

General understanding of the importance of Performance Management System as a determinant of employee effectiveness - A Study on Software employees in Hyderabad

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Abstract: The present study was aimed to study the general impressions of employees on PMS and its impact on employee effectiveness. To this effect, 101 participants including members who were performing well and also who were not performing well were carefully selected from different software firms and who responded to the survey questionnaire. It was found that a substantial number of the employees who were not performing well felt that Performance Management was generally used in controlling employees, it did not help in developing careers and the data derived out of Performance Management is not properly and it was observed that employees who were doing well had a very positive impression. Hence, it can be said that employees' impressions have an impact on their effectiveness. While analyzing the impact of the demographic profiles it was observed that age and occupational status were found to be determinant of employees' perceptions. The chi-square test also proved the same. Gender and educational levels was tested on the variable of satisfaction in which no significant difference was observed. Hence, gender in this case may not differently impact the satisfaction of men and women employees. The output of regression was found to be positive and statistically significant at different levels. This indicates that all the four variables (PRD, CD, SE&M, ID) impacted effectiveness of performance management system significantly. Creating awareness among employees about the importance of Performance Management System is very important for a successful implementation of the same which in turn helps in Employee development and commitment.

Keywords: general understanding of PMS, PRD-personal relations development, CD-career development, SE&M-self expectation and motivation, ID-individual development

I. Introduction

It is a well-known fact among businessmen and management professionals that success in business relies not just on excellence in planning and organizing but, to a very large extent on excellence in execution. Functions like new product, market development, strategic marketing and sales, financial acumen were always the traditional drivers of corporate success; in this competitive environment corporate houses are looking at HR for that additional leverage. Human and material resources must be carefully re-organized so, as to achieve efficiency and effectiveness in business. Organizational performance is significantly influenced by management commitment; customer focus; and employee involvement (Muhammad Madi Bin Abdullah, Jegak Uli, Juan José Tarí, (2008). Integration of human resource function with business and corporate strategy is a must to reduce employee turnover rate and to enhance financial performance (Tamer Khalil Darwish, Satwinder Singh, (2013). Performance evaluation is critically essential for the effective management of the human resource of any organization and evaluation of staff also helps to develop individuals and improve organizational performance which in turn feeds into business planning (Imtiaz Ahmed, Ineen Sultana, Sanjoy Kumar Paul, Abdullahil Azeem, (2013). Participation of employees can be further enhanced if the organization has good human resource practices and culture that fulfills employees' expectations through appraisal and reward systems. Work culture and design of organizational policies greatly depends upon its Leader. Effective leadership is the need of the hour. Leaders who have a very great vision and exhibit courage and confidence based on holistic world view by cultivating flexibility and admitting diversity are the need of the hour (Hansen et al. (1999), Ruggles (1998) and Robertson and O'Malley (2000) Pandu Ranga Rao.C (2005)

Apart from good leadership a firm's competitiveness greatly depends upon its capacity to manage performance and also concentrating on improving and developing the skills and competencies of employees by creating a learning environment (Dev Raj Adhikari,(2010:306-324) which again greatly depends on the work culture therefore organizations must also concentrate on developing a performance culture which acts as a fertile soil bed for employee development.

In an uncertain business environment, human resource is the only asset that can make organizations survive, exist and succeed (Srinivas.R.Kandula(2004). In order to be successful in a knowledge based world, each organization must make full use of the available technologies (Richard I.Henderson(2004). The efficient and effective use of these technologies requires a work force that has the needed knowledge and skills in operating that technology (Chaudhuri.K.K (.2009). In-order to develop competencies of self and subordinates, certain factors are required which are three directional- KASH(knowledge, attitude, skill, health) level, soft Ss (staff, style, shared values) and Hard Ss (structure, system, strategy) of the organization that shape the desired competencies that direct oneself towards goal achievements. The successful diffusion of performance enhancement measures and initiatives throughout the organization is necessary to achieve world-class competitiveness (G.S. Sureshchandar, Rainer Leisten, (2005) and for this it is required that employees should have a thorough understanding of the various systems of the organization.

II. Components of General Understanding on Performance Management System/Beliefs about Performance Management

Employees' understanding of what are the benefits of Performance Management System influences their perception of the system in the organization. the failure rate of PM implementations has decreased in the past decade from 70 to 56 percent, and the most severe problems that organizations encounter are: lack of top management commitment; not having a PM culture; PM getting a low priority or its use being abandoned after a change of management; management putting low priority on the implementation; and people not seeing (enough) benefit from PM. (André A. de Waal, Harold Counet, (2009). Hence, how employees perceive the benefits of Performance Management initiatives and the various aspects at individual level are important to study. Which are again subdivided into the following sub variables?

2.a. Individual Development

For Performance Management System to work more efficiently, it is required that employees should understand its importance and its contribution in individual development. Today it is a well-acknowledged fact that EQ does matter and does influence success in just about all spheres of a person's life. Some research suggests that Intellectual Quotient (IQ) (or our cognitive ability) only contributes around 10% – 20% towards success in life. The rest is determined by our Emotional Intelligence and many non-cognitive and social capabilities. Performance outcome can also be used for developing EQ. Unlike IQ which cannot be modified EQ can be inculcated. IQ does not prepare us for how to cope with the pressures in our environment; neither does it assist in reading and reacting appropriately to subtleties in social settings. EQ is what helps in making (and often finding) our way in a very complex world! One can almost see a high EQ as being most important in deciding success in a person's life (Stein, & Book, 2006). It is important to know that EQ and IQ work hand in hand – both are required for optimal functioning. IQ = being clever, EQ = being aware. EQ + IQ = brilliance! Without EQ, cognitive abilities are diminished.

Corporate leaders must realize a basic truth – it does not matter how clever you are. If you do not connect with other people and make them feel important, they will not stick around for long enough to experience your genius! By developing EQ in these areas we can become more productive and successful at what we do, and help others to be more productive and successful. A values-driven competency-based performance management system" (VDCBPMS) increases the organizational commitment and job satisfaction, job-effort and value alignment with the work Force, as well as overall performance of employees (Michael Chiu Kai-ting, (2012)

2.b Personal Relations Development

EQ Competencies that Correlate to Workplace Success. In order to create a positive feeling in employees towards Performance management System, it is required to make them clear about the advantages of performance management system and its contribution in developing relationships at work place which further help in improving commitment and contribution of employees to the organizational development. Certain emotional intelligence competencies that have proven to contribute more to workplace achievement than technical skills, cognitive ability, and standard personality traits combined. Which are Intuition, Empathy, Political Acumen and Social Skills.

2.c. Self Expectations and Motivation

It is also important that the performance outcome should also contribute to the self development of the employees and it should also motivate them to work effectively and efficiently. Emotional tendencies that guide or facilitate reaching goals. This competency is important in the workplace for the following reasons.

- Achievement drive: striving to improve or meet a standard of excellence we impose on ourselves
- Commitment: aligning with the goals of the group or organization
- Initiative: readiness to act on opportunities without having to be told
- Optimism: persistence in pursuing goals despite obstacles and setbacks

Understanding the factors that employees consider motivating lends insight to the rewards to which they more positively respond. Compares the results of four motivation surveys conducted in 1946, 1980, 1986 and 1992. The comparisons reveal that employees' motivational preferences vary over time. In addition, the results of the 1992 survey indicate that the factors that motivate today's workers are more extrinsic than they used to be. Although employees differ on how they rank these factors, they overwhelmingly selected "good wages" as the top motivator. A good wage is an extrinsic reward with intrinsic potency. On the surface "good wages" seem to be purely extrinsic. Yet, at a deeper level, monetary rewards communicate what the company values and affect employees' emotional and familial wellbeing (Carolyn Wiley, (1997)

2.d Career Development

Career development researchers of Cornell University are striving to standardize administrative processes and tools across campus to create efficiencies and to increase effectiveness. They found that consistent performance management processes, assessment tools, ratings, and career development plans help increase the effectiveness of supervisors and employees within and across units.

Companies are seeking ways to better leverage career development. Cited as one of the top tools for engagement and retention, career development has become increasingly more significant in the past couple of years as companies decrease their merit budgets and freeze pay to weather a tough economy. However, truly integrating career development into overall talent strategy and processes continues to elude most organizations. HR practices targeted at career development are positively associated with both types of pro activity (self-starting, action-orientated behaviors aimed at greater organizational effectiveness). Second, the results on pro activity as a predictor show that career opportunities have a negative association with age, a positive association with pro activity, and a positive association with career development-orientated HR practices (Marc van Veldhoven, Luc Dorenbosch, (2008)

Career needs and career development programs should be given due consideration because larger the gap between the two, the higher the levels of both turnover intentions and job dissatisfaction (Tser-Yieth Chen,et.all (2004) among employees would be higher and which in turn increases the employee attrition rate.

III. Methodology

3.1 Conceptual framework

The global shortage of IT skills, especially in the US, UK, Germany and Japan suggests widespread poaching of Indian talent for Multi National operations. This puts further pressure on the wage level in India. Aging society and combined with shortages of researchers in science and engineering has created a massive demand for non-immigrant labor in the US (Larson and Brahmakulam, 2002). Currently, about 500000 Indians are employed by the Indian technology sector. However, with global demand out spacing supply even India is likely to face shortage of critical skills. This situation led to the increased concentration of a more integrated approach of Performance Management.

The software Industry for the study has mainly evolved two major models that were adopted namely BSC and Competency Mapping. The system of performance management is developing in software industry over the past few years and adequate experimentation has been done in this regard by many researchers. However the aspect of PMS adopted in software industry during the last few years needs some more time to evaluate the results. Therefore, the present topic of PMS has been chosen for the study by the researcher. The focus of the study is mainly on the general impressions of the employees on Performance Management System is different for employees who are performing well and who are not performing well Hence, much attention is given to study the perceptions of the said employees and an analysis was also done according to their demographic profiles.

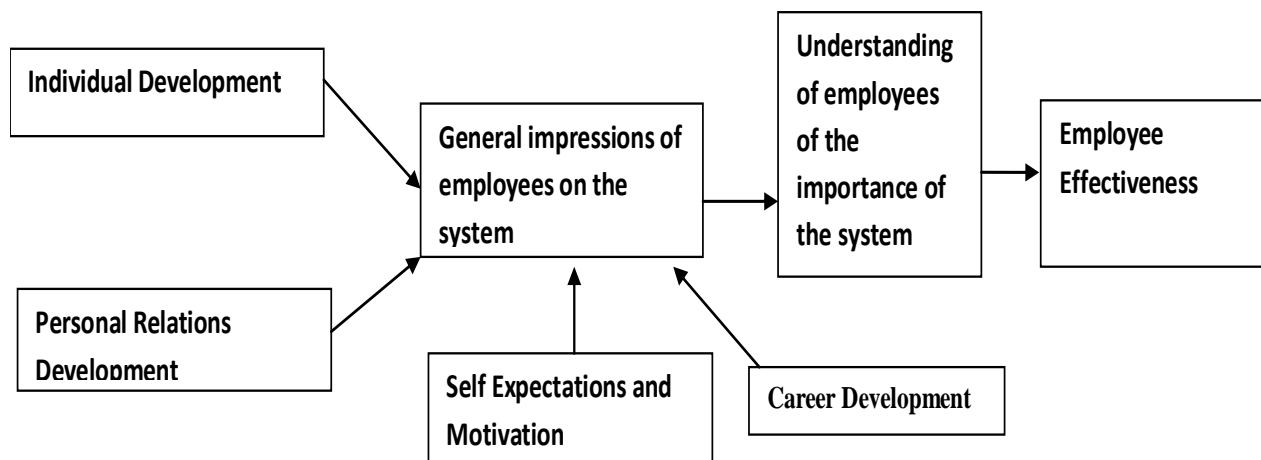


Fig: 1.1 Model of factors that influence General understanding of employees on PMS leading to employee effectiveness adopted from Angela Baron and Micheal Armstrong 2006

3.2 Research Questions

Most studies confirmed that general understanding of an aspect has an impact on the perceptions. The failure rate of PM implementations has decreased in the past decade from 70 to 56 percent, and the most severe problems that organizations encounter are: lack of top management commitment; not having a PM culture; PM getting a low priority or its use being abandoned after a change of management; management putting low priority on the implementation; and **people not seeing (enough) benefit from PM**. (André A. de Waal, Harold Counet, (2009). There is no previous study done in Andhra Pradesh and that too in software industry. Hence, the following research questions were formulated for study.

- How do components of general understanding on Performance Management System correlate with employee effectiveness and what is the impact of these factors on effectiveness?
- What are the difference perceptions of employees belonging to performers and non performers' category in the organization?

3.3 Participants

Demographic Profile

The data of the respondents is analyzed according to the demographic features such as: age, marital status, gender, educational qualifications, years of service, and nature of work of the respondents. Most of the employees are very young and there are some freshers in the sample. Almost all the employees are technically qualified so, it becomes important to understand their aspirations and manage their performance accordingly. Managing knowledge workforce is the major challenge of this century. The age group of the respondents is ranged from 21 to 40 years. For the purpose of the analysis, the respondents are classified into three age groups i.e. below 30 years representing the young, 30 to 40 years (the middle aged) and above 40 years.

It is evident from Table 1 that 44.56 percent of the respondents are below 30 years, 55.45 percent of the respondents are in the age group of 30-40years and only 0.99 per cent of the respondents are above 40 years. Highest number of respondents are in the age group of 30 - 40 whose percentage is 55.45 and the lowest number of respondents are in the age group of above 40 years whose percentage is only 0.99. The situation regarding the marital status of respondents as shown in Table 1 indicates that majority of the respondents are married (59.41%). The rest of the respondents (40.59%) are unmarried. It is evident from table that 88.12 percent of respondents are male and 11.88 percent are women.

Table 1

Demographic statistics of gender, age, length of service, educational level and marital status

n=101

Characteristics		Non-Performers		Performers	
		Frequency	Percent	Frequency	Percent
Age Group	21 to 25 years	18	17.8	0	0
	26 to 30 years	44	43.5	2	1.9
	31 to 35	16	15.8	11	10.8
	Above 36	2	1.9	8	7.9
	Total	80	79.2	21	20.7
Length of service	0 – 2	9	8.9	0	0
	3 – 5	31	30.6	0	0
	6 – 10	36	35.6	7	6.9
	10 – 15	3	2.9	14	13.8
	16 – 20	1	0.99	0	0
	Total	80	79.2	21	20.7
Educational Qualifications	Diploma	3	2.9	0	0
	B.Tech	65	64.3	13	12.8
	M.Tech	12	11.8	8	7.9
	Total	80	79.2	21	20.7
Marital status	Married	38	37.6	21	20.7
	Unmarried	42	41.5	0	0
	Total	80	79.2	21	20.7
Gender	Female	12	11.8	1	0.9
	Male	68	67.2	20	19.8
	Total	80	79.2	21	20.7

Table 2: Mean and standard deviation of respondents

Descriptive Statistics

	N	Mean	Std. Deviation
Personal Relations Development	101	3.38	1.039
Career development	101	3.73	.943
Self expectations and motivation	101	3.78	1.107
Individual Development	101	4.59	.935

3.4 Instrumentation

Using specific tools to measure employee effectiveness which is one of the most important aspects of today's organizations. The researcher used questionnaire adapted from Performance Management authored by Michael Armstrong and Angela Baron (2009) and modified it according to the requirement, with the help of subject experts.

In order to adapt the standard questionnaire to the local cultural context requires the involvement of expertise in the field of study. The words or phrases need to be customized to the local context to ensure that questions are understood appropriately without losing the original meaning. The instruments were reviewed with a group of key subject matter experts and further refined with a small group of respondents before the actual test.

3.5 Procedure

At first step eleven key subjects matter experts who are familiar with the field of study and who have proven expertise knowledge in articulating the performance management systems in local context have participated in the evaluation process. These subject matter experts are practicing HR managers from different organizations in south India and university professors of Andhra University.

The questionnaire was given to subject matter experts for detail comments and improvement to make questions understandable to the local culture. Then, the researcher organized the comments and produced the final draft questionnaire that again was used to conduct a pilot study. Thus, the questionnaire was judge-rated in the first step. 101 respondents were carefully selected from both performers and non performers' category were carefully selected and the questionnaire was administered. Once all the respondents provided their inputs, the note from each discussion on each item was pooled and organized. Based on the respondents' feedback, words or phrases were recorded. The questionnaire was then computed and organized into tables. Thus, the processed data was used for statistical testing and interpretation of the main findings.

3.6 Data analysis

For data analysis, the researcher used the software statistical package for social sciences (SPSS) version 16. The scores have correlated for all constructs of general understanding of employees on the importance of the system and its impact on employee effectiveness. Descriptive statistics such as: arithmetic mean and standard deviation and tables are included. To infer the variability explained in effectiveness of performance management system result of general understanding of employees on the system is evaluated using regression analysis.

3.6.1 Correlations

Correlations analysis among the four components of general understanding of the system and employee effectiveness of the system is used to test the relationship between the predictors and the criterion variables. Pearson correlation is an important tool to examine the association or the relationship between the predictor and criterion variable for normally distributed graphs.

3.6.2 Regression Analysis

To evaluate the effects of each dimension of general understanding of employees on the importance of the system, and employee effectiveness the researcher used multiple regression analysis. This tool is used to evaluate each Independent variable in terms of employee effectiveness. The Independent variables (four dimensions of general understanding of employees) are analyzed to predict the individual contribution of predictors and the summated effects of general understanding of the system over employee effectiveness.

IV. Results

Research question one

- a) How do components of general understanding on Performance Management System correlate with employee effectiveness and what is the extent of their impact on effectiveness?

Correlations for factors affecting effectiveness of performance management systems

Pearson product-moment correlation coefficient used to investigate the relationships between factors affecting general understanding of the Performance Management System, and effectiveness of the system. The outcome of Pearson correlation coefficient found statistically significant correlations between each dimensions of general understanding of the system. Individual Development ($r = .567$, $n=101$, $p<.001$), Personal Relations Development ($r=.597$, $n=101$, $p<.001$), Self Expectations and Motivation ($r=.508$, $n=101$, $p<.001$), Career Development ($r=.575$, $n=101$, $p<.001$). All factors of general understanding have strong correlation with effectiveness of the system including the summated predictor variable (see table 3). Thus, it can be concluded that all the factors are equally effecting the general understanding of the system.

Individual development correlate with general understanding with $r^2=32.14\%$ explained the specific variance in the dependent variables. Personal Relationships Development has got $r^2=35.64\%$ variance in the criterion variable. Self expectations and Motivation accounted for a variance of $r^2=25.8\%$ in the general understanding variable. This factor contributed least in the general understanding variable. Career development accounts for $r^2=33.06\%$ in the variable. The summated r^2 value is more than the individual factors which accounts for 39.81% of the variance in the effectiveness of the system

Table 3. **Correlations between components of factors affecting general understanding of performance management system and employee effectiveness**

Employee Effectiveness		
Individual development	Pearson Correlation Sig. (2-tailed) n	.567** .000 101
Personal relationships development	Pearson Correlation Sig. (2-tailed) n	.597** .000 101
Self expectations and motivation	Pearson Correlation Sig. (2-tailed) n	.508** .000 101
Career development	Pearson Correlation Sig. (2-tailed) n	.575** .000 101
General understanding on performance management	Pearson correlation Sig.(2-tailed) n	.631** .000 101

**correlations significant at the 0.01 level (2-tailed)

Regression result for factors affecting Employee effectiveness

The effects of general understanding include all its components and their summation. It is vital to address the individual component's effect on the criterion variables. Bass and Riggio, (2006) noted that even though we make a general statements it is important to understand how much the individual elements contribute to explain the dependent variable.

The output of the regression model summary describes whether the model is successful in predicting the general understanding of the system. Entre method is used to identify statistically determinant variables in predicting the dependent variable. R^2 is found to be .406. this value indicates that general understanding of the system contribute 40.6% of the variation in the understanding of the system (see table 4).

Table 4

Regression result for factors affecting effectiveness of Performance Management System

n=101

Mode	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std Error	Beta	t	
(Constant)	.708	.280		2.525	.013
Personal relations Development	.300	.126	.294	2.385	.018
Career Development	.123	.136	.115	.905	.367
Self Expectations and Motivation	.033	.116	.030	.283	.778
Individual Development	.247	.096	.261	2.569	.011

a. Dependent variable: Employee Effectiveness
Adjusted $R^2 = .406$, $p < .01$

The output of the regression found positive and statistically significant at different levels. Personal Relationship Development ($t=2.385$, $p=.018$), Career Development ($t=.905$, $p=.367$), self expectations and motivation ($t=.283$, $p=.778$), Individual Development ($t=2.569$, $p=.011$). of the above four factors, only two of them only two of them ie, Personal Relations Development and Individual Development were found to be significant in influencing the general understanding of the system.

- b) What are the difference perceptions of employees belonging to performers and non performers' category in the organization?

Difference in perceptions between Performers, and non performers on general beliefs of Performance Management System

Data in the Table 5 shows the perceptions of respondents in which M1,S1 represents mean and standard deviation of non performers and M2,S2 represents mean and standard deviation of performers. According to the data there is not much difference between the two categories except for self expectations and motivation where the mean for non performers is slightly less when compared to performers.

Table 5
Mean and standard deviation of all variables

n =101

	Variable	M1	SD1	M2	SD2
1	Personal Relations Development	2.22	.917	2.38	.976
2	Career development	3.41	.977	3.98	.725
3	Self expectations and Motivation	2.96	1.21	3.47	1.17
4	Individual Development	3.40	1.13	3.53	1.17

M₁,S₁ = Mean & Standard deviation for non performers

M₂, S₂ = Mean & Standard deviation for performers

The data thus, leads to the conclusion that the performers have a positive opinion as against the non performers in General understanding of performance management Systems in the organization. This can be on account of a feeling of betterments for which they have been looking for. However, the non performers do not attach such importance as much as the performers do.

V. Discussion

Perceptions on general understanding of Performance Management System

One area of high importance is the organizational working conditions prevailing in the organization. The Perceptions on general understanding of Performance Management System or the general beliefs on the system have an influence on the perceptions of employees and impact their effectiveness. This is studied based on the following parameters 1) Individual development majority of employees agreed that PMS contributes to individual development, on the opinion on whether PMS would be used as a controlling device almost fifty percent agreed to the it and fifty percent of them disagreed with it, over the opinion whether PMS would help in 2) career development fifty percent of them agreed and fifty percent of them disagreed with this, more than fifty percent of them agreed and fifty percent of them disagreed with it, majority of the employees agreed that PMS helps in development of 3) relationships of the team and spirit among employees, majority of the employees agreed that PMS would help in 4) motivating the employees, majority of the employees agreed stating that the outcome of PMS would be used only by the HR department, a majority of the employees agreed that PMS would help in improving relationships, majority of the employees agreed that PMS makes them work harder, and majority of the employees also agreed that PMS helps in deciding the pay of the employees.

It was observed that there was still gap in the understanding of the importance of performance management systems and its uses. Therefore, organization should concentrate on making the employees understand the importance of PMS and its benefits.

Perceptions of performers on Performance management system

Performers have a positive opinion as against the non Performers in general beliefs of Performance Management System in the organization. This can be on account of a feeling of betterments for which they have been looking for. However, non Performers do not attach such importance as much as the Performers do.

5.1 Conclusion, limitation and Implication for future research

In conclusion, this study found consistent result with the prior work of research indicating high correlations between components of general understanding of the system with effectiveness of the system. This is evident from the study conducted on performers' and non performers. Clearly it can be seen that employees having a positive impression are also performing well. It can be clearly seen that opportunities for individual development and opportunities for personal relationship development have significant contribution to achieve effectiveness of PMS system.

The summated r^2 value is more than the individual factors which accounts for 39.81% of the variance in the effectiveness of the system.

The following limitations are drawn from the study. This study is limited to only IT industry. The study only concentrated on general understanding of the system and effectiveness. Use of only one type of instrument also is one of the limitations. As a result further indepth study can be conducted so as to increase our knowledge in Indian context.

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