

A STUDY ON IMPACT OF PERFORMANCE MANAGEMENT SYSTEM ON ORGANIZATION

Sitansu Panda

Faculty of Industrial Management,
Universiti Malaysia Pahang,
Lebuhraya Tun Razak, 26300 Kuantan, Pahang,
E-Mail: sitansupanda@ump.edu.my@gmail.com

K. Jayarama Reddy

Professor, Department of Business Administration,
Kasi Reddy Narayan Reddy College of Engineering & Research,
Hyderabad, India.
E-Mail: drjayaram8@gmail.com

ABSTRACT

Performance Management System (PMS) is developed and implemented in organizations to achieve organizational goals effectively. PMS is vital for an organization. In this paper, the association between PMS and Organizational Effectiveness (OE) is explored. The study reveals that there is an association between PMS and OE. The finding is also in line with the previous research studies emphasizing the impact of PMS on OE. The relationship and impact of the variables are justified by the respective statistical values. It establishes the dependence of organizational outcomes on PMS.

Keywords: Performance Management System (PMS), Organizational Effectiveness (OE)

INTRODUCTION

There are many challenges in the contemporary business. The corporate houses have to face great competition in the market due to the entry of new players along with the innovative business practices implemented by the existing companies. The market scenario is featured by Volatility, Uncertainty, Complexity and Ambiguity (VUCA). Many tools, techniques, and HR strategies like Employee Engagement (EE), Organizational Citizenship Behaviour (OCB), Spirituality at Workplace, Cross-Cultural Management (CCM) have been developed and implemented. In one-way or the other all these have been fine-tuning the competencies in making decisions, forwarding the plans to action, managing the risks, fostering the change through strategic interventions, solving the problems encountered and eventually in attaining the organizational goals. However, in every context of an organization, Performance Management System (PMS) plays a significant role not only ensuring the organization to survive but also in excelling its performance leveraging the employees' efforts (Armstrong, 2009; Krishnaveni, 2010, Panda & Rath, 2014). In this context, this research on Performance Management System (PMS) especially its impact on the organization has been studied. The response of the participants is analyzed and measures have been recommended.

OBJECTIVES

The paper has the following objectives as:

- a) To explore the association between Performance Management System (PMS) of the company and Organizational Effectiveness (OE).
- b) To estimate the impact of Performance Management System (PMS) of the company on its Organizational Effectiveness (OE).

LITERATURE REVIEW

Performance Management System is a tool involving the process of identifying, evaluating and developing the employee's performance. It also caters for career guidance and organizational feedback (Lansbury, 1988). The PMS process removes the performance snags and implements the appropriate measures (Mendonca, 1990); creates shared vision for the multiple interests of organization and employees (Fletcher, 1992), develops competence and commitment at the workplace (Lockett, 1992). The Performance management practice is important for individual and organizational effectiveness (Krishnaveni, 2008). Performance planning, appraisal, management, feedback, monitoring, and training are the six dimensions constituting the model of Performance Management System (Armstrong, 2009). The capacity of an organization to adapt, maintain, survive and grow is the Organizational Effectiveness (Schein, 1968); organizational ability to mobilize its centers of power for production, adaptation and flexibility is Organizational Effectiveness. The term Organizational Effectiveness (OE) is focusing the outcome of an organization. Organizational effectiveness is referring to the roles, responsibilities, power, and authority of organizational structure and is related to quality, quantity and efficiency of productivity (Mott, 1972). OE is the extent of maximizing the profit for the organization (Kahn, 1978). The key role of PMS impacting employees, success, and organizational effectiveness is revealed in different studies (Folger et. al., 1992, Virmani, 2007). Performance Management System has its impact on market share, developing products, employee turnover, and productivity. The association between PMS and organizational performance (Fletcher, 1992), impact of performance appraisal on company performance, HRM systems organizational effectiveness linkage (Sarma, 2010), effect of PMS for organizational success (Goel, 2009), development of technical and behavioural aspects of employees by PMS (Khanka, 2007, Kohli & Deb, 2008), relationship between PMS and performance of the employees, key role of PMS in organization (Priya, 2008; Panda, 2010); are found in different studies. The relevant studies on Performance Management System reveal that PMS is important not only for assessing and developing the employees but also in improving organizational outcome in terms of productivity, employee retention and in fulfilling the expectations of different stakeholders.

METHODOLOGY

The necessary data are collected from both primary and secondary sources. The relevant books, journals, magazines, dailies, periodicals, manuscripts, reports, compendiums have been referred for this study. The data from the respondents are collected following simple random sampling method. Eight hundred and fifty respondents have been contacted, however, five hundred participants fully responded to the questionnaire administered to them.

The samples covered in the study constitute 2.5 percent of the population. The data are collected based on the questionnaire method. The reliability value of the questionnaire is tested and the resulted value is 0.73 which signifies its suitability. The collected data have been collated and tabulated followed by the suitable statistical tests. Correlation and Regression Analysis using SPSS 20.0 have been conducted in this descriptive and analytical study. The Organizational Effectiveness (OE) is the dependent variable and Performance Management System (PMS) is the independent variable. The relationship and impact of both variables have been investigated in this research.

DISCUSSION

The association between different dimensions of PMS and Organizational Effectiveness is explored followed by the nature and degree of such association. And in order to do so, Pearson's correlation coefficients are computed between the scores on PMS dimensions and Organizational Effectiveness. The results in this regard are presented in the tabular form (Table 1).

Table 1: Correlation Coefficients between Dimensions of Performance Management System and Organizational Effectiveness

Sl. No.	Performance Management System	Organizational Effectiveness	P=
1	Performance Planning	.126*	.005
2	Performance Appraisal	.260*	.000
3	Performance Management	.129*	.004
4	Performance Feedback	.135*	.003
5	Performance Monitoring	.028*	.539
6	Performance Training	.389*	.000
7	Overall PMS Score	.177	.000

N= 500

In the above table, correlation coefficients have been calculated between both variables while treating performance management system as the independent variable and organizational effectiveness as the dependent variable. It is clear from the figures in the aforementioned table that among the six dimensions of performance management system, performance training yielded highest correlation with organizational effectiveness ($r=.389$, $p=.000$), followed by performance appraisal ($r=.260$, $p=.000$), performance feedback ($r=.135$, $p=.003$), performance management ($r=.129$, $p=.004$), performance planning ($r=.126$, $p=.005$) and performance monitoring ($r=.028$, $p=.539$). The overall performance management system yielded positive and statistically significant relationship with organizational effectiveness. It indicates that as performance management system increases, the organizational effectiveness increases significantly. Performance management system scale score yielded a positive and statistically significant correlation with organizational effectiveness ($r=.177$, $p=.000$). Thus, it could be said that all the dimensions of the performance management system have a significant association with OE.

It was hypothesized as "There is no impact of Performance Management System (PMS) on

Organizational Effectiveness (OE). In order to test the hypotheses, multiple regression analysis was conducted by treating Performance Management System as the independent variable and Organizational Effectiveness as the dependent variable. Results pertaining to the test hypotheses are presented in table 2.

Table 2: Predictions and estimates for the impact of Performance Management System on Organizational Effectiveness

(Dependent Variable = Organizational Effectiveness)

Model		R	Unstandardized Coefficients	Standardized Coefficients		
			Std. Error	Beta	T	Sig.
1	Performance Planning	.126*	.234	.017	.373	.709
2	Performance Appraisal	.260*	.265	.177	3.548	.000
3	Performance Management	.129*	.410	.097	2.061	.040
4	Performance Feedback	.135*	.908	.094	2.114	.035
5	Performance Monitoring	.120*	.550	.261	5.298	.000
6	Performance Training	.389*	.700	.347	8.108	.000
Model	R	R Square	Adjusted R Square	F-Value	d.f	P =
1	.464 ^a	.216	.206	14.628	5,499	.000

It is evident from the above table that Performance Management System and Organizational Effectiveness are positively and significantly correlated. It indicates that Performance Management System of the studied organizations correlates to organizational effectiveness. All these are evident from the multiple R= .46.

With regard to beta coefficients, “performance training”, “performance monitoring”, “performance appraisal”, “performance management” and “performance feedback” yielded significant beta coefficients. In other words, all of these have an impact on the organizational effectiveness.

Lastly, the coefficient of determination yielded a value of 0.21, and when it was adjusted for all the errors the value yielded 0.20. This indicates that sum of all the dimensions of Performance Management System explains 20 percent of variance in Organizational Effectiveness. Interestingly such value is also statistically significant (F=14.62, df =5, 499, P=0.00).

The positive relationship between Performance Management System (PMS) and Organizational Effectiveness (OE) is one of the major outcomes of this study. Such association is statistically significant. The study highlights the fact that Performance

Management System does impact Organizational Effectiveness (OE). This is evident from the respective multiple R-Value. Such value is 0.46. The research also brings one important outcome on PMS. The study indicates that the sum of the different dimensions of Performance Management System (PMS) explain twenty percent of variance in Organizational Effectiveness (OE) which is statistically significant.

Efforts should be taken so that PMS implementation can be effective and its goals can be attainable. It is recommended that appropriate measures in terms of conducting training, workshops and related programmes must be taken so that the significant role and function of PMS can be understood by all the organizational members. Suitable plans can be chalked out followed by their effective implementation. The present study is concerned with the impact of Performance Management System on Organizational Effectiveness. The result reveals such relationship between PMS and OE. The estimated predicted value of PMS impact on OE could be an area of research. It can be studied in different organizations. The causes and impact can be analyzed for enhancing the performance of organizations. There is a need to improve the awareness about PMS among the employees in the organization. Periodic assessment of the implementation of PMS, employees' ownership of their respective work in line with the expectations of PMS, difficulties, motivating and inhibiting factors of PMS, role of HR department and related study areas can be conducted. Future research should attempt to understand more in-depth issues of PMS and such understanding would pave a great avenue for excelling organizational performance.

CONCLUSION

The Performance Management System (PMS) is important for the organization. The functional impact of PMS on organization has been emphasized in different studies which are evident from relevant review of literature. The study establishes a relationship between PMS and Organizational Effectiveness (OE) which is statistically significant. The impact of PMS on Organizational Effectiveness (OE) is studied and estimated. All the null hypotheses formulated for this study have been rejected. Further, the implications are drawn for further research to enhance PMS and OE of different organizations. The study ends with the notion that organizational goals can be achieved by strengthening PMS. The study is in line with the previous studies which emphasize the importance of PMS and its impact on the organization.

REFERENCES

Armstrong, K. and Adrian Ward (2005), *Performance Management in Armstrong, Michael (2009), Handbook of Performance Management: An Evidence Based guide to delivering high performance*. Kogan Page Publications, London.

Armstrong, Michael (2009), *Handbook of Performance Management: An Evidence Based guide to delivering high performance*. Kogan Page Publications, London.

Cawley, B.D., Keeping, L.M., and Levy, P.E. (1998). Participation in the Performance Appraisal Process and Employee Reactions: A Meta-Analytic Review of Field Investigations. *Journal of Applied Psychology*, 83(4).

Fletcher C. (1992). The Route to Performance Management. *Personnel Management*, Vol. 24(10).

Folger, R., Konovsky, M.A. & Cropanzano, R. (1992). A Due process metaphor for performance appraisal”, In Staw, B.M. and Cummings, L.L. (Eds.), *Research in Organizational Behaviour*, 14, Greenwich, CT: JAI Press.

Giles, W.F., & Mossholder, K.W. (1990). Employee reactions to contextual and session components of performance appraisal. *Journal of Applied Psychology*, 75(4), 371-377.

Goel, D. (2009). *Performance Appraisal and Compensation Management- A Modern Approach*, PHI, New Delhi.

Gomez-Mezia L.R., Balkin D.B. & Cardy R.L. (2005). *Management People, Performance, Change*. McGraw-Hill, Boston.

Katz, D. & Kahn, R.L. (1978). *The Social Psychology of Organizations*. John Wiley & Sons Inc., New York.

Khanka, S.S. (2007). *Organizational Behaviour*. S. Chand & Company Ltd., New Delhi.

Kohli, A.S. & Deb, T. (2008). *Performance Management*. Oxford University Press, New Delhi.

Krishnaveni, R. (2008). *Human Resource Development –A Researcher’s Perspective*. Excel Books.

Lansbury, R. (1988). Performance Management: A Process approach. *Asia Pacific Journal of Human Resources*, Vol. 26(2).

Lockett, J. (1992). *Effective Performance Management: A Strategic guide to getting the best from people*. Kogan, London.

Mendonca, M. and R.N. Kanungo (1990). Work culture in developing countries: Implications for performance management. *Psychology and Developing Societies*, Vol. 2(2).

Mott, Paul E. (1972). *The Characteristics of Effective Organizations*. New York, Harper & Row.

Panda, S. & Krishna, S. (2010). *Performance Management System in Academic Institutions*. SSIM Publications, Hyderabad.

Patton, A. (1961). *Men, Money and Motivation*: New York: McGraw-Hill.

Priya, S. (2008). A Factor Analysis of Performance Management System in a Public Sector Organization and its Impact on Job Satisfaction among Employees. *Abhigyan*, 3, Fore School of Management, New Delhi.

Sarma, A.M. (2010). *Performance Management Systems*. Himalaya Publishing House, Mumbai.