

# CONCEPTUAL STUDY ON ORGANIZATIONAL PERFORMANCE IN INDIAN CONTEXT

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## **Abstract:**

*Organizational performance is the most important dependent variable of interest for researchers working in just about any area of management. This research paper/chapter presents a review of the research that has happened in the area of organizational performance in India during the period 2003- 2015. The paper begins with a presentation on the issue of performance measurement and the associated challenges. Next, it documents research that has linked individual-level, group-level and organization-level variables to organizational performance. While presenting a description of studies, the paper also presents their critical appreciation bringing out salient points, theoretical and conceptual contributions, limitations, gaps and the scope of future research. Important areas, themes and issues that need attention are brought into focus. In the end, a multi-level model incorporating the insights gained from the survey has been presented that provides a process framework linking antecedent variables to organizational performance. The framework provides a set of working hypotheses that should set the course of future organizational performance research in the Indian context.*

**Keywords:** *Organizational performance, organizational effectiveness, performance; performance measurement; individual-level; group-level; organization-level; causal framework; Indian context.*

## **I. INTRODCUTION**

The ICSSR research survey is an ongoing program. The documentation of research in organizational behaviour (OB) began with the work of Sinha (1972) where he analyzed the important trends in the field of industrial/organizational psychology. The review was followed up by another work (Sinha 1974) where he presented a review on job satisfaction and job behaviour. These works focused on individual and group level processes in the context of organizations. The first ICSSR survey on management was published in the year 1973 (Sharma 1973). Sinha (1981), in his review on organizational behaviour presented a review of Indian work up to 1976. In this work he attempted to present the impact of individual-level variables like motivation, commitment, and job satisfaction on a few organizational-level variables.

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Khandwalla (1988a) presented a comprehensive review of the post-1976 Indian work on organizational effectiveness. He defined the construct of organizational effectiveness as a multidimensional construct being determined by a host of contextual, strategic, structural and process variables and documented the role these variables play in determining organizational effectiveness. The work adopted an organization-level focus and highlighted only those studies where unit of analysis was organization rather than individuals or groups. Khandwalla (1988b) in another paper presented a set of recommendations on how research on organizational behaviour (OB) can contribute to organizational effectiveness which can thereby lead to social development. His work was in reference to the strategic organizations of developing economies and presented how organization-level variables like coordination, conflict resolution, interpersonal collaboration, boundary management, growth management, and institution-building can contribute to revitalization of sick organizations.

Observing the shifting focus of previous (e.g. Khandwalla 1988a, b) and recent reviews (e.g. Vohra, Rawat and Pandey 2003; Kanungo and Mishra 2004) on organizational level variables rather than individual and group-level process variables, Sinha (2009) presented a review of research related to individual and group level processes in the area of OB relevant for the Indian setting. The work reviewed the researches from 1992 to 2004. Unlike previous works, the work focused on individual, group and organizational level variables and documented their impact on popular outcome variables like productivity, absenteeism, turnover, and organizational citizenship behaviour and job satisfaction. Gupta and Panda (2009) developed an 'integrated culturist-institutionalism' perspective for furthering our understandings of organizations in India.



Fig ;1

## **II. ORGANIZATIONAL PERFORMANCE MEASUREMENT: DEFINITION AND CHALLENGES**

Organizational performance is probably the most frequently used dependent variable in organizational research today. Yet, at the same time, it remains one of the most vague and loosely defined constructs. The definition of organizational performance is a surprisingly open ended question with few studies using consistent definitions and measures. Performance is so common in management research that its structure and definition are rarely explicitly justified; instead, its appropriateness, in no matter what form, is unquestionably assumed (Richard, Deviney, Yip and Johnson 2009).

A major challenge for performance research is to establish a clear, coherent and consistent construct for organizational performance (Rogers and Wright 1998). Due to the economic considerations, organizational performance has become an important variable of study that has implications not only for organization level processes but also for how individual and group level processes are modeled. Performance can be defined in varying ways. For behavioral scientists, performance usually refers to subjective measures of individual-level and organization-level performance, or variables like individual motivation, commitment, and Organizational Citizenship Behaviors (OCB).

For finance, economics and strategy researchers, organizational performance means firm performance, profits and sales, return-on-investment (ROI), return-on-asset (ROA) and other financial parameters. Traditional financial measures of performance may not be adequate in today's operating environments. Based on a review of studies linking HR practices and firm performance, Dyer and Reeves (1995) gave a typology of performance measures. The authors divided performance measures into human resource, organizational, financial and market measures. Human resource measures consist of variables like turnover, turnover intentions, absenteeism, job satisfaction; organizational measures included productivity, quality, customer satisfaction and manufacturing flexibility; financial measures consisted of ROA, return-on-equity (ROE), profits, sales and employee value; and financial market category consisted of measures like stock prices, and Tobin's Q.

Richard et al. (2009), in a comprehensive review of performance related research, defined organizational performance to comprise of three specific areas of firm outcomes: (a) financial performance (profits, return on assets, return on investment); (b) product market performance (sales, market share); and (c) shareholder return (total shareholder return, economic value added). They classified performance measures into two broad categories – objective and subjective measures of performance. The objective measures consist of accounting measures, financial measures and mixed accounting/financial measures. Subjective measures can be further classified into fully subjective and quasi-subjective measures.



Fig :2

### III. PERFORMANCE MEASUREMENT IN INDIAN CONTEXT

A review of studies that have attempted to define organizational performance and have developed instruments for its measurement in the Indian context is presented below. Roy, Nagpaul and Mohapatra (2003) examined the issues involved in measuring effectiveness of research units operating in R&D organizations and developed a four-dimensional model to measure R&D performance. The model consisted of R&D effectiveness, recognition, user oriented effectiveness and administrative effectiveness as the four dimensions. Items included in R&D effectiveness were 'meeting institute's R&D objectives', 'meeting quality standards', 'innovativeness', 'productiveness' and 'contributions to science and technology'.

Recognition included 'national reputation of unit's work', 'international reputation of unit's work' and 'demand for publications'. User-oriented effectiveness included 'social value of output', 'usefulness in solving societal problems', and 'use of R&D results'. Administrative effectiveness included 'success in meeting time schedules' and 'success in staying within the budget'. Based on perceptual inputs from Indian executives working in Multinational Companies (MNCs), Awasthy and Gupta (2004) attempted to understand organizational effectiveness of organizations as perceived by executives. The categories reported by the executives were remarkably similar to Quinn and Rohrbaugh's (1983) Competing Values framework.

The model proposed by the executives contended that organizations vary on the dimensions of control versus flexibility, internal versus external focus, and means internal versus ends. In terms of the first set of

values, an organization may emphasize order and stability more than innovation and change. Based on the second set of values, an organization may keep a closer watch on its position vis-à-vis the competition rather than on the needs of the people it employs. Its view regarding the third set of values may drive an organization to concentrate more on the way it does its work (the means) than on what it achieves by doing the work (the ends).

The findings of the study suggested that organization should be HR-driven and that adaptability and innovation is the key to organizational effectiveness. After the HR dimension, respondents expressed greatest preference for external orientation in which flexibility and willingness to act are given greater importance. The study results showed that in the Indian context organizational effectiveness is conceived as 'the adaptability, innovativeness and accountability to the stakeholder's interest' through HR driven systems and policies.

Aggarwal-Gupta and Vohra (2010) suggested a multiple stakeholder perspective to measure school effectiveness. They observed that a school's effectiveness is determined by multiple factors like the principal of the school, the administrator of the school, the students, the parents, and the teachers. Each one of these can determine organizational effectiveness. For example, more collaborative behavior on the part of the principal leads to organizational effectiveness. Parents demand for preferential treatment for their children may lead to personnel and discipline problems that could negatively influence organizational effectiveness. The authors concluded that the researchers should carefully study the context and devise the metric to measure effectiveness in consultation with significant stakeholders.

Kumar and Gulati (2010) adopted the ROA measure to evaluate the efficiency, effectiveness, and performance of 27 Indian public sector banks. A two-stage performance evaluation model, proposed by Ho and Zhu (2004), was followed. In Stage I, the efficiency scores are computed using advances and investments from inputs consisting of physical capital, labor and loan able funds. The output variables of Stage I act as input in the Stage II. The effectiveness score in the Stage II is computed using an output vector including net-interest and non-interest incomes and an input vector including advances and investments. The overall performance score is obtained by multiplying the efficiency and effectiveness scores.

#### **IV. ORGANIZATIONAL PERFORMANCE MEASUREMENT: CRITICAL APPRAISAL**

Vakkuri and Meklin (2006) analyzed the performance measurement systems of organizations from an ambiguity perspective and observed that measurement of organizational performance is fretted with three types of ambiguities: ambiguity in clearly understanding what performance measurement is, ambiguity in understanding what performance measurement should produce and ambiguity in understanding how the information produced by performance measurement should be used. Measurement can be viewed as a process involving an explicit, organized plan for classifying (and often quantifying) the particular set of data at hand – the indicators – in terms of the general concept in the researcher's mind (Roy et al. 2003).

There is still a tendency amongst researchers and practitioners to measure things that are easy to measure (Powell 2004). While a majority of the published studies do show significant relationships between

variables under study and firm performance, these relationships are neither universal nor consistent. More attention should be paid to understanding of the context and to designing the research study accordingly. Given below are a few specific suggestions for researchers interested in conducting studies on the topic of organizational performance.

First, the act of identifying a suitable performance measure is to clarify what is important in the organization. In other words, the first step in deciding on performance measures is to identify important stakeholders for the organization. If the aim of the organization is happy customers then the researcher should measure customer happiness. It could be through measuring customer complaints, positive customer feedback or customer referrals. For an R&D intensive organization, the performance metric could be very different. Such organizations would measure their, or their employee performance in terms of the knowledge (papers, patents, technologies) created (Gupta and Singh 2013). Ideally, before embarking on performance studies, the researcher should question senior management about the organization objectives, and to define clearly how they want to assess performance of their organization.

## **V. INDIVIDUAL-LEVEL VARIABLES**

### **Organizational Commitment**

Piercy, Low and Cravens (2011) investigated the relationships between four antecedents of sales organization effectiveness, including sales unit design, salesperson turnover, organizational commitment, and salesperson performance, in seven countries (UK, Nigeria, India, Malaysia, Saudi Arabia, Bahrain and Greece). All variables were measured in terms of manager's satisfaction with sales unit design, salesperson turnover, organizational commitment and performance of salespeople. Sales unit effectiveness was assessed in terms of managers' perception of performance relative to the major competitor and sales unit objectives, using a multi-item scale for sales volume, market share, profitability, and customer satisfaction. The data collection was carried out by an Indian national working locally. A sample of 107 responses was obtained (42 percent response rate). Data collection was primarily in Chennai (formerly Madras), with a smaller number of responses from Mumbai (formerly Bombay) and Calcutta. The study found that manager's perceptions of sales force commitment and sales unit design were positively related to sales organization effectiveness.

### **Organizational Communication**

Biswas, Giri and Srivastava (2007) analyzed the impact of organizational communication on employee performance and organizational effectiveness. It was hypothesized that better organizational communication process will lead to higher level of employee performance and organizational effectiveness. Data were collected from 9 organizations in India, four of which belonged to the manufacturing sector while five belonged to the service sector. Organizational communication was measured using scale developed by Roberts and O'Reilly (1974) and organizational effectiveness was measured using scale developed by Mott (1972). The results established that organizational communication was significantly related to employee performance and organizational effectiveness as hypothesized. Communication system is considered to be effective if it

disseminates information about favored organizational policies and practices to all its members. It also provides members with updated knowledge about general and specific environment of business. It is, therefore, likely that organizations having open communication system will be more effective.

### **CEO and Top Management Teams**

Using cross-sectional data on Indian manufacturing firms for the year 2007, Ghosh (2010) explored the association between executive compensation and firm performance. The dependent variable in the study was total executive compensation, defined as the aggregate of salary and other perquisites paid to the CEO of the company. Two firm performance measures were considered, namely, ROA and Market to Book Value Ratio (MBVR). Firm performance and its interactions with performance variance (pay-performance sensitivity) were found to have highly statistically significant positive coefficients. Firm size, firm ownership (modeled as dummies) and industry type were kept as control variables. The study demonstrated that pay-performance sensitivity estimates are significant and in line with those predicted by the agency theory.

### **Dynamic Capabilities**

In highly competitive and rapidly evolving social as well as business environments, firms of today need capabilities that can enable an organization to purposefully create, extend, or modify its resource base. Dynamic capabilities are said to be of three main types: organizational processes for learning, reconfiguration and coordination (Teece, Pisano and Shuen 1997). Studies have further extended the concept to include a lot of other capabilities like reverse engineering, manufacturing flexibility (Malik and Kotabe, 2009), etc. In the present section, we present research studies that have happened in the Indian context examining the linkages between dynamic capabilities and firm performance. Khandekar and Sharma (2005) examined the relationship of human resource capability (HRC) with organizational performance and sustainable competitive advantage in the Indian organizations. Organizational performance was measured using the managers' perceptions of product quality, customer satisfaction, new product development, ability to attract and retain employees, and relationship between junior and senior levels. Sustainable competitive advantage was measured using a four-item subjective measure developed by Barney (1991). The study found significant relationship between HRC and organizational performance and between HRC and sustainable competitive advantage.

## **VI. SUMMARY, GAPS AND DIRECTIONS FOR FUTURE RESEARCH**

### **6.1 Summary of Studies on Organizational Performance**

The present review has covered research conducted on the topic of organizational performance over the last few years (2003-2015). While the authors have made their best attempt to cover all relevant studies that have been conducted and/or published during 2003-2015 on organizational performance, it is possible that some studies may have escaped our attention. We offer our sincerest apologies for the omission and accept full responsibility for it. Organizational performance is not determined by any one variable. Rather, it is a systemic phenomenon that is affected by multiple variables like firm size, employee commitment, motivation, structure,

culture of the organization, strategy adopted, HRM practices instituted, the top management team, decision making processes, conflict resolution strategies followed, and many others. Not only is the performance affected by individual variables but also by the interaction amongst them. Presented below is a summary of the studies reviewed in this chapter. We also pen down the observations that we have made while writing this review.

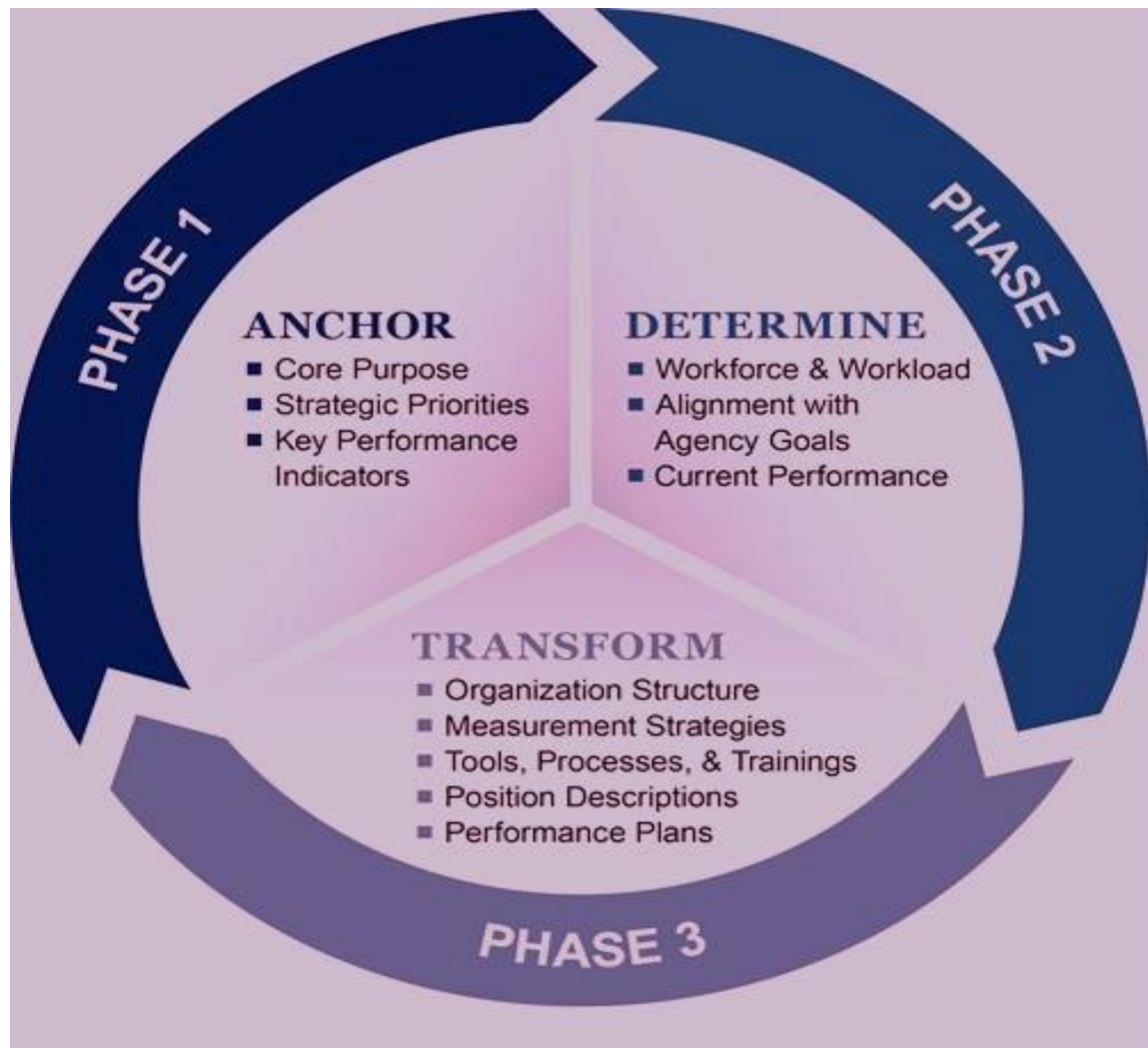


Fig ; 4

## VII. CONCLUDING COMMENTS :

The research Paper attempts to present a comprehensive review of the researches that have happened in the area of organizational performance and related constructs. Effort has been made to cover the researches that have happened in the period from 2003 to 2015. While the study intended to focus on studies that have happened in the Indian cultural context it was impossible for us to concentrate only on Indian studies given that most of the definitions of organizational performance related research constructs and the research design and methodology have been borrowed from the West.

It would be unfair to present a review of organizational performance research without citing the seminal works that have happened in this area in the West. The chapter presents a review of the ongoing debate on the issue of measurement of performance at various levels of analysis, and the associated challenges. Next, the study documents the research that has linked individual-level, group-level and organization-level variables to organizational performance. Not only does the chapter presents a description of studies but also presents their critical appreciation bringing out salient points, theoretical and conceptual contributions. Important areas, themes, and issues that need attention are attempted to be brought into focus in the discussion section.

In the end, a causal framework linking organizational performance to individual-, group-, and organization-level variables has been presented. The model incorporates the insights gained from the survey, and presents a detailed, multiple-level process framework that links antecedent variables to organizational performance. The framework provides a set of working hypotheses that should set the course of future organizational performance research in the Indian context.

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