Appraising the Appraisal Process in IT Sector – A Review

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Abstract

This paper is a study on the importance of Performance Appraisal with regard to IT sector. In the current scenario, the top MNC's shed off their annual appraisal methods and are looking out for a new and simple performance appraisal system. At this juncture it is very much evident that the existing performance appraisal methods have loopholes thus leading to dis-satisfaction amongst the employees. The employees, being the backbone of any company, should be evaluated with respect to their performance only. This paper throws light on the contribution of IT sector to the Indian economy, Performance Appraisal process followed in such a sector, its significance, perception of employees about the appraisal process and finally picturing it all into the current scenario. When the human resource of an organization is not satisfied with the method, the organization uses to evaluate them, it becomes a somber issue in the organization thus leading to poor performance of the employees which in turn will affect the overall performance the organization which may lead to a downfall of the organization.

Key Words: Performance Appraisal, IT sector, Loopholes, Organization

Introduction

IT is a buzz word in India especially for the past two decades. It started to grow day by day when people gradually started shifting themselves from hard copy to soft copy. IT sector is the fastest growing and largest contributor to the country's revenue and job market. With such a growth in this sector, it is to be noted that the attrition rate in the top MNC's are higher and the top most reason for it is dissatisfaction with the performance appraisal system used in their organization. Now the time has come to shed off the traditional performance appraisal system and use a simple and transparent system which would boost up the employee's performance as well as satisfaction which will obviously lead to higher productivity.

IT Sector – Overview

India is the world's largest sourcing destination for the information technology (IT) industry, accounting for approximately 67 per cent of the US$ 124-130 billion market. The IT industry employs about 10 million strong workforces and more importantly, the industry is considered to be one of the major contributors towards the economic transformation of the country and altered the perception of India in the global market.

India's cost competitiveness in providing IT services, which is way cheaper than (approximately 3-4 times) countries like US, continues to be the mainstay of its unique selling proposition (USP) in the global sourcing market. However, India is also gaining prominence in terms of intellectual capital with several global IT firms setting up their innovation centers in India.

Market Size

India, the fourth largest base for new businesses in the world and home to over 3,100 tech start-ups, is set to increase its base to 11,500 tech start-ups by 2020, as per a report by Nasscom and Zinnov Management Consulting Private Ltd.

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India's internet economy is expected to touch Rs.10 trillion (US$ 151.6 billion) by 2018, accounting for 5 per cent of the country's gross domestic product (GDP), according to a report by the Boston Consulting Group (BCG) and Internet and Mobile Association of India (IAMAI). India's internet user base reached over 350 million by June 2015, the third largest in the world, while the number of social media users grew to 143 million by April 2015 and smartphones grew to 160 million.

Public cloud services revenue in India is expected to reach US$ 838 million in 2015, growing by 33 per cent year-on-year (y-o-y), as per a report by Gartner Inc. In yet another Gartner report, the public cloud market alone in the country was estimated to treble to US$ 1.9 billion by 2018 from US$ 638 million in 2014. Increased penetration of internet (including in rural areas) and rapid emergence of e-commerce are the main drivers for continued growth of data center co-location and hosting market in India.

Investments

Indian IT's core competencies and strengths have attracted significant investments from major countries. The computer software and hardware sector in India attracted cumulative foreign direct investment (FDI) inflows worth US$ 17.575 billion between April 2000 and May 2015, according to data released by the Department of Industrial Policy and Promotion (DIPP).

The private equity (PE) deals increased the number of mergers and acquisitions (MandA) especially in the e-commerce space in 2014. The IT space, including e-commerce, witnessed 240 deals worth US$ 3.8 billion in 2014, as per data from Dealogic.
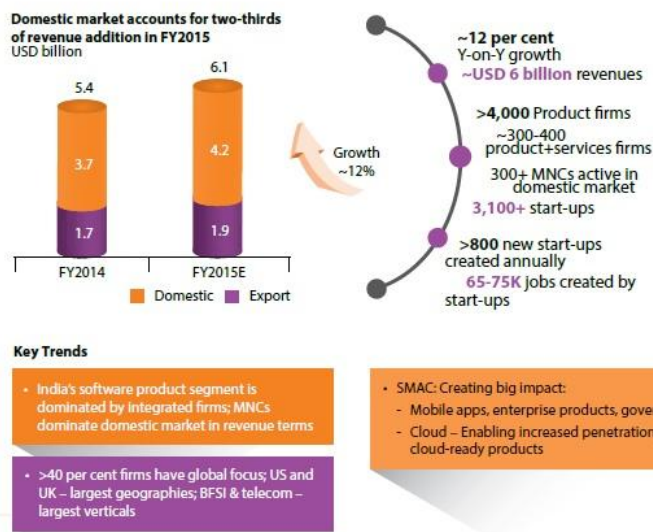
India also saw a ten-fold increase in the venture funding that went into internet companies in 2014 as compared to 2013. More than 800 internet start-ups got funding in 2014 as compared to 200 in 2012, said Rajan Anandan, Managing Director, Google India Private Ltd and Chairman, IAMA.

Most large technology companies looking to expand have so far focused primarily on bigger enterprises, but a report from market research firm Zinnov highlighted that the small and medium businesses will present a lucrative opportunity worth US$ 11.6 billion in 2015, which is expected to grow to US$ 25.8 billion in 2020. Moreover, India has nearly 51 million such businesses of which 12 million have a high degree of technology influence and are looking to adopt newer IT products, as per the report.

Fig.1.1 shows an analysis of the future of IT sector in India by considering the past and present trends of the sector.

Figure 1.1 Future of IT Sector in India

Source: Naascom Reports, 2015.

Information Technology and GDP

Information technology is also a prime reason for the service sector to contribute more to the GDP of the nation. It increased its share gradually from 1% to 6% from the late 80's to 2004. At present the industry contributes one tenth of the GDP. The $130 billion IT industry can be classified into $78 billion IT industry and $63 billion Telecom industry. 75% of the IT revenue generated is from exports of IT services and 25% from domestic IT sector. The IT services are exported maximum to US and then Europe. The growth of IT industry is 16% in the year 2009 when compared to the previous year. In 2010 the growth was around 13.7%.

With all these facts about GDP contribution to the nation, employment generation after the global economic meltdown etc., it is clear that the IT sector at present is in a stable state.

The future of IT sector in India can be analyzed by the present trends and the economic conditions in the nation. It is already known that one-third of the revenue generated by the IT sector is from export of IT services, mainly to US and Europe.

It is also said that Infosys and TCS have their projects for another 35 years. So the near future is safe for the IT industry considering the present status. However, we need to know the hurdles that may confront the growth of the IT sector in the future.

Hence, it is very clear that the IT sector will be steady in the near future and as usual it will have a greater impact on the service sector, GDP and employment for the nation unless and until another recession hits the globe. Indeed with such a vast growth and stability, why there is a huge attrition because of performance appraisal system?

According to an online HR forum, it has been stated that because of dis-satisfaction in Performance Appraisal process followed in IT Sector, the attrition rate has escalated from 18.1% to 18.7%. This shows that there exists a GAP between the

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expectations of the employees from the Performance Appraisal System and the Process which is been followed currently.

Performance Appraisal - Overview

Performance appraisal is a process of evaluation of an individual's job performance by means of specific measures set by the organization. It ensures that the goals are consistently met in an effective and efficient manner. Performance appraisal is conducted to identify the degree of accomplishment of the individual. It includes both qualitative and quantitative aspects of job performance.

'Appraisal is preceded by establishing general objectives or description for the job, identifying specific job expectations, providing feedback and, when necessary, coaching' (Hillman, Schwandt and Bartz, 1990)

Researchers have identified five major outcomes of effective performance appraisal (Rao, 2004). These are: 1) using results of performance appraisal to improve employee performance, 2) enhancing motivation, 3) reducing employee turnover, 4) associating rewards and employee performance and 5) establishing equity among employees (Rao, 2004; Selvarajan and Cloninger, 2009).

Khan (2007) states that the fundamental objective of performance appraisal is to facilitate management in carrying out administrative decisions related to promotions, firings, layoffs and pay increment. Armstrong (2006) defined Performance Appraisal as the formal assessment and rating of individual by their managers at, usually, an annual review meeting.

Prior literature has suggested that performance appraisal is an effective system for attaining different objectives. In this regard, Selvarajan and Cloninger (2009) have revealed that effective performance appraisal system results in improving performance of employees and motivating them. In this regard, it can be identified who are the weak performers and who strong performers within organizations are.

According to Obisi (2011,), 'Organizational performance and its resultant efficiency and effectiveness can only be achieved when individuals are continuously appraised and evaluated. This explains why almost every organization carries out some form of performance appraisal either on its own or as part of their performance management system'.
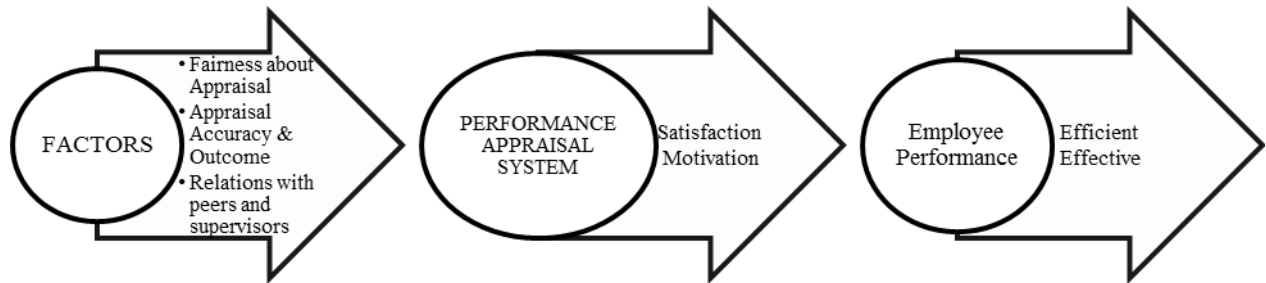
Performance can be defined as, "What is expected to be delivered by an individual or a set of individuals within a time frame and what is expected to be delivered could be stated in terms of results or efforts, tasks and quality, with specification of conditions under which it is to be delivered" (Kumari and Malhotra, 2012).

Performance appraisal is not just about rating employees, Meenakshi (2012) identified that organizations carry out Performance Appraisal as a basis for administrative decisions such as promotion, allocation of financial rewards, employee development and identification of training needs.

Between individuals relates to comparison of individuals in terms of performance, within individuals concentrates on identifying and developing individuals strengths and weaknesses.

Theoretical framework:

Fig: 2 Theoretical framework of Performance Appraisal

This theoretical framework (Fig.2) is developed based on the review of literature carried out by researchers and it gives a clear picture of linkage between the factors influencing the satisfaction level of employees to the employee performance.

It proves that there is a strong connectivity between the satisfaction level of employees towards the performance appraisal system which is been followed and the efficiency of performance of the employees.

The factors which leads to satisfaction of Performance Appraisal process are Fairness of the process, the way the Outcomes of the review been used, and the relationship between the team as well as the superior. Fairness in the system reflects the transparency of the system. Outcomes refer to the results derived from the review and based on which the employee is either promoted, demoted, given salary hike, etc. And finally the relationship among the team members and supervisors also comes into picture which also acts as an important factor contributing to the satisfaction level of the employees towards performance appraisal process.

Current Scenario of Performance Appraisal Methods in IT Sector

As a result of much research on this topic over the last few years nearly 45% of the organizations insist that they are taking a serious look at their performance management (e.g. appraisal) process.

The main perspective of this performance appraisal is that this particular HR process needs to be "unlinked" from everything else. Too many HR strategies rely on the appraisal as the core tool to develop compensation, development, leadership potential, and every other activity in a person's career. This makes it too onerous and difficult and shifts it away from coaching and development.

The process is not doomed, but it's time for a change. Today performance management must be more developmental, coaching-based, agile, and frequent. And many companies are doing away with ratings altogether (replacing them with feedback).

Employee Perception

Thurston (2001) has addressed the specific aspects related with performance appraisal and also reveals that effectiveness and success of appraisal system depends on reactions and feedback of employees. This suggests that employee feedback is critical factor in assessing effectiveness of the appraisal system. This feedback can be positive or negative regarding outcomes of appraisal system. Prior studies have revealed that positive feedback is more likely to be accepted whereas

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employees often hesitate to accept negative outcomes of appraisal system (Rao, 2004). On the other hand, Roberson and Stewart (2006) suggest that if negative feedback is delivered in an effective and persuasive manner, employees will take it seriously and will focus on eliminating the negative aspects in their performance.

Critics of Performance Appraisal

The argument in favor of eliminating the present appraisal system is that they frequently do more damage than good. Among the damage that they are said to do, the least troublesome is wasting time, and the most troublesome is the alienation of employees and creating conflicts between them and their supervisors.

There is no doubt that in many organizations performance appraisals are poorly done, and that they create a multitude of problems. However, it is important to point out that they exist because of the need to motivate, direct, and improve the performance of individuals and organizations. Those who advocate eliminating performance appraisals do not disagree with these needs, but they point out that managers can and do this anyway, and that therefore performance appraisals are a redundant bureaucratic troublesome activity.

It is hard to argue with the point that "good managers" do what a good performance appraisal is supposed to do. The fact that they can and do it supports the argument that appraisals can be eliminated, or at least, radically simplified. The "problem" is that many managers do not manage in ways that make performance appraisals unnecessary. Despite this, some companies have declared that they are performance appraisal-free organizations.

Organizations do not have to make a choice between no performance appraisals and everyone having a performance appraisal. An interesting alternative is to require performance appraisals only where they are necessary. One approach organizations can take to eliminating unnecessary performance appraisals is to focus on identifying those managers who have the motivation, management skills, and behaviors that make formal performance appraisals unnecessary in their cases. In essence, this approach identifies managers who are good managers and leaders and, as a result, do not need to do performance appraisals. They can be certified as not needing to do performance appraisals with their direct reports and their part of the organization can be declared performance appraisal-free.

The challenge in operating with this approach, of course, is deciding which managers in an organization need to do performance appraisals and which do not. Part of this process needs to be training managers to be sure that they have the right skills, and gathering data showing that the people working for them have been treated in ways that make traditional performance appraisals unnecessary.

A clear advantage of this appraisal-free approach is that it will motivate managers throughout an organization to become certified as performance appraisal-free managers. It can make being appraisal-free valued as a part of a manager's package of skills. Without this approach, there often is little incentive for managers to learn the skills that are necessary to do good performance appraisals, and to learn the skills that make them unnecessary.

One needed feature of an appraisal-free approach is a training course for employees about what they should expect from their manager given that there will be no formal performance appraisal. Unfortunately, in most organizations today, employees are not even trained in how they should behave in the performance appraisal. This is one of the many reasons why they are not particularly effective in most organizations.

Of course, even the best performance management system cannot make all managers effective at setting goals, coaching, and giving feedback. The answer for them is not eliminating the appraisal system; it is eliminating them.

The Deloitte 2013 Human Capital Trends research discovered that 1/3 of all global organizations want to revamp their performance management process in the next year and 2/3 within the next three years.

Conclusion

Human resource practitioners should regularly review and evaluate the effectiveness of their performance appraisal practices, especially in terms of their impact on employee performance, their bearing on employee development, their contribution to strategic human resource planning, and their legal compliance. In the end, each company has to come to terms with employee satisfaction and performance appraisal systems, as well as the decisions made from appraisal outcomes. Companies should be careful not to respond to fads in the appraisal area, but should rest their decisions on the specifics of their organizational context.

Two current managerial challenges, total quality management (TQM) and the use of work teams, raise new questions regarding the use of performance appraisal. These management philosophies may be incompatible with more traditional performance appraisal techniques that may encourage competition among workers instead of cooperation and integration required for the effective implementation of either work teams or TQM principles. Specifically, managers must consider the strategic objectives of the organization as well as specific performance assessment objectives when choosing one of many appropriate performance appraisal techniques. Performance appraisal instruments must be compatible with current management philosophies.

The entries of SMART goals, Key Performance Indicators (KPI), Competencies rating have turned from a 'paper exercise' to a 'mouse and keyboard' exercise, due to the automation trend. Many employees do not believe in the effectiveness of the system. This is especially true if the organization is using a 'forced ranking' system. In the existing system which focuses towards aspects which are not necessary to be evaluated, forcing an employee to be ranked at the bottom level, biased ratings should be avoided. Hence forth it is obvious that the industry as a whole is in need of a new system but simple in nature.

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