CHAPTER I – INTRODUCTION & CONCEPTUAL BACKGROUND

1.0 Organization of the Thesis

This thesis is organized into five chapters as follows:

Chapter 1:

In this chapter, the concept of Performance Management has been introduced (PM). Competency Based Performance Management (CBPM) has been explained with its Importance. Further, Business Performance concept has been introduced. Important aspects of Information Technology (IT) Industry in Indian context are discussed. An overview of Pune’s IT Industry is also given. Further, an attempt is made to outline why IT companies in Pune have been made focus of the study and why the study is considered necessary, with its possible contribution.

Chapter 2:

This chapter is divided into three sections. In first section, the detailed review of previous research work on Competency Based Performance Management (CBPM) has been done. In Second section of this chapter, various methodologies (tools) developed by industry experts to review the Business Performance parameters have been studied. Finally, the Research Gap has been identified, with the need and justification of the study. The chapter concludes with list of previous relevant research studies and findings.

Chapter 3:

This chapter discusses the research framework and methodology that has been chosen for this study. The methodological assumptions are explored, focusing on all aspects related to the theoretical framework. Research questions are developed; research methods are described and evaluated. Data collection techniques used for this research are discussed. This chapter includes the evolution of hypotheses and questionnaire creation. It also introduces sample selection criteria, analyses and points out the research constraints.
Chapter 4:

This chapter applies the theoretical framework to the research study. Impact of competency based performance measures on individuals and organizations is studied in this chapter. Research questions are analyzed and inferences are drawn. Kolmogorov-Smirnov and Run Test are used. The hypotheses are tested with ANOVA. Factor Analysis is used. Path analysis has been done. Interpretive Structural Modeling (ISM) methodology is used to evolve the mutual relationships among Business Performance parameters. Detailed analysis and findings are presented in this chapter.

Chapter 5:

Key findings of this research study, which have been derived from data analysis are presented in this chapter. This research focused on impact / relationship of Competency Based Performance Measures on Individual, Managerial and Business Performance in IT companies in Pune region.
1.1 Introduction to Performance Management

Today, Organizational Management practices are focusing on working towards and acting as facilitators in improving the performance of its employees, which is in turn driven towards development of high performance organization. Performance Management (PM), therefore, assumes importance. PM is both - a strategic and an integrated approach to delivering successful results in organizations by improving the performance and developing the capabilities of teams and individuals (Armstrong & Baron, 1998).

Noe, et al (2003) define PM as a process through which managers ensure that employee activities and outputs are congruent with the organization’s goals. Thus, the role of Human Resources Management (HRM) in the present PM scenario has undergone a sea change and its focus is on evolving such functional strategies which enable successful implementation of major corporate strategies.

Mucha (2009) defines performance management as an ongoing, systematic approach to improve results through evidence based decision making, continuous organizational learning and a focus on accountability for performance. It uses evidence from performance measurements or appraisals to support effective planning, funding and operations within the organization. This empowers managers to improve on services or products on offer, and increasing both customer satisfaction and where applicable, profits.

Since performance management is critical in today’s competitive business environment and subsequent organizational battle for leadership, it is a much broader and a complicated function of HR. It encompasses activities such as joint goal setting, continuous progress review and frequent communication, feedback and coaching for improved performance, implementation of employee development programs and rewarding achievements. The process of performance management starts with the joining of a new incumbent in a system and ends when an employee quits the organization.

In summary, performance management is an organizational strategy where employees and managements agree on clearly set objectives that need to be met, and which result in
reciprocal rewards for the employees as well as the organization. As employees commit themselves to the vision of the company and achieve organizational goals, they are being rewarded by the organization through incentives like promotions or salary increase while the organizations reap profits.

1.2 Global trends in Performance Management

Global trends show that performance management is an established practice worldwide. Performance management can be viewed from the perspective of whether it drives business results, what are performance expectations, whether there is a system of performance feedback & coaching and lastly whether performance is linked to rewards. Following survey (Mercer, 2010) shows the trend of performance Management worldwide:

![Diagram No.1.1 Current State of Global Performance Management](image-url)
It is seen from the above survey that Performance Management concept still needs to grow within Indian corporate houses. While there is training on PM, it needs to be seen as a driver for results which in turn needs to be linked to a constructive feedback and reward mechanism.

1.3 Introduction to Competency Based Performance Management (CBPM)

In the present business environment of cut throat competition and globalization, competency based practices have gained much of an attention from the contemporary organizations. They aim at achieving an optimum performance in the long term by developing the skills and competencies of the employees on a continuous basis. Competency based management systems are primarily employee centric performance management systems and focus upon how an organization achieves a desired performance. By aligning competencies within the performance management framework, supervisors provide a feedback to employees on performance goals achieved and how the work was performed.

Competency focused performance management systems can serve as a useful tool for helping the employees in understanding the performance expectations and improving their competencies.

The competency base can be used to assist supervisors and managers to appropriately assess employees against clearly defined performance expectations. This model can help in acknowledging when an employee has done well and met the performance expectations as well as identifying where there are gaps (differences between assessment results and required competencies for the job).

1.3.1 Competencies – what are they?

The first time the term competency was introduced to the psychology literature was in 1973. In his article ‘Testing for competence rather than for intelligence’ David McClelland (1973) claims that the content of traditional tests of academic aptitude and knowledge in fact have neither predicted job performance nor success. Since then competency has become a significant factor in Human Resource practices.
Competencies are probably most closely related to abilities. However, the term ability normally means either capacity to perform a task or a special talent; while competencies relate more to expertise and experience. Competencies can be thought of as the state or quality of being well qualified to perform a task. A person gains competency through education, training, experience, or natural abilities.

A competency can be defined as “an underlying characteristic of a person which results in effective and or superior performance in a job” (Boyatzis, 1982).

1.3.2 Competency Based Models versus Historical (Traditional) Models

Jobs have been changing at a rapid pace over the past 20 years; competency-based performance management is becoming a more useful tool than the historical skill-based, transactional process. The nature of work is changing from single-skilled jobs to multi-skilled jobs, from repetitive tasks to problem-solving tasks, from individual work to teamwork, and from functional specialization to collaboration.

Taking a look at the ways in which work is changing, it is necessary for the organization to move from skill-based performance to competencies based performance measures.

Competency-based performance evaluates large sets of capabilities and knowledge which can significantly improve organizational productivity to a much greater extent than just doing a job using an existing skill set.

The major difference between traditional job based models and competency based model lies in their approach in identifying the knowledge, skills, attitudes (KSA) needed for successful performance. The dominant approach in performance management has focused on designing organizations around job structures. This traditional job based approach starts with a job analysis to identify job-related tasks, which are then used to identify a list of KSAs that are required for successful job performance.

On the other side of the coin are competency-based models. These start with the performance indicators of expert performers to produce a list of grouped competencies,
related to effective or superior performance. The question is not which KSAs do we believe are required to perform a job, but which KSAs do superior performers in a job possess and use? A person-to-organization match provides an organization with the core competencies needed to maintain a competitive advantage.

1.3.3 The Growing Role of Competencies in Performance Management

Most organizations use a performance rating (typically a one-to-five scale or similar) which is made up of two components:

a) Performance: The employee’s attainment of certain previously assigned goals. One could consider this the “what” – what did this employee accomplish?

b) Capabilities: The employee’s level of competency with various values and skills that enables the achievement of these goals. These capabilities are considered the “how” – how did the employee accomplish these goals?

The first component, performance, is fairly easy to define and measure. Goals are defined once per year; they often have specific clearly defined measures and, their attainment is easy to measure. One can compute the percent attainment of each goal, give each goal a weight and come up with a rating.

The second component, capabilities, is much more complex. More importantly, the capabilities or competency part of a performance plan defines an employee’s “methods of achieving results,” his / her “potential” to be promoted to more demanding assignments. People must develop and display certain competencies in order to be considered successful. The critical elements of performance management are coaching people to develop the competencies and its further linkage to performance appraisal and rewards.

Performances measures are tools used to follow-up the past performance in an organization, predict the level of future performance, and accomplish improvements in performance. The competency framework thus becomes the basis for all people functions and can serve as the “linkage" between individual performance and business results.
1.4 Introduction to Business Performance

Business performance combines a set of management and analytic processes that enable businesses to define strategic goals and then measure (and manage) performance against those goals. Core business performance management processes include financial planning, operational planning, business modeling, consolidation and reporting, analysis, and monitoring of key performance indicators linked to strategy. Business performance management involves consolidation of data from various sources, querying, analysis of the data, and putting the results into practice.

Definition:

“Business performance management encompasses all the processes, information, and systems used by managers to set strategy, develop plans, monitor execution, forecast performance, and report results with a view to achieving sustainable success no matter how success may be defined”

While using the basic business performance management model, organizations start with defining their strategy, then move on to measuring performance, then use these indicators to analyze performance in order to extract insights and make better informed decisions which lead to actions and performance improvements. Traditional business performance measurement systems rely on financial accounting measures, e.g. revenue growth rate, return on investment, market share, and unit costs. However, various methodologies for business performance management consider a top-down framework to align planning and execution, strategy and tactics & business-unit and enterprise objectives. These include:

1. Six Sigma Strategy,
2. Balanced Scorecard,
3. Activity-based Costing,
4. Total Quality Management,
5. Economic Value-added,
6. Integrated Strategic Management, and
1.5 Why this study is considered necessary and its possible contribution

The purpose of this study is to study the relationship between competency models and organizational performance. Since IT sector is inherently HR centric, competency modeling is an important area for IT sector companies as it will involve a transition from the traditional way of managing human resources based on what people have (e.g. qualifications) to what people can do (performance).

The relevance of Competency-based Performance Management model for IT sector can be attributed to the following characteristics of the sector:

1) **Uncertain Environment**: In uncertain and rapidly changing global environments, hard results and objectives are often rendered irrelevant by external events. In such situations, evaluation must be based on whether employees did everything they could, whether they were competent enough and demonstrated the right behavior rather than achieving targeted results. The less control employees have over results, the more performance should be based on expression of competencies.

2) **Qualitative/Process Service Jobs**: In IT jobs it is difficult to measure the outcomes. Qualitative skills, i.e. competencies, are the best indicators of employee performance. The more subjective the job output, the more important it is to appraise competency behaviors. In software companies the output or delivery is highly dependent on the individual’s competency.

3) **Jobs Intended for Development of Future Performance**: The organization as a whole needs to demonstrate improved competency levels so as to survive in competitive environment and deliver the output.

4) **Changing Organizational Strategy, Focus, or Markets**: In changing environments and organizations, employees' potential to contribute to the firm in the future may be more important than their past performance. For example, the ability to sell a firm's new software products in a global market may be more important than sales of older products in domestic markets. Most performance management systems are past oriented. The greater a firm's emphasis on future
performance, the more its system should stress development and appraisal of competencies.

5) **Employee-centricity**: Competency based management systems are primarily employee centric performance management systems. IT industry is purely based on knowledge, skill and ability. **Client Specific Needs**: An IT company undertakes the projects from different industry verticals and segments. The industry needs to maintain required set of competencies for project delivery.

It is noted that, globally, in IT sector, Microsoft Inc. implemented competence management system by defining 300 competencies in 4 categories (Davenport & Prusak, 1998), while Ericsson extended SAP module with competency catalogue to deliver superior performance (Hustad & Munkvold, 2005). An Oracle Inc. White Paper (2005) mentions that Competencies play a key role in linking a broad variety of business processes together. A framework that is used as the foundation of IT sector’s talent management strategy should ideally provide the link between human resources (since they are the backbone of IT sector) and tangible business outcomes. Defining and measuring competencies therefore becomes crucial.

Considering the above, a study to bring out benefits of using the competency based framework for human resources subsystems such as recruitment & selection, training & development, and performance management assumes importance. This is expected to:

1. Shift approach from a day to day organizational operation to a competency based one; an approach to managing employee performance based on both “what” is achieved and “how” results are derived;
2. Provide a systematic approach to human resource activities and make them more effective. The competencies used in selection and assessment may yield training need benefits; and
3. Provide the organization with a common language to understand different roles and responsibilities that will help employees to know how they can grow to fulfill their aspirations.
1.6 Why Pune’s IT Sector is focus of this study

Indian IT sector is on the growth path since early 1990s – after the liberalization push. Its revenues (exports plus domestic) grew at a CAGR of 16% between 2008 to 2012 to exceed $ 100 billion (approx Rs 4,63,900 crores), while IT sector’s contribution to national GDP grew from 1.2% to 7.5% (NASSCOM Report). The growth was due to superior quality, cost and execution efficiencies. IT sector is expected to play a much bigger role in the new millennium in the growth of Indian economy.

Pune has acted as an important contributor (estimated at about 11.5%) in this growth. The IT sector in Pune has come up a long way over the years. From a modest Rs. 700 crores of exports in 1995-96, IT industry exports from Pune region in 2012-13 have touched Rs. 29,000 crores (as per Software Technology Parks of India, Maharashtra Times, January 29, 2014), making it perhaps the number 2 city in India after Bangalore.

Corporate Presence In Pune: Pune’s IT industry began with huge talent pool drawn from manufacturing industries and engineering colleges and professional training institutions. The industry continues its growth with the entry of more and more IT companies from India and abroad. Those who have been here have been expanding tremendously. Pune’s IT companies have made a mark on the world map. Out of these, Indian companies include TCS, Infosys, Wipro, Persistent, Zensar, KPIT Cummins, Geometric, L&T Infotech, Patni and Neilsoft. Multinational companies include IBM, HSBC, Siemens, Capgemini, Maersk, Accenture, Symantec, Cognizant, PTC, BMC, EDS, Ventura, BNY Mellon, WNS, EXL, Sybase, SAS and Oracle.

Expertise of Pune IT Industry: Pune’s IT expertise comprise of the CAD/CAM/CAE, Process Control and Automation, Design Engineering, MIS, Network Protocol, Internet and Intranet Applications, Client Server Architecture, Systems programming, Embedded Systems, Digital Signal processing, multimedia, web hosted tools, e-education, ERP Applications, Tools and implementation, software testing, software products, BPO, KPO and more. Pune’s IT companies serve wide spectrum of sectors as Automotive, Airline, Engineering, Automation, Networking, Energy Systems, Telecom, Oil and Gas,
Hospitality, Healthcare, Financial Services, Logistics, Retail, e-Governance and Education.
It is therefore considered relevant that such a research study in Pune’s IT sector would definitely help in its future progress and growth.
1.7 Chapter References


