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Performance Management Practices in IT Industry in India– An Empirical Case Study

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ABSTRACT

Performance Management developed with the specific purpose of aligning individual goals with the organisation's objectives, during the past two decades as a deliberate, integrated process that bring together aspects like goal setting, performance appraisal and development. Performance management is concerned with how people work, how their performances can be managed to brings about development both to the individual as well as the organisation. Financial measures have always been used to evaluate corporate performance especially since industrial revolution. However, it has been realised that non-financial measures also affect the corporate performance, particularly of technology and knowledge age corporations. Consequently a number of management practices have evolved which takes into account both financial and non-financial measure to evaluate corporate performance. This paper presents an insight as to the prevailing performance management practices in the IT industry in Kerala. The paper analyses the performance practices in the IT industry, from the management and employee perspective based on certain key non financial drivers.

Keywords: Balanced scorecard, Non financial drivers, Performance management, Software technology, Special economic zone.

INTRODUCTION

Performance Management (PM) is a strategic and integrated approach to increasing the effectiveness of organisations by improving the performance of the people who work in them and by developing the capabilities of teams and individual contributors (Armstrong and

Baron, 1998). It involves managing, monitoring, improving performance and improving the quality of work and technical competency of the organisation. PM aims at aligning the results with the goals of the organisation so as to ensure efficiency and effectiveness of the means to achieve the goals. PM identifies the measurements which may be used to set benchmarks for comparison in future. Also, it comprises of goal setting, reviews, training and development, and linking it to a reward programme.

India is a popular off-shoring destination for IT companies across the world, having proven its capabilities in delivering both on-shore and off-shore services to global clients. Emerging technologies now offer an entire new range of opportunities for top IT firms in India. Social, Mobility, Analytics and Cloud (SMAC) are collectively expected to offer a US$ 1 trillion opportunity (www.ibef). The performance of the IT sector in Kerala has not been spectacular compared to that of other southern states, in spite of all the initiatives of the state government. Karnataka and Tamil Nadu have exports of Rs. 125418.53 crores and Rs. 33905.30 crores respectively, Kerala remains far behind at Rs. 3008.91 crores, indicating extremely low level of IT activity in the state vis-a-vis the neighbouring states (Nasscom report, 2015 & Economic Review, 2014-15).

This paper aims to assess the prevailing performance management practices in the IT industry in Kerala. The paper analyses the performance practices in the IT industry, from the management and employee perspective based on certain key non financial drivers. The paper also aims to test the hypothesis that there is no significant difference among IT companies in Kerala in the performance management practices.

REVIEW OF LITERATURE

Strategic performance management (SPM) has in recent years attracted much research interest from the side of both the academic and business communities. This interest has risen in response to a number of pressing business problems (e.g. increasing number of competitors, changes in the regulatory environment, impact of technology, growing globalization, shifts in customer behavior and expectations, overall desire to improve efficiency and productivity) that created a changing and challenging business environment.

Karima Kourtit & André A. de Waal (2008) in their research paper 'Strategic Performance Management in Practice: Advantages, Disadvantages and Reasons for Use' focused on answering the questions: What are the advantages, disadvantages and reasons behind the implementation of SPM in business practice? And what are the relations between the reasons behind the implementation of SPM, advantages and disadvantages? The practical implication of this research is that implementing and using SPM yields specific benefits for an organisation.

In 'Measurement of Corporate Performance through Balanced Scorecard: An Overview' Samir Ghosh Subrata Mukherjee (2006), concludes that in the changed business paradigm relying on only the financial measures, which are considered as the indicators of short-run performance, to measure the corporate performance is puzzling and often misleading. A Balanced Scorecard added three additional perspectives covering operating

aspects of an organisation which exhibits not only the current position of the enterprise but also how it is progressing.

Nath, P., & Hazra. A. (2002), in their article 'Configuration of Indian Software Industry' tried to understand the software industry in common economic terminology. They have gone to explain elaborately what the uses are, who the users are, and the products and producers of software. This has helped us getting insights regarding critical technology, skill, value and risk in the process of software development.

Another study made by Watkins (2007) says in public sector business organisation like those in Delta State of Nigeria, performance management reviews benefit organisational performance in both private and public sectors.

Study by Hewitt Associates (1994) found that performance management system (PMS) can have a major effect on financial performance and productivity. The study of financial performance on publically held U.S. companies showed that companies with PMS had higher profits, better cash flows, stronger stock market positions and higher stock value than companies without PMS.

A study by Leena Toppa and Twinkle Prusty (2012) recognise performance appraisal and performance management as two emerging issues since the last decade with many organisations shifting from performance appraisal system to employee's performance management system. The study focuses on the evolution of employee's performance appraisal system, brings out some of the problem areas and how these can be addressed. The study reveals the difference between the two systems and how performance management removes the drawbacks of performance appraisal.

Saira Khatoon and Ayesha Farooq.,(2014) 'Balanced Scorecard to Measure Organizational Performance: A Case Based Study,' the study involved companies', they found that companies like Infosys Technologies and Philips Electronics implemented Balanced Scorecard for translating their strategy into action as well as aligning their operations totally to their business strategy and translate their mission and vision into reality.

The reported studies on the performance scorecard practices in the Indian context are by Anderson and Lanen (1999) and Joshi (2001). In their study of management accounting practices of 14 Indian firms, Anderson and Lanen (1999) found that information on customer expectations and satisfaction, competitors' performance, and internal information on process variations (e.g., quality measures, on time delivery, unit product cost, and product quality failure) has assumed greater significance for strategy formulation in the post-reform India.

METHODOLOGY

The empirical paper was done purely based on primary data collected from 100 HR managers and 400 employees of selected 100 IT companies in Kerala. Purposive sampling technique was employed to select 50 companies each from Technopark and Infopark for the study. The sample consists of 10 companies, from Technopark and Infopark having a turnover of more than Rs.100 crores, and constituted IT companies having heavy global presence and

40 each from companies with a turnover below 100 crores. For data analysis, tools such as average, percentage, standard deviation, mean score, and chi-square test, were used.

RESULTS AND DISCUSSION

Performance management practices have wide applicability in India. The Hewitt report brought out in 2005 shows that almost all the modern techniques of PM are practiced in India. Annual reviews, 360 degree review, 180 degree review, Balanced score card, peer reviews and informal review systems are used widely. Modern day practices like MBO, Balance scorecard, Peer reviews, Return on investment, Annual Reviews, External professional advice, TQM, Benchmarking, 360 Degree Feedback, Coaching and Mentoring, among others are some of the practices found in IT Industry in Kerala.

Among the performance management practices followed in IT companies in Kerala (Table 1), Annual Reviews was ranked 1st with a mean score of 10.75 for large companies and 10.49 for small companies, the least ranked was Peer Reviews, which is not very popular among the management with the lowest rank of 11th and mean score of 2 in the case of large companies, 2.50 for small companies and a total score of 2.17. The employees also shared a similar view, having ranked Annual Reviews 1st with a mean of 10.66 for large companies, 10.72 for small companies. However, Balance Scorecard was ranked 11th with mean score of 0.45 for large and 0 for small companies.

Table 1: Performance Management Practices Followed (Management & Employees)

Sl. No.	Opinion	Large Companies				Small Companies			
		Management		Employees		Management		Employees	
		Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank
1.	MBO	9.35	3	9.35	3	8.91	3	8.99	3
2.	Balance scorecard	0.45	4	0.45	10	0.00	11	0.00	11
3.	Peer Reviews	3.00	10	3.00	9	4.00	9	3.00	9
4.	Return on Investment	9.59	2	9.59	2	10.41	2	10.07	2
5.	Annual Reviews	10.66	1	10.66	1	10.49	1	10.72	1
6.	Use of external advice	8.16	5	8.16	4	8.19	4	8.01	4
7.	TQM	6.69	6	6.69	6	7.00	5	6.75	6
8.	Bench Marking	6.71	7	6.71	5	6.75	6	6.84	5
9.	360 degree	5.93	8	5.93	7	6.06	7	6.18	7
10.	Coaching & Mentoring	4.88	9	4.88	8	5.10	8	5.03	8
11.	Others	2.38	11	2.38	10	2.50	10	2.50	10

Source: Primary data.

Based on the total mean score of both large and small companies, ‘MBO’; ‘Balance Scorecard’; ‘Total Quality Management’ and ‘Others’ are mostly used in Products and Services in the IT industry (Table 2). While, ‘Peer Review’ is used for ‘Internal Business

Efficiency', 'Return on Investment' and 'Use of External Professional Advice' for Financial performance, 'Annual Reviews,' 'Bench Marking' and '360 Degree Feedback' for Employee compensation and 'Coaching and Mentoring' for Technology up gradation. Further, the performance management practices vary significantly between the large and small companies (Table 3). Thus, the hypothesis stating that there is no significant difference in the performance management practices among IT companies in Kerala stands rejected.

Table 2: Mean Score of Performance Management Practices

Management Practice	Products and Services		Internal business efficiency		Employee compen-sation		Techno-logy up gradation		Finan-cial perfor-mance		R & D	
	Mgr	Emp	Mgr	Emp	Mgr	Emp	Mgr	Emp	Mgr	Emp	Mgr	Emp
MBO	6.93	6.86	5.96	5.92	3.19	3.22	4.9	5.00	3.84	3.90	2.12	2.06
Balanced Scorecard	7.00	6.75	6.00	6.25	1.00	3.75	5.00	3.50	4.00	4.75	3.00	2.00
Peer Reviews	6.00	6.75	7.00	6.25	4.00	3.75	3.00	3.50	5.00	4.75	2.00	2.00
Return on Invest-ment	2.95	3.05	4.14	4.10	5.89	5.93	4.92	4.77	6.97	6.96	2.13	2.25
Annual Reviews	4.83	4.92	5.86	5.83	7.00	6.93	2.06	2.16	4.2	4.12	2.97	3.02
Use of external professional advice	2.24	2.22	3.03	3.08	3.95	4.07	6.7	6.65	6.09	6.10	4.99	4.88
Total Quality Management	7.00	7.00	4.00	4.00	2.5	2.50	5.00	5.00	2.50	2.50	6.00	6.00
Bench Marking	3.13	3.13	4.13	4.15	6.87	6.82	5.81	5.88	4.94	4.92	2.12	2.10
360 Degree Feedback	4.12	4.16	4.84	4.99	6.73	6.74	3.4	3.26	5.91	5.84	2.00	2.00
Coaching and Mentoring	4.15	4.02	6.00	5.95	2.97	3.01	6.94	6.97	4.5	4.75	4.79	4.89
Others	7.00	6.75	6.00	6.25	2.5	2.75	5.00	5.00	2.50	2.25	4.00	4.00

Source: Primary data.

Table 3: Mean, SD and z value for Company Type

Variable	**Company Type**	**N**	**Mean**	**Std. Deviation**	**z**	**p value**
Products and Services	Large	20	66.60	9.94	1.322	0.189
	Small	80	63.06	10.88		
Internal business efficiency	Large	20	92.85	10.09	1.446	0.151
	Small	80	88.73	11.71		
Innovation and learning perspective	Large	20	5.60	4.37	2.975	0.004
	Small	80	3.21	2.86		
Performance management practices	Large	20	165.05	21.68	1.802	0.075
	Small	80	155.00	22.46		

Source: Primary data.

CONCLUSION

The perception of managers' and employees assessed through the paper gives an insight as to the performance management practices prevalent in IT industry today. The

uniqueness of the industry and customisation in its performance management practices suggest innovative methods of evaluating performance of a firm. As Fletcher and Perry (2001) put forward, this is an area which has been explored very little and one which, given the increasing globalisation of businesses, is key to ensuring the success of organisations. Organisations must consider whether a universal model may be adopted or customised model be built for each organisation.

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