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IMPLEMENTATION OF PERFORMANCE MANAGEMENT SYSTEMS IN INDIAN IT INDUSTRY: AN EXPLORATORY STUDY

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ABSTRACT

The Information Technology (IT) industry is fast growing industry and deals with highly skilled work force. The conventional appraisal systems are upgraded to Performance Management Systems (PMS) that are more comprehensive. The success of the PMS depends on the level of implementation. Performance planning and performance review are two important steps of PMS processes. The firms are imposing forced rating for deciding the performance based pay to the employees. Both managers and employees have reservation about the practice of forced rating. The study is conducted to assess the periodicity of PMS activities and rigor of these activities. An online survey is conducted among Information Technology professionals of Hyderabad. The data is analysed by calculating the frequencies and graphical representation. It is found out that both performance planning and review are conducted as annual exercises. Periodic review and revision are not practiced. The Performance Review Discussion (PRD) is also more like earlier appraisals, but no effort to identify corrective actions. Employees do not believe that forced rating increases productivity. It is recommended to implement the Performance Management Systems more rigorously. There is a need to discontinue forced rating of the employee performance and find alternate mechanisms for motivating employees.

KEYWORDS

performance management system, forced rating, performance planning, performance review discussion, productivity.

ABBREVIATIONS

HRM	Human Resource Management
HRD	Human Resource Department
IT	Information Technology
KPA	Key Performance Areas
PDCA	Plan Do Check Act
PMI	Project Management Institute
PMS	Performance Management System
PRD	Performance Review Discussion

1. INTRODUCTION

IT industry depends on highly skilled motivated professionals. To retain and nourish the talent the firms started practicing performance based pay. Firms have realized that to nourish and retain the talent, they need to upgrade earlier appraisal systems to more sophisticated Performance Management Systems (PMS). Thus, the performance management systems (PMS) have gained prominence in Information Technology (IT) industry. Performance planning, measurement and review are the prime activities for the success of implementation of performance management system. There are considerable studies on Human Resource Management (HRM) practices. There are also few more studies on employee attitudes and the factors for improvement of employee performance. However, we thought that study of implementation of performance management itself would throw more light on the issues and concern for the management for achieving the desired results from these practices. We have conducted an online survey on employees working in IT industry located at Hyderabad. The findings are presented in this article.

2. REVIEW OF THE LITERATURE

2.1 PMS Processes: The Performance Management Systems (PMS) implementation is vital for the employee performance and firm performance. (Armstrong Michael, 2007; Kandula R Srinivas, 2009; Aguinis Herman, 2009) The successful implementation of performance management system increases firm performance. (Maniam Kaliannan, 2015) The performance management systems are designed on the principle of PDCA (Deming's circle). The Planning, activity, review and corrective action based on review are the four stages of PMS. The planning includes both performance and development plans. Key Performance Areas (KPA) and corresponding measures are decided in the beginning of the year. The measures are reviewed and modified in the midterm reviews. At the end of the year, annual review is conducted to assess the performance and rate the employee. The employees are rewarded based on the performance ratings. (Armstrong Michael, 2007; T V Rao, 2007) The employee's performance ratings are forced to a bell curve by many IT firms. (Sanyal MK, 2014)

2.2 PMS Implementation Issues: The PMS implementation has many challenges. Measurements can be erroneous due to usual human factor. Managers are reluctant to rate their employees and most of the times employees are not convinced that ratings are fair. (Henderson I Richard, 2007, Chada Prem, 2003) The performance measures can be dysfunctional. (Spitzer R Dean, 2007) Employees have accepted pay for performance but not convinced that the link between pay and performance is properly set. (Boice F Deborah, 1997) The Indian IT firms are adapting US based HRM initiative but the design and implementation is not effective in Indian context. (Wright P Robert, 2004; Bradley L Kirkman, 2001)

2.3 Gap: There are studies on identifying factors for motivation, retention and performance. (Akella Sastry, 2016; Gupta Sangeeta, 2011; Saraswathi S, 2011; Punia B K, 2008) There is a study on IT industry with a focus on firm performance. (Bolar P Kartikeya, 2009) There is a study on intellectual capital in the Indian Information Technology Industry. (Kavida V, 2010) There is another study on human resource practices based on chairman's speech. (Mulla R Zubin, 2008). There is a study on performance appraisal implications in IT firms of West Bengal. It has been suggested that such studies be conducted in other clusters. (Sanyal MK, 2014) We could not find studies on implementation of PMS alone in IT industry especially in Hyderabad. We have identified study of implementation of PMS in IT firms of Hyderabad as a gap to be filled with this study.

3. NEED AND IMPORTANCE OF THE STUDY

The purpose and process of PMS is well defined. Before assessing the success of implementation of PMS, it is essential to understand whether PMS processes or implemented as per the recommended practice. Unless the process is in place, we cannot test whether the process is giving desired results. It helps the management to decide whether they have to focus on implementation or change the process itself. Another important input required for the management is whether the employees accept the bell curve.

4. OBJECTIVES

The study is conducted with the following objectives.

1. To determine whether the PMS process are practiced as per the theory
2. To determine the employee perception of forced rating

5. HYPOTHESES

The following hypotheses are tested in this study.

- H1 Performance Planning is done at the beginning of the year.
- H2 Performance Planning is revised during the year.
- H3 Performance Review is done during the year.
- H4 Performance Review is done at the end of the year
- H5 Feedback is provided during the performance review
- H6 Forced rating increases productivity
- H7 Forced rating causes dysfunctional measurements

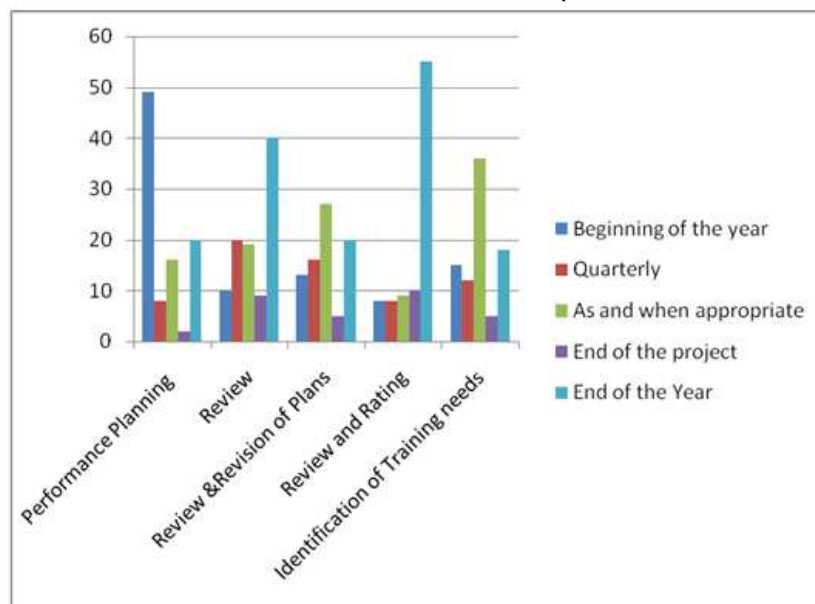
6. RESEARCH METHODOLOGY

The study is conducted using on line survey. The survey instrument is prepared to collect the data on performance planning and review. Another important aspect of performance management system is forced rating of employees in a predefined curve to decide performance based pay. Three sets of questions are prepared. One set enquired about the periodicity of performance management system activities. The second set is on feedback during Performance Review Discussion (PRD). The third set is on effects of forced rating. All the questions are structured and respondents are given options to choose. The demographic variables are age, role and area of working. The IT professionals of PMIPCC members are requested to participate in the survey. Out of 95 responses received only 72 are considered for analysis. We have 38 responses from Application development, 13 responses from Infrastructure management, three from ITES, four from E&T and 12 from other support services. We have ten team leaders, thirty project managers and seventeen senior managers in the participants. The balance respondents are team members, top management and other supporting roles. The respondents are adequately represented from different roles and areas of operation. The answers are analysed using frequencies.

7. RESULTS AND DISCUSSION

Performance management system comprises of performance planning, performance review, performance rating and identification of skill improvements. We have enquired about the periodicity of these activities and the same is presented as "Performance Activity Frequency Table" in Table 1 of Annexure I. The graphical representation of the performance is given in Graph 1 below:

GRAPH 1: PERFORMANCE ACTIVITY FREQUENCY



The performance planning is conducted for majority in the beginning of the year and it is as per the recommended practice of PMS processes. The performance rating is done at the end of the year. The midterm reviews are not predominant. The revision of plans during the year are also not many. There is an evidence that plans are revised based on the need, but not at a predefined fixed interval. We tried to understand whether there is an independent process to identify the training needs of the employee. The training needs are identified based on the requirement i.e. as and when appropriate.

There is a positive evidence from the responses that performance Planning is done at the beginning of the year. We can conclude that hypothesis H1 is true.

There is no confirmation that performance plans are revised as process during the year. Plans are revised as an exception whenever the manager and the employee together decide to revise the plans. We cannot conclude that hypothesis H2 is true.

The performance review is enquired under three categories. The review alone, review along with revision of plans and review along with performance rating are the three categories. Majority have stated that review and review with rating are done at the end of the year. The PMS theories suggest that the review is also conducted by the project manager at the end of the project. This will facilitate to identify the contribution during the project execution. Very few participants have acknowledged that review is done at the end of the project. The review is not evident at the end of the project. Similarly, there is no evidence that the review is

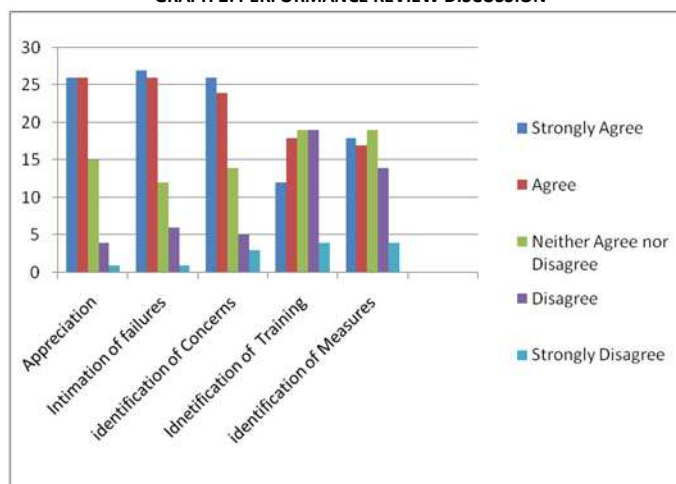
undertaken at the end of the quarter. The reviews are not scrupulously conducted at a frequency or a mile stone. There is an indication that review and revision are done as and when appropriate. That means that the performance review and revision of plans are done at the discretion of the manager. We have no evidence that hypothesis H3 is true.

Substantial majority of the respondents have confirmed that performance review is done at the end of the year. We can conclude that hypothesis H4 is true.

Identification of training needs was done as and when appropriate. It clearly shows that identification of training needs is not a standard process but done based on the manager's judgement.

Another important aspect of PMS is providing feedback to the employees. Feedback comprises of appreciation for the good work and identification of failures. The failures may be due to many reasons and some of them may not be in the control of the employee concerned. But identifying the areas of improvement can be achieved by identifying the concerns during the performance review. The employee and manager are together expected to identify the areas of concerns in the employee performance. It is different from the feedback of the activity and is essential for initiating proactive correction mechanisms on the areas of improvement based on the concerns identified during PRD. Employee skill improvement is an important step in the processes of PMS. It is recommended that the manager and employee together identify the training needs during the performance review. This information will be used by Human Resource Department (HRD) to plan and organise the training programs to adequately train the employee in current and future technologies. The performance goals are set and measured for rating the employee. The measures are essential to verify whether the employee has performed as per the goals set. It is highly recommended that the performance measures are identified and agreed by both appraise and appraiser. We have collected data on these five aspects and the same is given in 'Performance Review Discussion Table' as Table 2 in Annexure I. The Performance Review Discussion graph is given below as Graph 2.

GRAPH 2: PERFORMANCE REVIEW DISCUSSION

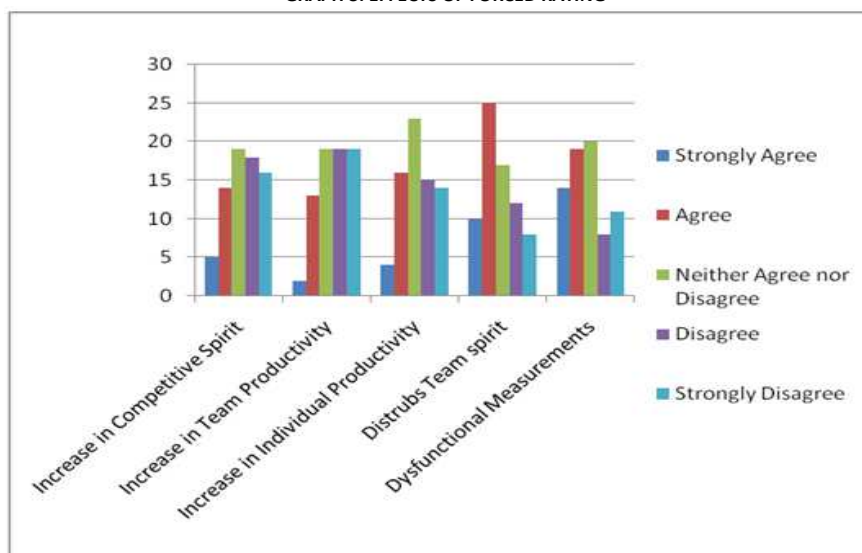


Majority of the participants have accepted that the performance is appreciated by the manager. Also employee failures are identified during the performance review discussion and is evident as majority have agreed to the statement. Similarly concerns are identified during the performance review discussion. But opinion is divided on identification of training needs and identifications of performance measures. Balance is towards neutral and disagree. The identification of training needs is not given as much importance as giving feedback on activities both in terms of success as well as failures. Similarly, identification of performance measures is not given the same importance of providing feedback. The Performance Review Discussion (PRD) is focussing on giving feedback. But the same focus is not given on proactive actions like identification of training or identification of performance measures.

We can conclude that hypothesis H5 is true.

Most of the Indian IT firms are practicing the bell curve. The employee performance rating is not absolute evaluation, but the employees are rated relatively. The actual rating is in a predefined ratio and employees are forced to be rated accordingly. The performance pay is based on the rating of the employee thus allotted. This mechanism is borrowed from western organisations and has become a controversial issue. Some of the firms have discontinued the practice in the recent past. More than 60 percent of participants have agreed that bell curve is practiced by their organisation. We have collected the effect of the bell curve in terms of productivity, teamwork and dysfunctional measurement. The results are presented in the tabular form as "Effects of Forced Rating Table" as Table 3 in Annexure I. The Graphical representation is given below as Graph 3 as Effects of Forced Rating.

GRAPH 3: EFFECTS OF FORCED RATING



The performance based pay is expected to increase competitive spirit and increase individual productivity. The relative rating and forced rating is aimed at making performance based pay more effective. The respondents do not agree that competitive spirit increases due to forced rating. The participants do not agree that forced rating increases individual productivity. Majority of the participants disagree that team productivity increases. Also majority of the participants agree that forced rating disturbs team spirit. It is evident that forced rating does not increase competitive spirit or individual productivity or team productivity. Also participants agreed that forced rating disturbs team spirit.

We can conclude that forced rating does not increase productivity i.e. H6 is not true.

Majority of the respondents agree that forced rating increases dysfunctional measurements. Dysfunctional measurement is manipulating individual measurements so that the individual may get better measurements and better rating but overall productivity of the firm may suffer.

We can accept that forced rating causes dysfunctional measurements and conclude that hypothesis 7 is true.

8. LIMITATIONS OF THE STUDY

The study has the usual limitation of online survey due to the self-reporting nature of the data collection. The study is limited to the planning and review aspects of performance management systems. The follow up actions in terms of rewards, promotions relocations and training programs are not included in the study.

9. CONCLUSION AND RECOMMENDATIONS

The performance planning is done at the beginning of the year. The performance review is done at the end of the year. The midterm reviews are not conducted and there is no attempt to review and revise the plans during the year. In addition, there is no evidence of reviews at the end of the projects. Planning is not a onetime affair and needs continuous monitoring, review and revision. Performance management is a process for improvement. The emphasis is not rating or rewarding the employee, but to give continuous feedback and support the employees to perform well.

The performance review discussion is an opportunity to provide effective feedback to the employee. Only 62 percent of the participants have confirmed that the manager conducts PRD. The managers are appreciating and informing the failures to the employees. However, identification of training requirements is not given the same importance. The employee is informed about the performance but correction to measurements or skill requirements are not identified.

The participants do not believe that forced rating increases either individual or team productivity. They also agree that forced rating disturbs team spirit and causes dysfunctional measurements.

The appraisal systems are implemented. The Performance management processes are initiated but not institutionalised. The activities at the beginning and end of the year are practiced. But as per the theory, the performance management is a continuous process. The feedback, skill improvement and periodic reviews are not visible during the year. It is recommended to conduct periodic reviews and revise the plans appropriately. The performance planning has to be done at the beginning of the year as well as beginning of each project. The performance review discussion has to focus on training requirement to improve employee skills. The system of forced rating has to be reviewed.

10. SCOPE OF FURTHER RESEARCH

The future researchers can conduct similar studies on different clusters and compare the PMS implementation between the firms. The future studies can include follow up actions and employee opinion on performance based pay.

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ANNEXURE

TABLE 1: PERFORMANCE ACTIVITY FREQUENCY TABLE

S. No	Description	Performance Planning	Review	Review & Revision of Plans	Review and Rating	Identification of Training needs
1.	Beginning of the year	49	10	13	8	15
2.	Quarterly	8	20	16	8	12
3.	As and when appropriate	16	19	27	9	36
4.	End of the project	2	9	5	10	5
5.	End of the Year	20	40	20	55	18
6.	Total Responses	95	98	81	90	86
7.	Over lap	23	26	9	18	14

Note: Total 72 respondents

None of the option is selected by all 72 respondents

TABLE 2: PERFORMANCE REVIEW DISCUSSION TABLE

S. No	Description	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
1.	Appreciation	26	26	15	4	1
2.	Intimation of failures	27	26	12	6	1
3.	Identification of Concerns	26	24	14	5	3
4.	Identification of Training	12	18	19	19	4
5.	Identification of Measures	18	17	19	14	4

TABLE 3: EFFECTS OF FORCED RATING TABLE

S. No	Description	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
1	Increase in Competitive Spirit	5	14	19	18	16
2	Increase in Team Productivity	2	13	19	19	19
3	Increase in Individual Productivity	4	16	23	15	14
4	Disturbs Team spirit	10	25	17	12	8
5	Dysfunctional Measurements	14	19	20	8	11

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