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Performance Management Challenges in IT Industry – An Overview

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ABSTRACT

The Information Technology industry relies heavily on human capital. The combination of computing machinery and human capital is helping the IT organizations deliver services to the exacting demands of the customers. In the IT organizations, managing the human capital has assumed very high significance and the Performance Management of their employees is increasingly becoming a daunting exercise because of the various factors impacting performance appraisal process. Factors internal to the organization such as - size of the organization, employee engagement strategies, cultural orientation of employees, Performance Appraisal systems, different personality types and external factors such as - state of economy, society, customer expectations, emerging technologies - pose their own challenges in implementing an effective Performance Management system. This article describes the various challenges encountered during the performance management exercise in large IT organizations in India, current performance appraisal systems in use and provides recommendations for addressing some of these challenges.

KEYWORDS : performance management challenges, performance appraisal, self-monitoring

Introduction

Performance Management is a very critical exercise both for the employees and the employers with the primary goal of improving employee performance (Ghorpade & Chen, 1995). For employees, it gives an opportunity to know how they have performed against the goals and if there are any performance gaps in the expectations from the employers. This helps them plan to address their development needs and plan for their potential growth. For the employers, this helps to identify the best of the employees and plan for rewards/compensation revisions/promotions and plan for up-skilling the employees in the areas where new business opportunities arise. This paper provides an overview of internal and external factors impacting the performance management process, which are specific to IT organizations.

Internal factors

Size of the organization:

As the size of the organization increases, implementing an objective performance management system gets more difficult. The number of business units and the performance measurement criteria for the employees in each of the business units become too many to effectively manage the process. The revenue generated from each business units and the influence by the most profitable business unit in the process adds to the complexity of the process. In other industries, the number of people to be evaluated in each business unit is considerably less and the evaluation parameters are also very different for each business unit. In IT industry, except the sales teams, the evaluation parameters are more or less similar making the performance management process very challenging.

Geographical Spread of an organization:

A related factor to the size of the organization is the geographical mix of the employees of an organization. The nature of the work being done by these employees across the geographies at different designation levels is very varied and having a standard performance management process will not truly evaluate the performance of this mix of employees.

Experience of Managers:

When the employees have performance related discussions with their managers, the experience of the managers plays a very important role. In IT industry, many IT employees get into managerial positions in a comparatively shorter period (about 3-5 years) than in other industries where it takes at least 7-8 years for an employee to manage other employees. Also, the size of the team they manage is considerably higher. With IT managers focusing more on the deliverables than the people management, they lack the skill to appraise their reports objectively and use the KRAs as the primary measures to assess the performance. Fig. 1 shows the result of a survey done with 167 managers of an IT organization.

Fig 1. Years of Manager's Experience Vs. Average number of people managed



Source: Data collected from managers from 4 different IT organizations in India through an email survey.

Perception of Supervisors:

Another challenge is that the evaluating managers' perception of their employees level of engagement level in the work place to get the delivery done (Luthra & Jain, 2012). Fig. 2 shows the results of a study done in an IT organization on the managers' perception of their teams' capabilities. The real skills of the employee would need to be measured in order to assess his/her performance objectively.

Fig 2. Capabilities perceived by supervisors

Skill Area	Poor	Avg.	Good	Very Good
Interpersonal	0	28	**58**	**14**
People Management	5	24	**57**	**14**
Team Capability Building	3	**51**	**38**	8
Operations Management	5	**35**	**49**	11
Delivery Management	0	14	**59**	**27**
Business Development	**19**	**54**	24	3

% of respondents. A total no of 57 supervisors who have 10 or more direct reports participated in the survey. The

scale for the scoring ranged from 1 to 4 for Poor to Very Good.
Source: Internal survey done in an IT organization

Performance Biases of Supervisors:
According to the study by Bol (2011), lack of complete information leads to leniency bias in the performance appraisal process which though positively impacts the employee motivation, it affects the degree of objectivity in the appraisal. The recency bias is another factor that brings in the bias. Any incident of good performance or bad performance in the immediate timeframe preceding the performance appraisal process will impact the supervisor's ability to conduct the appraisal objectively. Contextual factors of supervisor preferences influence their motivation to the appraisal process to maximize their own likelihood of achieving the valued goals (Pestonjee & Gupta, 2012)

Employee's Motivation to perform:
The motivation levels shown by the employees varies depending on the job satisfaction achieved by them. Job satisfaction in turn is impacted by many parameters – assigning the right job to the employees, promoting them to the right levels (Phelps, 2005), the hygiene factors implemented by the organization, setting the right goals and expectations, providing the role clarity to the employees and enabling the employees to have the right skillsets. These are very critical to create the right level of motivation for the employee and sustaining it to achieve a high performance (Tjosvold & Halco, 2001)

Demands of the employees:
For a very large organization (of more than 50000 employees) which has offices in multiple locations within and outside the country, there are many demands from the employees. They have constraints to work in only a particular city and within the city, only a particular office. The more experience an employee has and the higher the mastery of the skills he/she has, the higher the demands of the employees. This inflexibility creates a situation where right skilled employee is not assigned to the right job in turn reducing the expected employee performance. A related factor to be considered is the tenure of the employee in the organization. Many a time, the tenure is rewarded than the performance (Andrea, 2013).

Empowerment:
Managers are given more freedom to execute the projects in IT industry compared to other industries. The freedom is mostly extended to performance management process as well. If the performance measurement is not correctly defined and implemented, lot of subjectivity gets into the performance measurement process. Also, the empowerment at the employee levels enables them to perform their job efficiently using the innovative approaches and tools. This creates difficulty in evaluating employees who stick to the processes and deliver well and employees who innovate and deliver well.

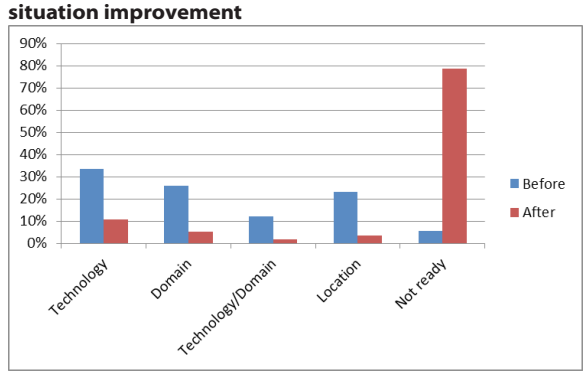
Cultural Orientation:
In the IT multinational organizations in India, though the majority of the employees are from India, there are employees from other countries working either for a short period of time or for a longer duration. Also, the employees have different level of exposure to the other cultures while they are on assignments to various countries in the world. These create differences in expectations of employees / managers which impacts the appraisal process.

Defining and Measuring KRAs:
There are two critical elements in the performance appraisal: defining the Key Result Areas (KRAs)/goals for the employees at different levels and measuring the KRAs to assess their performance. Defining the right KRAs for each level is very important and using the right and accurate measurement of the KRAs is even more important to have an objective performance appraisal (Oberoi & Rajgarhia, 2013).

Self-Monitoring level of Employees:
Self-monitoring, an inherent trait of an employee, along with the emotional maturity has an impact on his/her career progression. The high self-monitors are more likely to project themselves to create a high visibility of their achievements than the low self-monitors (Kilduff & Day, 1994). A high emotional Maturity of an individual helps an individual in the long run, but, they lose out to the people with less emotional maturity in the short term.

External factors
Economic situation:
When the world economy is good, global customers' IT spending is more and the IT companies get more business. The focus of the IT organization is on getting more business and generating more profit for the organization. Performance management process is lenient and many people are rewarded liberally with either promotions, bonuses, or higher salary hikes. There is an increased hiring by the IT organization to cater to the increased business and the attrition level is high during this time. Employees become less flexible in taking up projects at locations that are not favorable to them as indicated in Fig. 3. Their demands increase and the probability of having a higher dissatisfaction levels increases.

Fig 3. Employees' flexibility before and after economic situation improvement



Source: Internal survey done in an IT organization.

When the economy is down, global customers cut back their IT spending and the investment on new projects are either delayed or reduced. In turn, the IT companies servicing these customers have less business and their revenue is hit. The focus changes to cutting cost to increase profit margin. Performance management process is made very strict and the rewards are less – less number of promotions, heavy cut in bonuses, minimum salary hikes. Many cut back on the jobs as well. Employees become more flexible in taking up available projects at different locations to make sure that they retain their jobs.

Differences in Education Standards:
The IT organizations hire students from different disciplines and colleges and universities with different academic focus. Though the students are evaluated and selected based on common skills – communication, analytical and aptitude, there are considerable differences in the knowledge levels of the students joining the organizations. Many IT organizations provide training to these new hires at the beginning of their employment to ensure that the new hires know the organizational culture, technical skills common to the hiring business unit, any business unit specific skills needed for their immediate placements. The quality of the new hires is highly dependent on the standard of education during their college days and that in turn impacts how the new hires perform.

Customer Expectations:
During 1990s, the IT system development work was dictated by the customers' IT budget and the available workforce to carry out the development work. Development schedule was very well planned out and followed 5x8 schedules. The 24x7 schedules were mostly for the critical production system supports. With the widespread adoption of the global delivery model by IT organizations, the pressure for the customers to get their products, services faster to the end users / consumers has tremendously increased. So do the customers' expectations from the IT organizations to develop and deliver the products and services fast. In the new age global delivery model, even the development work happens in 24x7 model – which adds lot of pressure to employees (Infosys' Value Global Delivery Model [VGDM], 2013).

Technological Changes:
The advances in technology brought in a myriad of gadgets and connectivity options for the employees to perform their work. The work environment has shifted from office space to home and to the employees' mobile devices. The employees are connected to work all the time. This puts tremendous pressure on the employees' performance and adds to the complexity of the performance measurement (Vorhauser-Smith, 2012).

Performance Appraisal Methods in use
There are many performance appraisal methods in use in the small to large IT organizations. While the smaller organizations use the rating scales methods focusing on the past performance, larger organizations use a combination of appraisal methods to assess the past and potential performance of their employees. The key appraisal methods used in large IT organizations ("Performance appraisal Methods") are given below.

Management by Objectives:
In Management By Objectives (MBO) method, objectives are identified at the beginning of the appraisal period for employee roles and performance standards are defined for each of the objectives. At the end of the appraisal period, the actual goals are compared against the goals achieved by the employee.

Balanced score card:
The Balanced Score Card (BSC), developed by Robert Kaplan and David Norton, is a method which is used to align business activities to the organization's vision and strategy and monitor the performance of the organization against these strategic goals. Employees' goals are defined which are in alignment with the organization's visions and strategies. Employee's achievements against these goals are assessed as part of the appraisal process.

Multi-rater assessment and feedback system:
In the Multi-rater Assessment and feedback system, depending on the circle of employees providing feedback about an employee, the feedback is said to be 180-720 degree. When the employee and his/her supervisor provide the appraisal, it is called 180-degree feedback. When an employee's supervisor, peers, subordinates, and customers provide feedback about an employee, then it is 360-degree feedback. When other stakeholders like suppliers, family, and other communities are included in getting the feedback, then, it is said to be 720-degree feedback. (T.V. Rao, 2004)

The results of these appraisal methods are normalized using the forced distribution method. Larger non-IT organizations follow this process as well. While the frequency of this appraisal process varies from one to four per year, on an average, two appraisals are conducted for the large IT organizations.

Recommendations and Conclusion
For a large IT organization facing a multitude of changes in all quarters – financial, business model, technology, and resources - there is no single performance appraisal method available that will address the challenges. The performance management system for a large IT organization should be designed to measure the past and potential performance of its employees, and its own performance in alignment with the stated vision of the organizations.

Though, each organization customizes the models and creates a performance framework to suit their needs, there is a constant change needed to be made to the evaluation process. Employees' perception of the effectiveness and the credibility of the performance appraisal process is one critical factor in deciding the acceptability of the process by them.

The Human Resource department responsible for managing the performance management system in an IT organization has to take into consideration: the parameters for evaluation, processes used for identifying these parameters, the measurement methods, frequency of the assessment of the performance management process itself in order to have a credible and effective performance management system.

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