Employee Perceptions of Performance Appraisal System in Foreign MNC BPOs Operating in India - An empirical study

Abstract

This paper is based on an empirical study of five foreign MNC BPO firms operating in India, ranked among the top 100 by the International Association of Outsourcing Professionals (IAOP) for the year 2009. The data was collected using both qualitative and quantitative methods from seven HR executives of these five BPOs and 163 employees constituting 1% of the population under study. The present study finds that, on an average, the level of satisfaction among the respondents towards the performance appraisal system is at 69.94 per cent. Regression analysis, using a significance level of 5 per cent, shows that the variables of the objectivity in the appraisals, the accuracy of the previous appraisals and viewing appraisals as a motivating tool are significantly influencing the satisfaction of the respondents towards the performance appraisal system and all the other variables have emerged as the insignificant variables.

Key Words: Employee Perceptions, Performance Appraisal System, Foreign MNC BPO.

Introduction

Over a short span of a decade or so, the business process outsourcing (BPO) industry has emerged to be a key contributor to India's rapid economic growth. The projected developments in this sector are very promising. The export revenues are expected to touch $30 billion by 2012 and the number of people employed in the sector is expected to rise dramatically to two million by the end of 2012 (Mishra, 2008). Given the rapid growth and the people-driven nature of this industry, efficient management of human resources (HRs) is bound to play a critical role in these organizations. A survey among the BPO firms in India revealed that human resources and organization-related challenges are the most critical issues (Mehta, 2006). Among all the HR problems, the employee attrition has emerged as the biggest malaise of Indian BPO industry (Sengupta, 2007). One of the reasons for this attrition is said to be the performance appraisal system. Interestingly, in the words of Shivani (2006), the attrition rate is very high after the 'assessment cycle' is completed and the ratings are released. She says, "if you see the industry average attrition of 20+%, at least half of that could be due to dissatisfaction over ratings". However, the academic literature contains few studies that highlight the dynamics of people management systems, especially the performance appraisal systems in BPOs operating in India. This article makes an attempt to provide an insight into the performance appraisal system in foreign MNC BPOs operating in India and analyze the perceptions of the employees with regard to the performance appraisal system being followed in these BPOs.

[1]. Herald Monis, Research Scholar, Department of Business Administration, Mangalore University - 574 199; email: heraldmonis@gmail.com
[1] Dr. T. N. Sreedhara, Professor, Department of Business Administration, Mangalore University - 574 199; email: tnsree@gmail.com

Objectives of the Study

This empirical study of the perceptions of the employees about the performance appraisal system in foreign MNC BPOs operating in India has the following objectives:

To provide an insight into the performance appraisal system being adopted by the BPO industry in India.

To study the HR perspectives with regard to the performance appraisal system of the foreign MNC BPOs operating in India

To study and analyze the perceptions of the employees with regard to the performance appraisal system being practiced by the foreign MNC BPOs operating in India

To analyze the satisfaction of the employees of the foreign MNC BPOs towards the performance appraisal system.

Review of the Literature

De (2004), based on a sample survey of BPO employees (n=462), reported that more than 61% of the respondents under his study felt that the appraisal system in BPOs was transparent, and slightly fewer than 55% felt that it was fair and more than 63% gave thumbs up to the fact that special initiatives and efforts were duly recognized at the time of appraisal. Rani and Mahalingam (2003), based on a sample survey of BPO employees (n=544) across the country, reported that the BPO is an industry where performance is almost entirely metrics- driven and it is also an industry where metrics and the pressure to deliver on them have emerged as significant causes of stress. Yet - by the very fact that the metrics are automatically generated and cannot be argued with - there was comparatively less angst on the appraisal system in the BPO industry than in the IT industry. As per their study, the overall satisfaction score for the ITeS employees was at 8.3 (or 83.0 per cent) on a scale of 10. Babu (2004) has opined that the performance of the BPO employees is linked with incentives in cash and kind; and the annual increments in salary as well as the vertical mobility of the agents in the BPO firms are also linked to their ratings. Linking performance with incentives and/or punitive actions forces the agents to stress continuously. Shivani (2006) observes that the performance appraisal in BPOs means a hurried 5-minute session for the HR manager who, many a time, is very badly prepared for the session and sometimes the employees get to meet their managers and interact with them only during this time. The number of ratings to be given under various categories are fixed, following a bell-curve distribution and the ratings depend on 'quota'! Awards are mostly given as ad hoc measures to temporarily satisfy the employees and most often do not influence the final ratings, which are also often ad hoc! What further complicates affairs is that the ratings also determine whether the person will be eligible for a promotion in the next 12 months. According to her, such practices demotivate the employees. Ramakrishna (2002), a senior human resources executive suggests that clearly enunciating the performance management system is very critical for an employee to know what is expected out of him and what the performance parameters are. Bhaduri (2008) opines that if one wants to manage attrition, one should start by looking at the performance management system of the organization. In his opinion,

every manager should be adequately trained to give candid feedback and also to coach the players in his team. These studies indicate that all is not well with the appraisal system in the BPO firms. In this context, an attempt has been made to understand the system of performance appraisal in the BPOs and the perceptions of the employees with regard to this system.

Research Methodology

The study mainly depended upon the primary data. However, some secondary sources of data were also consulted for the purpose of gathering background information supporting the study. Relevant primary data was collected using the combination of both qualitative (interview) and quantitative (sample survey through questionnaire) methods. The data was collected from a total of five foreign MNC BPO firms operating in India and these five firms were selected based on the rankings announced by the International Association of Outsourcing Professionals (IAOPs) for the year 2009 as "The 2009 Global Outsourcing 100". The study covered the units of these MNCs located in Bangalore, considered to be the Silicon Valley of India. Access to these BPO firms was secured through contacts and through networking technique. Altogether, we collected data from seven HR executives and 163 employees. These 163 employees constitute 1 per cent of the population under study. The awareness about the performance appraisal system is measured on a scale of 'yes/no/can't say' and the perceptions of the respondents on the twelve statements are measured on a scale of 'strongly disagree…… strongly agree', the scale in quantitative terms being: 0 - 20 per cent: 'strongly disagree', 21 - 40 per cent: 'disagree', 41 - 60 per cent: 'not sure', 61 - 80 per cent: 'agree', 81 - 100 per cent: 'strongly agree' and the satisfaction of the respondents towards the performance appraisal system is rated on a scale of 'highly dissatisfied……. highly satisfied', the scale in quantitative terms being: 0 - 20 per cent: 'highly dissatisfied', 21 - 40 per cent: 'dissatisfied', 41 - 60 per cent: 'not sure', 61 - 80 per cent: 'satisfied', 81 - 100 per cent: 'highly satisfied'. The results of a multiple regression analysis being made to identify the variables influencing the satisfaction of the respondents towards the performance appraisal system is presented at the end of the paper.

Performance Appraisal System in the BPOs – an Insight

All the BPOs in India have a formal and structured approach to the performance appraisal system and they have a structured format and a clear set of parameters for appraisals (Budhwar et. al., 2006). In the BPO processes, there are two basic types of performance parameters – quantitative measures (such as Average Handling Time - AHT, number of calls completed) and quality measures (Upadhya and Vasavi, 2006), Most BPOs have an individual-based performance appraisal system, though some also go for a group-based system. Performance appraisals in all the BPOs always emphasize results. Thus, targets are fixed for each metric, and the performance of individual workers and of teams is evaluated against these targets. In addition to the quantitative measures, the quality of work performed is tracked and evaluated, and these assessments are fed into the performance appraisal process. Quality measures include parameters such as tone of voice, language (grammar), accent, problem solving, customer satisfaction, etc. Almost all the firms use some kind of rating scales, grading, or ranking system and the set targets for appraisals. The BPOs usually follow a five-point rating system to appraise the performance (Babu, 2004).

Typically, the ratings given are: Needs Improvement (I), Meets Expectations (M), Exceeds Expectations (E) and Significantly Exceeds Expectations (S). (Shivani, 2006). Although different companies use different acronyms for the ratings, the basis largely remains the same. The hikes/ incentives are given based on the ratings given to each employee. e.g., a S rated employee gets about 20% hike as compared to an E rated employee getting up to 10%, while an M may get nothing at all. Although ratings are given on a point scale, the evaluation is rather subjective: the evaluator must decide whether the call was completed satisfactorily, whether the customer appeared to be satisfied, whether the agent was clear, the accent correct, and so on, and assign scores to each parameter. Although the trainers describe the system as very 'system-driven', leaving no scope for subjectivity in ratings, clearly the judgments made by the evaluators cannot be completely 'objective' (Upadhya and Vasavi, 2006). The weightage that is given to different aspects of quality depends on the Service Level Agreements (SLA); for instance, some projects may emphasize accent, whereas others may place a higher value on customer service. Some companies also conduct periodic customer surveys to evaluate the performance of agents. The overall computation of quality is expressed as a percentage. The target for quality performance is fixed according to the SLA or the company's own requirements. All of these metrics are measured on a daily and weekly basis and are computed together, using a complex 'matrix' system, to come up with an overall score for each agent, usually expressed as a consolidated percentage on the two basic parameters (AHT and quality). This monitoring is used to give feedback to agents (usually on a monthly or quarterly basis) in order to improve their performance. The performance appraisal system also determines salary and even retention. Good performance is encouraged both through positive reinforcement, such as monetary incentives, and negative measures, including dismissal. Based on the worker's rating, he/she may receive an increment for good performance or may be listed as an 'underperformer' and targeted for additional training, or even lose his/her job. Good performance is rewarded with various prizes, awards, and 'incentives', or eventually with promotion. Salaries also include a performance-linked component, which means that the salaries of good performers rise faster than those of average and poor performers. Performance ratings are used to distribute awards in the various competitions such as 'consultant of the month', 'team of the month', etc. (Upadhya and Vasavi, 2006).

As a procedure, the general trend is that the immediate supervisor appraises the employee and gives his/her report to the employee. After the employee reads the appraisal, it must be signed before submission to the section head. If required, adjustments are made by involving the section head. At times, the section head also appraises his section employees. A number of issues related to future movement or cross-functional movement within the company as well as training needs identification, key performance areas, and possible targets to be achieved are analyzed. Budhwar et. al. (2006) quote the comments of an HR manager from an UK-based BPO which sums up the appraisal system in Indian BPOs: "It is formal and target-based, you have a generic appraisal form and you then have slip-ins for every target and every level, you have a job description which is given to you at a join-up. You have key result areas which are measurable for a given period of time". For managers, many firms use techniques such as the 360-degree method. According to Budhwar et. al. (2006), the appraisal system, which appears to be quite comprehensive, has some drawbacks. In this context, they quote the comments of an HR manager from a U.S.-based software company which summarizes the problems associated with the system: "What happens is that

implementation of appraisal is something which nobody likes; it is almost like a necessary evil that everyone has to see. So we have to, at times, give the bad news or we have to be tough, which people do not like doing. So, no matter how objective it becomes, how transparent it becomes, doing the tough part of evaluating a person is something that people do not like. That is the bad part of the whole thing". Keeping this insight in mind, an attempt is made to understand the perspectives of the HR executives with regard to the performance appraisal system in their respective firms.

Performance Appraisal System in the BPOs – HR perspectives

The data was collected from seven HR executives of these five BPOs under the study with regard to their perspectives on the performance appraisal system. The responses of the HR executives are considered as the views of the foreign MNC BPOs under the study and hence, the sample size is taken at five only (and not as seven).

Table 1: HR Perspectives on the Performance Appraisal System

Variable	Yes	No	Can't say	Total
The job duties are clearly given out	05 (100%)	-	-	05 (100%)
Employees know what is expected of them in their job	05 (100%)	-	-	05 (100%)
The performance appraisal system is timely, participative, objective and transparent	04 (80%)	-	01 (20%)	05 (100%)
Good measures/parameters of individual or group performance exist	04 (80%)	-	01 (20%)	05 (100%)
Special initiatives and efforts are recognized at the time of appraisal	05 (100%)	-	-	05 (100%)
Appraisal policies go in tandem with promotion, reward and transfer policies, etc	03 (60%)	-	02 (40%)	05 (100%)

Source: Survey data

As per Table 1, all the five (100 per cent) foreign MNC BPOs under the study report that the duties of the employees are clearly given out, the employees know what is expected of them in the job, and that the special initiatives and efforts of the employees are recognized at the time of appraisal; while four (80 per cent) of these BPOs report that the performance appraisals are timely, participative, objective and transparent, and that good measures/parameters of individual or group performance exist to evaluate the performance of employees, only one (20 per cent) of these BPOs reports that it can not say anything precisely on these issues; and while three (60 per cent) of these BPOs report that the appraisal policies go in tandem with promotion, reward and transfer policies, etc. only two (40 per cent) of these BPOs express their inability to say anything on this issue.

Table 2: HR perspectives on the Statement: Appraisal System is viewed as a Motivating Tool

Variable	Somewhat Agree	Strongly Agree	Total
Appraisals in our company are mostly seen as a motivating tool	02 (40%)	03 (60%)	05 (100%)

Source: Survey data

With regard to a statement that the appraisals are viewed as a motivating tool (Table 2), three (60 per cent) of the BPOs 'strongly agree' that the appraisals are mostly seen as a motivating tool and two (40 per cent) of the BPOs 'somewhat agree' on this issue.

Table 3: HR perspectives on the Effectiveness of the Appraisal System in Retaining and motivating the employees

Variable	Not sure	Somewhat effective	Highly effective	Mean	S.D.	% Mean
The appraisal system is effective in retaining and Motivating the employees	01 (20%)	01 (20%)	03 (60%)	4.40	1.030	88.00

Source: Survey data

Finally, on the proposition that the performance appraisal system of the organization is effective in retaining and motivating the employees (Table 3), three (60 per cent) of the BPOs report it to be 'highly effective', one (20 per

cent) of them reports it to be 'somewhat effective' and one (20 per cent) of the BPOs reports to be 'not sure' on this issue. Thus, the perspectives of the HR are very much in line with the overall policy of the ITES- BPO industry with regard to the performance appraisal system.

Performance Appraisal System in the BPOs – Employee Perceptions

The perceptions of the respondents with regard to the performance appraisal system are presented here.

Table 4: Awareness of the Performance Appraisal System among the respondents

Are the respondents aware of the performance appraisal system in the BPOs under study	Yes %	No %	Total %
Total	87.1	12.9	100

Source: Survey Data

As per Table 4, an overwhelming majority of 87.1 per cent of the respondents under the study report that they are aware of the performance appraisal system in their respective firms and only 12.9 per cent of the respondents report that they are not aware of the system.

The views of the respondents on twelve statements being used to study their agreement towards those statements are presented in Table 5. On our scale, the respondents under the study 'strongly agree' on three of the statements, that is, (a) my duties are clearly given out (the level of agreement = 80.20 per cent), (b) I know what is expected of me in the job (the level of agreement = 84.54 per cent), and (c) the appraisal system is timely (the level of agreement = 80.37 per cent), and the respondents 'agree' on eight of the statements, that is, (a) the performance appraisal system is transparent (the level of agreement = 73.74 per cent), (b) the performance appraisal system is participative (the level of agreement = 75.21 per cent), (c) the performance appraisal system is objective (the level of agreement = 73.62 per cent), (d) good measures/parameters of individual or group performance exist (the level of agreement = 79.02 per cent), (e) the special initiatives and efforts are recognized at the time of appraisal (the level of agreement = 75.46 per cent), (f) my last performance appraisal accurately reflected my performance (the level of agreement = 70.67 per cent), (g) appraisal policies go in tandem with promotion, reward and transfer policies (the level of agreement = 69.69 per cent) and (i) the appraisals are mostly seen as a motivating tool (the level of agreement = 78.16 per cent), and interestingly, only on one of the statements, that is, the performance appraisal system is often invalid, unfair, discriminatory and is based on favoritism the respondents report that they are 'not sure' on this issue (the level of agreement = 56.20 per cent).

Table 5: Employee Perceptions of the Performance Appraisal System

Variable	1 %	2 %	3 %	4 %	5 %	Mean	S.D.	% Mean
My Duties are clearly given out	2.5	4.3	14.7	47.9	30.7	4.01	.923	80.20
I know what is expected of me in the job	1.2	7.4	7.4	35.6	48.5	4.23	.958	84.54
Appraisal system is transparent	3.1	6.1	27.6	45.4	17.8	3.69	.940	73.74
Appraisal system is timely	1.8	5.5	14.7	44.8	33.1	4.02	.933	80.37
Appraisal system is participative	6.1	4.9	17.8	49.1	22.1	3.76	1.047	75.21
Appraisal system is objective	2.5	11.7	22.1	42.9	20.9	3.68	1.010	73.62
Good measures/parameters of individual or group performance exist	1.2	2.5	23.9	44.8	27.6	3.95	.852	79.02
Special initiatives are recognized at the time of appraisal	3.1	9.2	19.6	43.6	24.5	3.77	1.020	75.46
Last performance appraisal accurately reflected my performance	6.1	13.5	21.5	38.7	20.2	3.53	1.140	70.67
The appraisal system is often invalid, unfair, discriminatory, and based on favoritism	22.7	18.4	22.7	27.6	8.6	2.81	1.298	56.20
Appraisal policies go in tandem with promotion, reward and transfer policies	3.7	16.6	24.5	38.0	17.2	3.48	1.074	69.69
Appraisals are mostly seen as a motivating tool	1.2	12.3	15.3	36.8	34.4	3.91	1.047	78.16

(Note: 1 - strongly disagree, 2 - disagree, 3 - Not sure, 4 –agree, 5 - strongly agree)

Source: Survey data

The study findings (Table 6) indicate that, on an average, the level of satisfaction among the respondents towards the performance appraisal system is at 69.94 per cent, which implies, on our scale, that the respondents are 'satisfied' with the performance appraisal system of the BPOs for whom they are working at present.

Table 6: Satisfaction of the respondents towards the Performance Appraisal System

Variable	1 %	2 %	3 %	4 %	5 %	Mean	S.D.	% Mean
The respondents are satisfied with the performance appraisal system	8.6	12.3	14.1	50.9	14.1	3.50	1.141	69.94

(Note: 1 – highly dissatisfied, 2 - dissatisfied, 3 - Not sure, 4 – satisfied, 5 - highly satisfied)

Source: Survey data

The present study supports the findings of De (2004), and Rani and Mahalingam (2003) on the perceptions of the BPO employees with regard to the performance appraisal system being adopted by their employers and it does not find any significant evidence to prove the findings of Shivani (2006).

Factors influencing the satisfaction towards the Performance Appraisal System

A regression analysis was made to identify the variables influencing the satisfaction of the respondents towards the performance appraisal system of the foreign MNC BPO firms under study (Table 7). A significance level of 5 per cent was used for our analysis. The result of the regression analysis shows that the variables of the objectivity in the appraisals (p = .028), the accuracy of the previous appraisals (p = .017), and viewing appraisals as a motivating tool (p = .002) are significantly influencing the satisfaction of the respondents towards the performance appraisal system and all the other variables like my duties are clearly given out (p = .422), I know what is expected of me in the job (p = .248), transparency in the appraisal system (p = .976), timeliness of the appraisals (p = .110), employee participation in appraisal system (p = .686), existence of good measures/parameters of individual or group performance (p = .354), recognition of special initiatives and efforts at the time of appraisals (p = .069), the performance appraisal system is often invalid, unfair, discriminatory and is based on favoritism (p = .266), and appraisal systems go in tandem with promotion, reward and transfer policies (p = .550) have emerged as the insignificant variables.

Table 7: Factors influencing the satisfaction of the employees towards the Performance Appraisal System

	Unstandardized Coefficients		standardized Coefficients		
	B	Std. Error	Beta	T	p
(Constant)	-.757	.520		-1.455	.148
My duties are clearly given out	.094	.116	.076	.805	.422
I know what is expected of me in the job	-.130	.112	-.109	-1.160	.248
Appraisal system is transparent	.003	.101	.003	.030	.976
Appraisal system is timely	.169	.105	.138	1.606	.110
Appraisal system is participative	.040	.100	.037	.404	.686
Appraisal system is objective	.235	.106	.208	2.224	.028
Good measures/parameters of individual or group performance exist	.100	.108	.075	.930	.354
Special initiatives are recognized at the time of appraisal	.168	.091	.150	1.833	.069
Last performance appraisal accurately reflected my performance	.188	.078	.188	2.417	.017
The appraisal system is often invalid, unfair, discriminatory, and based on favouritism	.067	.060	.076	1.117	.266
Appraisal policies go in tandem with promotion, reward and transfer policies	-.048	.081	-.045	-.598	.550
Appraisals are mostly seen as a motivating tool	.258	.082	.237	3.150	.002

The variables of the objectivity in the appraisals (Standardized Beta Coefficient = .208), the accuracy of the previous appraisals (Standardized Beta Coefficient = .188), and viewing appraisals as a motivating tool (Standardized Beta Coefficient = .237) are positively associated with satisfaction of the respondents. The variable of viewing appraisals as a motivating tool contributes more towards satisfaction of the respondents with 23.7 per cent (Standardized Beta Coefficient = .237), followed by the objectivity in the appraisals with 20.8 per cent (Standardized Beta Coefficient = .208), and the accuracy of the previous appraisals with 18.8 per cent (Standardized Beta Coefficient = .188).

Model 1

Model	R	R Square	F	p
1	.653	.426	9.280	.000

However, as per the Model 1 above, all the variables used in the study collectively account for 42.6 per cent of the satisfaction of the respondents towards the performance appraisal system.

Conclusion

Considering the nature of the ITES-BPO industry, one can surely be convinced that the performance appraisal system is inevitable and that over a short period of time the employees of these firms have to either accept it as a fact of life or quickly adapt. Although the respondents report positively on the various variables being used to study their perceptions, there certainly appears to be a scope for improvement in the existing system within the Indian BPO industry. The present system may be made simple and supportive of the employees' personality development and learning, it may provide a basis for factual feedback for the future development of the employees. The appraisal needs to be developmental, and not just evaluative. It may not be confined just to the examination and analysis of the past performance, rather, it may identify the weaknesses and strengths as well as the opportunities for improvement and skill development of the employees so that he can develop as a better performer in the future and may make a career for himself in the industry. Again, the individual employees may be involved in the process of their goal setting and also in discussions on his/her career prospects. Perhaps, a more participative approach in this direction could be beneficial in improving the present performance appraisal system in the Indian ITES-BPO industry.

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