

Linking Employee Performance Management System Characteristics with Performance Management System Effectiveness in Selected Public-Sector Banks of Guwahati

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Abstract

The present empirical study is based on the effectiveness of the performance management systems in selected public banks of India operating in the city of Guwahati. The study focuses on some of the factors responsible for the effectiveness of the Performance Management System. In the study certain characteristics of a Performance Management System like employee participation, focus of performance reviews, Performance factors (system awareness, performance planning, feedback mechanism and support systems), review technique used and rewards received and their relation with the effectiveness of the Performance Management System was examined. It was found that, participation, focus of performance reviews, Performance factors (system awareness, performance planning, feedback mechanism and support systems), review technique used and rewards received have a positive relation with the effectiveness of the Performance Management System of the organizations under study.

KEYWORDS: *Performance Management System, effectiveness, Participation, Review focus, performance factors, review technique*

1. Introduction

In India, there are a large number of organizations which follow a definite Performance Management System which are usually used to measure the employee's performance in a particular assessment year, to increase employee commitment, to increase employee efficiency, increase motivation etc. This

system also helps the organization in deciding the amount of incentives and bonus to be given to a particular employee. Some techniques of performance management may be easy to understand, transparent and participative in nature whereas some other may be confidential, opaque and non-participative. Presently, the most used technique for goal-setting in performance management is balanced scorecard. The technique used is crucial for the success of the system. The increase in competition amongst the employees at work have led to the work environment being very competitive creating difficulty for the management in choosing the best performer amongst the employees. There are many characteristics of a Performance Management System which has an impact on its effectiveness. Some of the elements like participation of employees in goal setting, the focus of performance review, performance factors like system awareness, performance planning, feedback mechanism, reward system and review technique also impacts the effectiveness of the Performance Management System.

The elements of Performance Management systems involve a number of performance standards, methods to measure performance, evaluate performance based on those standards, different tools to improve performance and feedback (Armstrong and Baron, 2005). Performance management (PM), is an increasingly prevalent practice in organizations (Aguinis and Pierce 2008), which refers to the measurement and management of employee performance which is aimed at increasing organizational effectiveness (Den Hartog, Boselie and Paauwe 2004)

The following literatures have been kept in consideration while conducting the study:

- A Srinivasa Rao (2007) in his study “Effectiveness of Performance Management: an empirical study in Indian Companies”, focuses on the factors responsible for effectiveness of Performance Management System and its alignment with organizational goals found that Factors like academic background, exposure, interpersonal relation, team working etc effect PM System implementation.
- Koen Dewettinck and Hans van Dijk (2012) in their study entitled “Linking Belgian employee performance management system characteristics with performance management system effectiveness: exploring the mediating role of fairness” had the objective to link the various aspects of performance aspects like performance review, execution of Performance Management System with fairness. The findings indicate that performance review focus and employee participation strongly relate to Performance Management system effectiveness.
- Ellis I. and Onyeizugbe (2011) in their work “an empirical perspective of the public sector in Delta state of Nigeria”, guided by Eisenhardt’s Agency Theory, sought to identify the effects of performance review techniques on employees’ performance; to ascertain if there is a significant relationship between performance incentives and employees’ morale. Results showed that performance review techniques have significant effect on employees’ performance.
- Gaurav Kocchar and Dr Vikash Arora (2014) in their study “Employee Performance Management System Characteristics with Performance Management System effectiveness: Exploring the mediating role of fairness” had the objective of finding out the relationship between characteristic of employee performance management systems and the perceived effectiveness by the employees and found that the manner in which performance management systems are shaped and executed is important for their effectiveness.

1.1 Hypothesis

The hypotheses formulated are supported by the research work done earlier by different scholars.

- **Employee development, Performance Management effectiveness and Performance review**

A study conducted by Dewettinck (2008) showed a positive relationship between Performance Management system purpose and Performance Management system effectiveness and showed that strong development-oriented Performance Management systems were more effective in increasing employee motivation than strong outcome-oriented Performance Management systems

The hypothesis is framed as:

Hypothesis 1: Performance reviews that focus more on employee development are associated with higher levels of Performance Management system effectiveness than performance reviews that focus predominantly on performance outcomes.

- **Employee participation**

Participation in goal setting has been associated with increased goal understanding (Erez, Earley and Hulin 1985) and increased goal acceptance (Locke 1968; Erez and Kanfer 1983), thereby linking employee participation in goal setting to Performance Management system effectiveness (cf. Kleingld, van Tuijl and Algera 2004).

The hypothesis formulated is:

Hypothesis 2: The level of employee participation is positively related to the level of PM system effectiveness.

- **Relation between rewards and performance Management system effectiveness**

Performance management systems are linked with training, promotions, salary and reward, administration and research (Rao and Pareek, 1998). Similarly, the effects of financial rewards (performance related pay) is a key element in performance management in many organizations. This was noted in the meta-analytic review by Guzzo et al. (1985)

The hypothesis has been formulated as:

H3- Linking rewards to performance will positively impact the effectiveness of the Performance Management System.

- **Performance factors and Performance Management System effectiveness**

Mendonca and Kanungo (1990), found that performance management in India has been a difficult issue and there are certain performance factors (system awareness, performance planning,

feedback mechanism) which impact the effectiveness of the Performance Management System. The hypothesis is formulated as:

H4- Performance factors like system awareness, performance planning, feedback mechanism and support systems are more likely to influence the effectiveness of the Performance Management Systems in these organizations.

- **Review Technique and performance management system effectiveness**

Ellis I. and Onyeizugbe Chinedu (2011) in their work "An empirical perspective of the public sector in Delta state of Nigeria". Guided by Eisenhardt's Agency Theory, sought to identify the effects of performance review techniques on employees' performance. Results showed that performance review techniques have significant effect on performance management system effectiveness. The hypothesis formulated is as:

H5- The technique used for reviewing employee performance impact the effectiveness of the Performance Management System in an organization.

2. Method and Measures

2.1 Sampling frame

To make the research work manageable the universe of the study is the head offices (Regional Office / Zonal Office / Main Branch) within the Guwahati city for all the public-sector banks under study. Secondary data were collected different journals and magazines related to the organization and the primary data were collected through questionnaire survey.

2.2 Sampling Technique:

Since a specific geographical area has been selected initially the method of simple random sampling is used and then judgment sampling is done for primary data collection. The entire population is considered for sampling.

2.3 Sample size:

Statistical formula is used to determine the quantitative sample size which is given below:

Equation (1)

$$\text{Sampling Size } (n) = \left(\frac{Z*s}{e}\right)^2$$

$$n = \left(\frac{1.96*.666}{.10}\right)^2 \quad (e = 10\%)$$

$$n = 170$$

Where Z is the critical value at 95% of confidence level = 1.96

“s” is the standard error = $\frac{\text{Maximum value of scale} - \text{minimum value of scale}}{6}$

$$= \frac{5-1}{6} = .666$$

The sample size statistically should be 170. But for the present study, sample size is 251 which consisted of employees from Allahabad Bank, Corporation Bank, Syndicate Bank, UCO Bank, State Bank of India, Union Bank of India, United Bank of India, Bank of Baroda, Bank of India, Punjab and Sind Bank, Bank of Maharashtra and Indian Overseas Bank.

2.4 Measurement of Dependent variable

The dependent variable in the study i.e. Effectiveness of Performance Management System is measured by nine-items measured in a five-point Likert Scale (Dewenttink 2008) with reliability (Cronbach alpha) of 0.93.

2.5 Measurement of Independent Variables

The independent variable Review focus is measured by using four items (Dewenttink,2008) in a five-point Likert scale. Another variable participation is measured using five items in a five-point Likert scale (Arnold et al.'s,2000). Performance Factors is measured using nine items respectively in a five-point Likert scale (Prof. C.S. Venkataratnam, Prof. T.V. Rao, Dr Anjula Gurtoo, Prof. Mufeed Ahmad, Dr P.L. Rao and Prof. Vasanthi Srinivasan). And independent variable review technique used and rewards recieved, is measured by a five item and two-item five-point Likert Scale (Ellis I. and Onyeizugbe, 2011).

2.6 Analyses

A factor analysis was carried out for determining the constructs used in this study. The hypotheses were tested using multiple regression in SPSS and Performance Management System effectiveness was considered as the dependent variable and the other factors i.e. review focus, participation, performance factors, rewards and review technique was considered as the independent variables.

3. Results

3.1 Result of Factor Analysis

Table 1 and 2 shows the underlying factor structure of the independent and dependent variables under study which shows a clear factor structure.

Table 1 KMO and Bartlett's Test^a

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.929
Approx. Chi-Square		18204.240
Bartlett's Test of Sphericity	Df	2278
Sig.		.000

a. Based on correlations

The Bartlett's Test value is better more it is nearer to one. The data fitted very well in the software ($\chi^2 = 18204.240$ and $p \leq 0.000$). In our study, 33 variables were placed under 6 factors with a clear factor structure.

Table 2: Factor Structure of Key Constructs

	Component					
	1	2	3	4	5	6
Effectiveness 1			0.533			
Effectiveness 2			0.497			
Effectiveness 3			0.557			
Effectiveness 4			0.615			
Effectiveness 5			0.549			
Effectiveness 6			0.624			
Effectiveness 7			0.592			
Effectiveness 8			0.553			
Effectiveness 9			0.544			
Review Focus 1				0.458		
Review Focus 2				0.368		
Review Focus 3				0.44		
Review Focus 4				0.475		
Participation 1						0.41
Participation 2						0.565
Participation 3						0.615
Participation 4						0.465
Participation 5						0.724
Reward 1					0.733	
Reward 2					0.707	
Perform Fact 1		0.471				
Perform Fact 2		0.409				
Perform Fact 3		0.474				
Perform Fact 4		0.534				

Perform Fact 5		0.63				
Perform Fact 6		0.563				
Perform Fact 7		0.496				
Perform Fact 8		0.496				
Perform Fact 9		0.603				
Review Tech 1	0.536					
Review Tech 2	0.53					
Review Tech 3	0.585					
Review Tech 4	0.609					

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.^a

3.2 Result of Multiple regression

Multiple regression was carried out between the dependent variable i.e. Effectiveness of the Performance Management System and the independent variables under study.

Table 3: Multiple regression between performance management system effectiveness and the various independent factors under study impacting it

	Dependent Variable		
	PM effectiveness		
	R² = 0.634	F = 177.593	Sig = 0.000
Independent Variable	Beta	t- value	Significance
Review Focus (ED)	0.519	8.6885	0
Review Focus (PO)	0.339	0.675	0
Participation	R² = 0.526	F = 99.599	Sig = 0.000
	0.536	9.98	0
Reward mechanism	R² = 0.584	F = 22.760	Sig = 0.000
	0.289	4.771	0
Performance factors	R² = 0.522	F = 70.381	Sig = 0.000
	0.471	8.389	0
Review Technique	R² = 0.541	F = 78.930	Sig = 0.000
	0.491	8.884	0

- i. Influences of Review Focus have been found to be 63.5%. Both the Employee Development oriented Review focus ($\beta = 0.519$, $p \leq 0.00$) and Performance outcome-oriented review focus ($\beta = 0.339$, $p \leq 0.00$) has been found to be significant. It can be inferred that both Review focus on Employee Development as well as Review Focus on Performance Outcome has a

- significant relationship with the effectiveness of the performance Management system. However, the impact of Review focus on employee Development seems to be slightly higher than the impact of Review focus on Performance outcome ($\beta = 0.519 > \beta = 0.339$).
- ii. Influences of participation have been found to be 52.6%. The level of participation ($\beta = 0.536, p \leq 0.00$) has been found to be significant. It can be inferred that level of employee participation is positively related to the effectiveness of the performance management system.
 - iii. Influences of reward mechanism have been found to be 58.4%. The impact of reward mechanism ($\beta = 0.298, p \leq 0.00$) has been found to be significant. It can be inferred that the employee reward mechanism is positively related to the effectiveness of the performance management system.
 - iv. Influences of Performance factors have been found to be 52.2%. The impact of performance factors ($\beta = 8.389, p \leq 0.00$) has been found to be significant. It can be inferred that the Performance factors is positively related to the effectiveness of the performance management system.
 - v. Influences of review technique have been found to be 54.1%. The impact of review technique ($\beta = 8.884, p \leq 0.00$) has been found to be significant. It can be inferred that the review technique is positively related to the effectiveness of the performance management system.

4. Discussion

The current cross-functional study among 251 employees advances our understanding of the relationship between Performance Management systems effectiveness and certain characteristics related to the Performance Management System. We can conclude that the participation of employees in the performance management process and review focus which aims predominantly on employee development has the highest effect on the Performance management system effectiveness. Also, review focus which is performance outcome oriented, reward mechanism, performance factors and review technique used are all responsible for the effectiveness of the performance management system of the organization. Before we turn to our suggestions and managerial implications of our findings, we discuss the limitations of this study.

4.1 Limitation

We used a cross-sectional, single-source research design. This enabled us to investigate employee perceptions of PM system characteristics and

effectiveness, across organizations and thus made it possible for us to advance to the current state of academic research. It has a limitation as longitudinal designs are needed for an empirical assessment of the proposed causal relationships. There may be response biasness. Performance Management system effectiveness could have been assessed by HR or line managers, not by employees themselves. But our aim was to measure the impact of the Performance Management delivery moments, which, we believe, should be assessed by employees. Furthermore, this design offered the possibility to cover many different types of employees and Performance Management practices, thereby enhancing the generalizability of the findings.

4.2 Managerial implications

This study has some noteworthy implications for Performance Management in practice. The findings indicate that Performance Management system effectiveness can be improved by encouraging employee participation. The study suggests on putting stress on the developmental aspect of Performance Management which will increase its effectiveness in terms of improving employee performance. This finding is important as many studies confirm that the result-oriented side of Performance Management rather than the developmental side tends to be emphasized in daily Performance Management practice. Recent studies (Dewettinck 2008; Rao 2009) indicate that in many organizations the top management still predominantly perceive the primary purpose of the Performance Management process to be of performance evaluation and control rather than of employee development. The study sheds some light on the fact that giving rewards to employees and a good review technique is the key to a good performance management system.

5. Conclusion

The major conclusions that can be drawn from the study are that firstly some of the performance management practices used in the organizations directly has an impact on the effectiveness of the Performance Management system of the organization. Second, the manner in which performance management practices are shaped and executed, appears to be especially important for performance management system effectiveness. This implies that the role of the line manager is crucial for effective performance management. Though it is seen that in case of the organizations under study, the review focus is both employee development oriented and performance outcome oriented more emphasis is given on the employee

development factor. The findings provide a rather straightforward implication for practitioners wishing to improve their performance management system. As well as a clear need for further research into this important and intriguing Human resource field is seen.

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