

CORRELATES OF EMPLOYEE SATISFACTION WITH PERFORMANCE APPRAISAL SYSTEM IN FOREIGN MNC BPOs OPERATING IN INDIA

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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 quantitative methods from 163 employees constituting 1% of the population under study. 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 three of the variables used in the study are significantly influencing the satisfaction and all these three significant variables are positively associated with satisfaction and all other variables have emerged as the insignificant variables. All the variables used in our study collectively account for 42.6 per cent of the satisfaction. The factor analysis has identified four factors: the variables of factor one contribute 34.786 per cent variation, followed by 12.788 per cent, 11.961 per cent and 8.389 per cent variation being contributed by factor two, three and four respectively.*

KEY WORDS: *Employee Perceptions; Performance Appraisal System; Foreign MNC BPOs*

JEL CLASSIFICATION: *G30, J50*

1. INTRODUCTION

Performance appraisal is among the most important human resource (HR) practices and it is one of the more heavily researched topics (Fletcher, 2002). Performance appraisal may now be seen as a generic term covering a variety of activities through which organizations seek to assess employees and develop their

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competence, enhance performance and distribute rewards (Fletcher, 2001). That is why, today, the focus of both practice and research has been moving towards developmental performance appraisal (Levy and Williams, 2004). According to Fletcher (2001), the performance appraisal must be viewed as a mechanism for developing and motivating people. There is a general consensus among performance appraisal researchers and practitioners that assessment of appraisal reactions is important (Keeping & Levy, 2000). For instance, it is frequently argued that in order for performance appraisal to positively influence employee behaviour and future development, employees must experience positive appraisal reactions; if not, any appraisal system will be doomed to failure (Murphy & Cleveland, 1995). The satisfaction with performance appraisal is the most frequently measured appraisal reaction (Keeping and Levy, 2000) and studies have reported that there is a positive relationship between satisfaction with performance appraisal and overall job satisfaction (Ellickson, 2002), since job satisfaction is positively related to performance (Judge et al., 2001). There is an extensive research on the factors that influence the satisfaction of the employees towards the performance appraisal or other reactions in different contexts (Levy and Williams, 2004). However, there is a lack of enough empirical evidence on the factors that influence the satisfaction of the BPO employees towards the performance appraisal system. In this context, this paper attempts to study, analyze and group the factors that influence the satisfaction of the employees of the foreign MNC BPO firms operating in India towards the performance appraisal system.

2. OBJECTIVES OF THE STUDY

This empirical study of the correlates of employee satisfaction with performance appraisal system in foreign MNC BPO firms operating in India has the following objectives: to study and analyze the perceptions of the employees with regard to the performance appraisal system being practiced by the foreign MNC BPO firms; to analyze the satisfaction of the employees of the foreign MNC BPO firms towards the performance appraisal system; to identify and group the most important factors responsible for the satisfaction of the employees of the foreign MNC BPO firms towards the performance appraisal system.

3. REVIEW OF THE LITERATURE

A brief review of the studies made in this area in the Indian context is presented here. 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), based on a sample survey of 277 call center employees, 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 is 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 by the researchers to study, analyze and group the correlates of the employee satisfaction with the performance appraisal system being practiced by the foreign MNC BPO firms operating in India.

4. THE RESEARCH HYPOTHESIS & METHODOLOGY

The following research hypothesis has been formulated by the researchers: "The variables of assessment of performance appraisal have significant relation with the satisfaction of the respondents towards the performance appraisal system". 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 quantitative (sample survey through questionnaire) methods. The data was collected from a total of five foreign MNC BPO firms which were selected on the basis of the ranking 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 techniques. Altogether, data was collected from a total of 163 employees and these 163 employees constitute 1 per cent of the population under the 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 Likert's (1932) five point 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 again on Likert's (1932) five point 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. A multiple regression analysis, using a significance level of 5 per cent, has been made to identify the variables influencing the satisfaction of the respondents towards the performance appraisal system and the results are presented here. The results of the factor analysis, being performed under the Principal Component Analysis Method to identify and group the most important factors responsible for the satisfaction of the respondents towards the performance appraisal system, have been presented in this paper. Finally, the paper concludes with the researchers' contributions to the literature and the scope for further research in this area.

5. EMPLOYEE PERCEPTIONS OF THE PERFORMANCE APPRAISAL SYSTEM

The perceptions of the respondents with regard to the performance appraisal system are presented here. As per Table 1, 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.

Table 1. 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

The views of the respondents on twelve statements being used to study their agreement towards those statements are presented in Table 2. 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 2. 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 3) 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 foreign MNC BPO firms for whom they are working at present.

Table 3. 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).

6. FACTORS INFLUENCING THE SATISFACTION TOWARDS THE PERFORMANCE APPRAISAL SYSTEM

Table 4. Factors influencing the satisfaction of the employees towards the Performance Appraisal System

	Unstandardized Coefficients		Standardized Coefficients	T	p
	B	Std. Error	Beta		
(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

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 4). 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. 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.

7. HYPOTHESIS TESTING

A multiple regression analysis was used to test the hypothesis and the results are reported in Table 4. As discussed already in the previous paragraph, the regression analysis shows that three of the variables used in the assessment of performance appraisals have significant and positive relationship with the satisfaction of the respondents towards the performance appraisal system and the remaining nine variables have no significant relationship with the satisfaction of the respondents towards the performance appraisal system, and hence, the hypothesis being considered by the researchers is partially accepted and partially rejected.

8. FACTORS INFLUENCING THE SATISFACTION TOWARDS THE PERFORMANCE APPRAISAL SYSTEM - A FACTOR ANALYSIS

The researchers have used ‘factor analysis’ to identify and group the most important factors responsible for the satisfaction of the respondents towards the performance appraisal system. According to KMO and Bartlett’s Test, factor analysis can be performed for the given data as $p = .000 < .01$ (Table 5).

Table 5. KMO and Bartlett’s Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.773
Bartlett’s Test of Sphericity	Approx. Chi-Square	670.289
	df	66
	Sig	.000

The factor analysis has been performed by using the Principal Component Analysis Method in order to identify the factors which discriminate each other and the results of the analysis are presented here (Table 6 & 7).

Table 6. Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.174	34.786	34.786	4.174	34.786	34.786	3.096	25.797	25.797
2	1.535	12.788	47.575	1.535	12.788	47.575	1.848	15.400	41.197
3	1.435	11.961	59.536	1.435	11.961	59.536	1.810	15.082	56.279
4	1.007	8.389	67.925	1.007	8.389	67.925	1.398	11.646	67.925
5	.841	7.010	74.934						
6	.717	5.977	80.912						
7	.513	4.273	85.185						
8	.485	4.042	89.227						
9	.407	3.394	92.620						
10	.337	2.812	95.433						
11	.312	2.603	98.036						
12	.236	1.964	100.000						

Extraction Method: Principal Component Analysis.

Table 7. Rotated Component Matrix

	Component			
	1	2	3	4
Duties are clearly given out			.889	
I know what is expected of me in the job			.874	
Appraisal system is transparent	.606			
Appraisal system is timely	.784			
Appraisal system is participative	.828			
Appraisal system is objective	.824			
Good measures/parameters of individual or group performance exist	.685			.663
Special initiatives are recognized at the time of appraisal		.656		
Last performance appraisal accurately reflected my performance				.782
The appraisal system is often invalid, unfair, discriminatory, and based on favouritism		.628		
Appraisal policies go in tandem with promotion, reward and transfer policies		.809		
Appraisals are mostly seen as a motivating tool				

Notes: 1. Extraction Method: Principal Component Analysis; 2. Rotation Method: Varimax with Kaiser Normalization; 3. Rotation converged in 5 iterations

The factor analysis has identified the following four factors:

- *Factor 1:* This factor consists of the following variables which contribute 34.786 per cent variation. The variables are: transparency in the appraisals with factor loading of .606; timeliness of the appraisals with factor loading of .784; employee participation in the appraisals with factor loading of .828; objectivity in the appraisals with factor loading of .824; existence of the good measures/parameters of individual/group performance with factor loading of .685. The above are the most important factors which contribute the most to the overall level of satisfaction of the respondents towards the performance appraisal system being practiced by the foreign MNC BPO firms operating in India.
- *Factor 2:* This factor consists of the following variables which contribute 12.788 per cent variation. The variables are: accuracy of the previous appraisals with factor loading of .656; appraisal policies go in tandem with promotion, reward and transfer

- policies with factor loading of .628; viewing appraisals as a motivating tool with factor loading of .809
- *Factor 3:* This factor consists of the following variables which contribute 11.961 per cent variation. The variables are: duties are clearly given out with factor loading of .889; I know what is expected of me in the job with factor loading of .874
 - *Factor 4:* This factor consists of the following variables which contribute 8.389 per cent variation. The variables are: recognition of special initiatives at the time of appraisal with factor loading of .663. The appraisal system is often invalid, unfair, discriminatory, and based on favouritism with factor loading of .782

9. 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 ITES - 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 ITES-BPO industry.

The study has been successful in accomplishing its research objectives and it makes three contributions to the literature. First, the researchers have been able to present the perceptions of the BPO employees with regard to the performance appraisal system wherein the employees convey that they are not highly satisfied with the performance appraisal system being practiced by the BPOs under study; however, the overall level of satisfaction at 69.94 per cent is something not to be blindly ignored and thus, the respondents appear to be 'somewhat satisfied' with the performance appraisal system of the BPOs under study. Second, the researchers have been able to study and analyze the variables influencing the satisfaction of the employees towards the performance appraisal system, wherein the researchers have been able to establish that out of the twelve variables being used in the assessment of the performance appraisal system, only three variables have emerged as the significant variables and all these three variables are positively associated with the satisfaction of the respondents towards the performance appraisal system and the remaining nine variables have emerged as the insignificant variables in the assessment of performance appraisal system. Third and the most important, the researchers have been able to group,

through factor analysis, all the variables into four broad factors and also to establish that there are five most important variables that contribute the most to the overall level of satisfaction of the respondents towards the performance appraisal system.

With regard to the scope for further research, the following areas are suggested by the researchers: the primary data for the present research was collected during a period when the whole world was reeling under the pressure of global recession and hence, a research in the same area after the recovery from recession is suggested which will help validate or nullify the present findings; the study was based on a small sample of five large firms and hence, there is a scope to cover more number of firms in the future, giving proper representation to small, medium and large firms operating in the industry; a comparative study of Indian and foreign firms is suggested; a cross-national study in this industry is advised to understand the country-wise differences, and more importantly; a study in the same area but across different industries is highly suggested by the researchers which will help establish whether there is any similarity among the employees working for different industries with regard to their perceptions of the performance appraisal system or whether the BPO industry is unique in itself.

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