve group or organizational goals or both.

- ix. Leadership Development:** It is the process of developing capabilities in individuals by identifying the needs of development and undertaking development initiatives for identified executives.
- x. Managers:** Employees in I.T. companies at such a job position who are responsible to overlook the performance of a team or group of people.
- xi. NASSCOM Annual Report:** The annual statement of industry body of IT Industry reflecting the overall status of the IT-BPM industry in India. It reflects changes in various sectors of the industry and key initiatives undertaken.
- xii. Performance Appraisal:** A stage in the Performance Appraisal System which relates to assessment or evaluation of performance based on certain parameters of performance.
- xiii. Performance Appraisal System:** A holistic system that aims to link individual performance to organization objectives by systematically planning; managing and assessing behaviour and results to improve overall performance.

1.12 CHAPTER SCHEME:

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APPENDICES

MODEL QUESTIONNAIRE