

# The Relationship between Performance Management Systems and Employee Performance in the IT Sector

Dechamma. M. Subbaiah & Dr. P.M. Mathew

**Abstract**— The need for modern organizations to develop performance management systems underscores the importance of employees in an organization and their role in making any organization both efficient and effective. The objectives of the study were to find relationship between the Performance Management Systems and the employees' performance. The major components of Performance Management Systems in this study were Performance Appraisal System, Performance Reward System, Performance Contract System; the study followed a quantitative approach and a descriptive research design. A standardized tool was adopted in order to collect data. The sample size was 100 people and the population was employees from the IT sectors, in Bangalore. The findings of the research indicated a positive relation between Performance Management Systems and Employee Performance.

**Index Terms**— Performance Management System, Performance Appraisal System, Performance Reward System, Performance Contract System, Employee Performance .

## 1 INTRODUCTION

In the recent times of a dynamic and competitive environment, Performance management is the need of the hour. It is essential in order to enhance performance, implementation of employee development programmes and rewarding achievements. It can be viewed as a systematic process by which the overall performance of an organization can be improved by improving the performance of individuals within a team framework. It is a means by which superior performance is promoted by communicating expectations, defining roles within a required competence framework and establishing achievable benchmarks. With the Performance management system in place focus can be laid on the performance of an organization, a department, employee, or even the processes to build a product or service, as well as many other areas.

As defined by Armstrong and Baron (1998) "Performance Management System is a strategic and integrated approach to increasing the effectiveness of companies by enhancing the performance of the people working therein and by developing the capabilities of teams and individual contributors."

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- Dechamma. M. Subbaiah is currently pursuing masters degree program (MSW HRDM) in Christ (Deemed to be University), India, E-mail: dechu.subbaiah@gmail.com
  - Dr. P. M. Mathew is an Associate Professor in Christ (Deemed to be University), India

It accommodates the employee's personal goals with the organizational goals and subsequently enhancing and

increasing the productivity and profitability of the organization. Effective management of the employee performance facilitates the efficient delivery of strategic and operational goals.

The main focus of performance management systems is developing individuals with the required commitment and competencies for working towards the organizational objectives. The objective of improving both the individual and organizational performance stands as the framework of Performance management and is done by identifying performance requirements, providing regular feedback and assisting the employees in their career development. Emphasis is laid on ensuring goal clarity for making people do the right things at the right time. The fundamental objective of performance management is to ensure that the organization is a system and its subsystems work together as an integrated part for accomplishing optimum results. Performance planning, appraisal and reviewing, feedback on performance, rewarding good performance and performance improvement plans are they various components for an effective Performance management system.

The lack of importance and appreciation given to the concepts by the organisations is the reason that could be attributed to the failure of performance management. This has prompted a situation whereby organizations are simply going through the motions implementing the performance management system yet with no tangible benefits in terms of employee development and organizational profitability at large. Gizaw (2010) states that the major objective for performance management is to optimize the quality of work of the employee and boost the technical efficiency using quality assurance mechanism and strategies (Lunenburg 2011)

contended that performance management basically involves the alignment of human resource management practices so that the performance and development of the employees are enhanced, with the sole aim of maximizing the performance of the organization.

A well designed performance management process stimulates the managers to come up with strategic plans of high quality, set ambitious targets and closely monitor all the activities that are geared towards achieving the strategic objectives. Eventually, this promotes sustained value creation for the organization (Armstrong 2006; Wall, 2007). Further it can be regarded that performance management is a people-centric concept: it not only focuses on developing and motivating the employees to give their maximum effort in the realization of desired goals (Armstrong, 2006; Wall, 2007).

One of major challenges that are encountered when undertaking performance measurement is the selection of what is to be measured. In this case, the focus needs to be on the factors that can be quantified (Locke & Latham, 2002; Armstrong, 2006; Inyang, 2008). These factors also need to be clearly linked to what is considered as the success drivers of the organization, otherwise referred to as the key performance indicators. The quantifiable factors need not only be financial; they can be non-financial as well, such as the number of complaints received in regards to a particular customer service (Mondy et al., 2002; Inyang, 2008). More importantly performance measurement should focus on what is important to the organization, especially those employee activities that impact on the satisfaction of the customers (Rossi 2012; Vigarò, 2013).

A research conducted by the Centre for Business Performance at the Cranfield School of Management demonstrated that the organizations that have implemented performance management systems are generally better placed to monitor their productivity; effectively communicate their strategies and even reduce their operational costs. Besides, these organizations are also able to review their business strategies, control their operations and more importantly support their systems of compensation (De Waal 2003).

Marr (2009), says that one factor that impact the successful performance management implementation is whether or not the top management makes emphasis on the control of inputs, outputs and behaviors. The top-down control of employee behavior to enhance compliance with laid out procedures is highly likely to yield minimum benefits, if any. In this case the organization needs to make huge investments on surveillance and control; this in turn minimizes the discretion of the employees and leads to rigidity and dysfunctional behavior. However, when organizations focus on controlling output they invariably provide their employees with the discretion of achieving the desired goals.

## 2 METHODOLOGY

### 2.1 Objectives of the study

1. To study the relationship between the Performance Management Systems and the employees performance
2. To determine the factors influencing the effectiveness of the performance management systems the most.

### 2.2 Sampling Design

In this study a purposive sampling design was deployed in order to obtain the data from the respondents. The sample size constituted 100 employees from IT sectors in Bangalore.

### 2.3 Research Design

For the purpose of fulfilling the objectives of the study and also based on the research questions of this study, the descriptive research design is adopted as the design for the study.

### 2.4 Tools of Data Collection

Questionnaire was used for data collection. The questionnaire adopted was a tool developed by Gacheru Lucy Wairimu in the research- 'The Relationship between Performance Management Systems and Employee Performance: A Case Study of Assortedways Limited.

## 3 RESULTS AND DISCUSSION:

There were 100 respondents that were involved in the study and majority (53%) of them was Male respondents. Majority of the respondents belonged to the age category of 26 years- 60 years and the remaining (41%) were below 25 years of age. Around 55% of the respondents had work experience between 5- 15 years and the rest (45%) had less than 5 years of experience. Majority of the respondents held a Bachelor's degree (51%) and around 32% of them were more qualified (Master's degree or PhD).

### 3.1 Relationship between Performance management system and Performance of an Employee

In order to find out the relationship between Performance Management Systems and Employee Performance a Correlation test was undertaken. The Pearson Correlation test was used as the data was normally distributed. According to the test the Performance Management System had a highly significant relationship on the Performance of Employees. The 3 variables under the PMS system are- Performance Appraisal, Reward System and Performance Contract has high significance on the Employee Performance.

**Table 3.1: Relationship between Performance management system and Performance of an Employee**

		Performance appraisal	Reward	Contract	Performance
Performance appraisal	Pearson Correlation	1	.878**	.856**	.785**
	Sig. (2-tailed)		.000	.000	.000
	N	100	100	100	100
Reward	Pearson Correlation	.878**	1	.869**	.806**
	Sig. (2-tailed)	.000		.000	.000
	N	100	100	100	100
Contract	Pearson Correlation	.856**	.869**	1	.881**
	Sig. (2-tailed)	.000	.000		.000
	N	100	100	100	100
Performance	Pearson Correlation	.785**	.806**	.881**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	100	100	100	100

\*\* . Correlation is significant at the 0.01 level (2-tailed).

**Hypothesis**

H1. There is a significant relationship between performance management systems and employee performance among the employees in IT sector.

H0. There is no significant relationship between performance management systems and employee performance among the employees in IT sector.

From the above results it can be concluded that the alternative hypothesis is accepted and the null is rejected. The performance of an employee does depend on the performance management system within the organization; there an efficient and effective system must be in place.

**❖ Relationship between the Performance Appraisal system and Employee performance**

The performance appraisal system was found to be positively related to Employee performance since the correlation coefficient between the two was significantly different from zero (r = 0.785, p-value = 0.000) at 0.01 levels of significance.

**❖ Relationship between the Performance Reward System and Employee Performance**

The performance reward system was found to be positively related to Employee performance since the correlation coefficient between the two was significantly different from zero (r = 0.806, p-value = 0.000) at 0.01 levels of significance.

**❖ The Relationship between the Performance Contract System and Employee Performance**

The performance contract system was found to be positively related to employee performance since the correlation coefficient between the two was significantly different from zero (r = 0.881, p-value = 0.000) at 0.01 levels of significance.

**3.2 Regression analysis on the significance of the Performance Management Systems on employee performance**

The impact of the performance management system as a whole on the performance of employees was determined by the use of the regression model. The results are as shown below:

**Table 3.2: Regression Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.885 <sup>a</sup>	.784	.777	5.238	.784	116.098	3	96	.000

a. Predictors: (Constant), Contract System, Performance appraisal, Reward System

With Regression the strength of the relationship between the independent variables (Performance management systems) and the dependent variable (Employee performance) can be indicated. The R square value in this case is 0.784 which clearly suggests that there is a very strong relationship between Employee performance and performance management systems within an organisation. This indicates that the performance management system share a variation of 78.4% of Employee performance.

### 3.3 Significance of Implementation of Performance Management System on Employee Performance

The various components of performance management systems; the reward system, the performance appraisal system and the contract system all have an effect on employee performance. Here we seek to establish the significance of the different systems on the performance of employees in IT Sector. The table below shows the linear regression analysis to identify the significance of the independent variables on the dependent variables.

**Table 3.3: Regression Model**

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error				Lower Bound	Upper Bound
(Constant)	4.302	1.961		2.194	.031	-8.194	-.409
1 Performance appraisal	.051	.131	.042	.389	.698	-.209	.311
Reward System	.183	.145	.142	1.263	.209	-.104	.470
Contract System	.885	.128	.722	6.927	.000	.631	1.139

a. Dependent Variable: Performance

➤ **Significance of Performance Appraisal System on Employee Performance**

Performance appraisal system was found to not have a linearly significant influence on the Employee performance ( $\beta = 0.042$ ,  $p = 0.698 > 0.05$ ,  $t\text{-value} = 0.389$ ).

➤ **Significance of Performance Reward System on Employee Performance**

Performance reward system was found to not have a linearly significant influence on the Employee performance ( $\beta = 0.142$ ,  $p = 0.209 > 0.05$ ,  $t\text{-value} = 1.263$ ).

➤ **Significance of Performance Contract System on Employee Performance**

Performance contract system was found to have a linearly significant influence on the Employee performance ( $\beta = 0.722$ ,  $p = 0.000 < 0.05$ ,  $t\text{-value} = 6.927$ ). This implies that the implementation of a performance contract system in any organization will have a positive impact on the level of employee performance thus increasing the general productivity of the organization.

It was found that there is positive relationship between Performance Management Systems and Employee Performance. This states that the performance management system has an impact on the performance employees.

The three components of the Performance management system: Appraisal System, Reward System and Contract System have high significance on the performance of the employees. All the above aspects are very crucial for organisations to meet their objectives. The Performance Contract System is the most significant with  $r = 0.881$ , followed by the Reward System and the Appraisal System.

With the help of regression it was found that that there is a very strong relationship between Employee performance and performance management systems within an organisation. This indicates that the performance management system share a variation of 78.4% of Employee performance.

Through regression only Performance contract system was found to have a linearly significant influence on the Employee performance ( $\beta = 0.722$ ,  $p = 0.000 < 0.05$ ,  $t\text{-value} = 6.927$ ). This implies that the implementation of a performance contract system in any organization will have a positive impact on the level of employee performance thus increasing the general productivity of the organization.

## 4 CONCLUSION

In organisations which have a performance management system constant revision in the system has to be incorporated as the organisations cannot have obsolete methods or systems in a competitive business environment.

In most organisations, an employee is the driving force of the company it is important for the organization to take an extra step in ensuring that the employees are performing at their level best which can be influenced by the motivation structures put up in place by the organization therefore all organizations need to implement performance management systems.

Reward system was the factor that was seen be very essential after the performance contract system according to the analysis. From the responses it was observed that majority of the employees were not very happy with the reward system within their organisations. It is suggested that organisations have an effective performance reward systems for ensuring that the employees work efficiently. Organisations can incorporate more performance based rewards.

The various levels of employees and their performance are driven by the levels of motivation placed on the employees. Having a good performance management system and a performance reward system are some of the key areas of enhancing employee performance.

Performance management systems were found to have a linear significant influence on the employee performance which in turn proves that it improves o a great extent the efficiency of any organization as the employees' are motivated to perform.

The study states that one of the key essentials for enhancing employee performance is setting up a performance management system in an organization. According to the study the results were found and Performance management systems were found to greatly improve employee performance and it is to a great extent a key component for organizations' to provide them to their employees at the work place to improve the efficiency of their employees.

To have an effective Performance management system, it is essential for the organisations to update its performance management systems from time to time in order to ensure effectiveness and meet the demands in the ever changing business environment.

On a concluding note, every business organization should be in a position to implement and incorporate a performance management system effectively that motivates the employees to work effectively for best results thereby, meeting the organisational objectives.

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