IMPACT OF PERFORMANCE MANAGEMENT SYSTEM ON EMPLOYEE PERFORMANCE- A CONCEPTUAL FRAME WORK FOR IT ORGANIZATIONS

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ABSTRACT

Performance Management System is a key variable which have greater impact on Employee performance and on organizational performance as well. The aim of this study was to explore the kind of impact that performance management system will have on Employee performance. This study reports the theoretical foundations on PMS and utilized all the three phases of Performance management System including developing and planning performance, managing and reviewing performance, rewarding performance as independent variables, so as to develop a research model which can be replicated and used for further research purposes. Further, this study provides beneficial insight about Performance management system with specific focus on all the three phases of it and impact on Employee performance in-order to identify various flaws that exists generally in the Performance management system.

Key words: Performance Management System, Employee Performance, Organizational Performance, phases of performance Management System.

http://www.iaeme.com/ijciet/issues.asp?JType=IJCIET&VType=9&IType=6
1. INTRODUCTION
Developing an effective and efficient Performance Management System is essential for any organization especially which are working in current dynamic and technological environments. Developing a performance management system, according to Schneier, Beatty and Baird (1987), is classified into a development, planning, managing, reviewing and rewarding phase. In 2000, Macky and Johnson suggested that, a typical performance management system would include: the organization communicates its mission/strategies to its employees; the setting of individual performance targets to meet the employees’ individual team and ultimately the organization's mission/strategies; the regular appraisal of these individuals against the agreed set targets; use of the results for identification of development and/or for administrative decisions; and the continual review of the performance management system to ensure it continues to contribute to the organizational performance, ideally through consultation with employees.

Fletcher (1996) suggested that the main building blocks of a performance management system approach include: development of the organization's mission and objectives; enhancing communication within the organization so that employees are not only aware of the objectives and the business plan, but can contribute to their formulation; clarifying individual responsibilities and accountabilities; defining and measuring individual performance; implementing appropriate reward strategies, and developing staff to improve performance, and their career progression further in the future.

The Stages of Performance Management System
According to Schneier, Beatty and Baird (1987), a performance management system is classified into a development, planning, managing, reviewing and rewarding phase. The following figure shows the contents of three phases according Schneier, Beatty and Baird (1987).

![Figure 1 Performance Management System](http://www.iaeme.com/IJCIET/index.asp)

**Source:** Drawn according to interpretation-Original source: Schneier, Beatty and Baird, (1987:98)

From the above figure and according to Schneier, Beatty and Baird (1987), the performance management system consists of three phases which are as follows.
Phase 1: Developing and Planning Performance - which includes outlining development plans, setting objectives and getting commitment activities;

Phase 2: Managing and Reviewing Performance - which includes assessing against objectives, seeking feedback, coaching and document reviews activities;

Phase 3: Rewarding Performance which includes personal development, results of performance and link to pay activities.

Fletcher mentioned that, a performance management system approach should include developing organization’s mission and objectives, enhancing communication within organization, clarifying individual responsibilities and accountabilities, then defining and measuring individual performance and rewarding performance, and finally improving staff performance and developing career progression in the future. There is an apparent difference of definition between Schneier and Fletcher, it is the communication. Fletcher pointed that enhancing communication within the organization so that employees are aware of the objectives and the business plan, and employees can continue communication in the production process for exchanging information, discussing problems and seeking feedbacks. Thus, if we combine the definition of performance management system from Macky, Johnson, Fletcher and Schneier. Clear and detailed employee performance objectives play a crucial role in helping companies to perform in accordance with their business plan and achieve their strategic goals.

Phase 1: Developing and planning performance

Planning the first stage in the performance management system process cycle and offers the foundation for an effective process. Planning is a continuous process in performance management and should be executed with great care (Schneier et al., 1987). Planning helps to encourage commitment and understanding by linking the employees' work with the organization's goals and objectives (Schneier et al., 1987). It usually includes identifying key value drivers of stakeholders, for example, shareholders, customers and employees of the organization. Similarly, according to Armstrong and Baron (2004), objectives or goals describe something to be accomplished by individuals, departments and organizations over a period of time. They can be expressed as targets to be met, for instance, sales, and tasks to be completed before the deadline. Armstrong and Baron (2004) further state that objectives need to be defined and agreed on. The objectives relate to the overall purpose of the job and define performance areas--all the aspects of the job that contribute to achieving its overall purpose. Targets then are set for each performance area. Rogers and Hunter (1991) stated that goal setting is the fundamental aspect for an organization. They further indicated that productivity gains will correlate with the extent of top management support for and employees' participation in the process of setting objectives. It is a motivational process which also gives the individual the feeling of being involved and creates a sense of ownership for employees. At the same time, part of the planning phase includes the agreement on a formal development plan for the employees. Actually this plan should be based on requisite skills, behaviors and knowledge and key competencies that will be required to achieve the objectives and targets set. The development plan can also include long-term development initiatives which are usually based on potential and good performance (Nyembezi, 2009).

In this planning phase, the supervisors and subordinates are involved in a joint participative process and set organizational goals, as well as specific goals for an individual. Objectives, on the other hand, also create the environment in which an individual will be measured according to his or her own performance and output, with set standards for evaluation (Nyembezi, 2009).
Phase 2: Managing and Reviewing performance

Managing performance is the second element of the performance management system cycle. This step distinguishes performance management as a process from performance appraisal as an activity (Schneier et al., 1987). According to Schneier et al. (1987), every employee is responsible for managing his or her own work performance. This involves: (1) maintaining a positive approach to work, (2) updating and revising initial objectives, performance standards and job competency areas as conditions change, (3) requesting feedback from a supervisor, (4) providing feedback to supervisor, (5) suggesting career development experiences, and (6) employees and supervisors working together, managing the performance management process. According to the view of Fletcher, in the second stage, enhancing communication within an organization is important for employees to be aware of objectives and contribute to the future development.

Armstrong and Baron (2004) pointed that at its best, performance management is a tool to ensure that managers manage effectively. Therefore, performance management system should ensure the manager of employees or teams know and understand what is expected of them, and have the skills and ability to deliver on these expectations and be supported by the organization to develop the capacity to meet these expectation are given feedback on their performance; and have the opportunity to discuss and contribute to individual and team aims and objectives. Moreover, according to Armstrong and Baron (2004), performance management system is also about ensuring that managers themselves are aware of the impact of their own behavior on the people they manage, and are encouraged to identify and exhibit positive behaviors. The actual performance is compared to the desired performance, so the outcome is evaluated and a development plan is set according to the weakness with reference the strategy. This outcome also provides a feedback mechanism to employees. In order to improve the feedback and update and discuss initial objectives, the organization should also focus on communication within employees and between employees and managers. It is important for managers to develop a fully integrated strategy which enables the different forms of communication to contribute to the success of the firm's mission or common goal (Marion, 1998). Moreover, continuous communication or exchanging information between an organization's strategic managers and its internal stakeholders should be designed to promote commitment to the organization and aware of its changing environment and understanding of its evolving aims (Welch&Jackson, 2007).

In the second phase, it includes the performance reviews which can be regarded as learning events. Individuals could be encouraged to think about how and in which ways they want to develop. Research by Ashford and Cummings (1983) demonstrates that feedback has strong positive effects on the performance of both individuals and groups, specifically through role clarification, improved self-efficacy, the establishment of behavior reward contingencies and increased self-regulatory control processes (Ashford & Cummings, 1983). Similarly, according to Armstrong and Baron (2004), the actual performance could also be compared to the desired performance, therefore the outcome is evaluated and a development plan is set based on the weakness. This comparative approach also provides a feedback mechanism to employees.

Additionally, in this phase, coaching and training is an important tool in learning and development. Coaching is developing a person's skills and knowledge so that employees’ job performance improves, and helps them to achieve of organizational objectives. Managers should identify and implement training and other actions necessary to improve individual performance (Bevan and Thompson, 1991). According to Armstrong (2004), performance management is a strategic and integrated approach to delivering sustained success to organizations by improving the performance of the people who work in them and by developing the capabilities of teams and individual contributors. Similarly, Black, SE & Lynch, LM (1996)
suggest that the training courses that are offered by organizations must be designed through considering the present and future needs of the employees and facilitate the learning of these skills. A good training or coaching course should improve the quantity and quality of organizations output; increase the chance of organizational success; decrease the organizational costs and expenses. Moreover, coaching is increasingly being recognized as a significant responsibility of managers, and can play an important role in an employee's working life. In 2006, Cunneen stressed that coaching comes naturally, and could take place during the review meetings or should be carried out throughout the year. Also, in this phase, training may be needed to improve their skills.

**Phase 3: Rewarding Performance**

According to Schneier, Beatty and Baird (1987), the rewarding performance phase includes three activities: personnel development, linking to pay and identifying the results or performance. In Rahdert's (1960) view, the function of personnel development is that the growth of people can be accelerated over and above that which would take place naturally and normally, and then maximum the employees' contribution to personal and group goals. Personnel development has some development principles. First one is personal involvement. All personnel development is basically self-development. Opportunity for development is valuable only if the individual capitalizes on it himself. In fact, the organization can and should offer encouragement and help, but development activities seem to be successful only to the degree that individuals become personally involved in them. Second one mutual objective. The premise of any development activity in organization, there should be a clear understanding and acceptance of mutual objectives by both the individual and organization. If the objectives are understood and accepted, the efforts expended will be far more likely to succeed. The company should offer universal opportunity to every employee instead of single out a few of its people and make opportunities available only to them. In fact, it is difficult to make long-term predictions concerning the ambition, drive, and growth potential of individuals. The forth principle is individual planning. Development is individual and should be tailored to fit the individual and the situation; attempts to squeeze everyone into the same model may even prove a waste of effort. Moreover, development should be designed to improve performance on the current job firstly, and then prepare the employee for promotion. Employees who get promoted are those who are currently doing outstanding work and thus have been able to demonstrate their capacity to assume greater responsibilities. Next principle is continuity. If a man who abandoned his efforts to keep updating skills or information, he will become antiquated. Especially for nowadays, the new knowledge and skills are constantly being introduced. Rahdert (1960) also points out that the benefit of personnel development. For employees, if the individual skills or knowledge increase, he may create more value and as a result he may receive a sense of satisfaction in the achievement of personal goals and attainment of professional recognition. On the other hand, for organization, personnel development is able to achieve competitive advantages because of a better qualified and a more highly motivated team, and is able to utilize advanced technology because of the effectively trained employees. Furthermore, training activities should ideally be based on performance gaps that are identified during the performance review phase (Teke, 2002). By linking training to identified performance gaps, training will be focused, specific and relevant. Teke (2002) also points out that relevant training and development interventions and regular performance feedback are important factors in skills retention. Therefore, the training, development strategy and the performance management system process should be aligned tightly with the overall retention strategy of the organization. Development programmes are reflecting the needs of succession plans and seeking to foster leadership skills. In addition, there is a growing interest in pay-for-performance plans focused
on small groups or teams. Small group pay plans provide monetary rewards based on the measured performance of the group or team.

Evaluation and checking feedback are both important activities in this period. In most organizations, they will not have only one corporate scorecard for the company as a whole, but will also have separate scorecards for each division/employee that feeds into the overall scorecard (Huang & Hu, 2007).

In this phase, pay-for-performance could be used together as a tool to assess the performance. Moreover, in the organization, employees are most likely to perceive that pay differences are made fairly when they are provided with information regarding the appraisal process and employees are allowed to discuss the appraisal results. According to the view of Locke (2004), the pay-for-performance principle involves providing monetary rewards through carefully designed compensation system that base pay on measured performance within the control participants. According to Delery and Doty (1996:802), employee performance appraisal is defined as 'the process of identifying, evaluating and developing the work performance of the employee in the organization, so that organizational goals and objectives are effectively achieved while, at the same time, benefiting employees in terms of recognition, receiving feedback, and offering career guidance'. Appraisals can be based on results or behavior. Behavior-based appraisals focus on the behaviors of individuals necessary to perform the job effectively, whereas results-oriented appraisals focus merely on the consequences of those behaviors (Delery & Doty, 1996). Therefore, procedural justice concerns are central to ensuring that employees perceive the process of performance appraisals, and the linkage of appraisal to pay, to be fair (Greenberg, 1996). In most situations, properly designed pay-for-performance systems will lead to better performance results. Pay-for-performance systems make major contributions to performance through two main mechanisms. First, they positively influence the motivation to perform. Second, they impact the attraction and retention patterns of organizations, thereby affecting the ability of individuals available to perform. Pay-for-performance systems can deliver monetary rewards at the individual, small group, and/or divisional or organizational level. All of this impact of different levels can positively impact performance.

2. EMPLOYEE PERFORMANCE

In the organizational context, performance is usually defined as the extent to which an organizational member contributes to achieving the goals of the organization. Employees are a primary source of competitive advantage in service-oriented organizations (Luthans and Stajkovic, 1999; Pfeffer, 1994). In addition, a commitment performance approach views employees as resources or assets, and values their voice. Employee performance plays an important role for organizational performance. Employee performance is originally what an employee does or does not do. Performance of employees could include: quantity of output, quality of output, timeliness of output, presence at work, cooperativeness (Güngör, 2011). Macky and Johnson pointed that improved individual employee performance could improve organizational performance as well. From Deadrick and Gardner's (1997) points, employee performance could be defined as the record of outcomes achieved, for each job function, during a specified period of time. If viewed in this way, performance is represented as a distribution of outcomes achieved, and performance could be measured by using a variety of parameters which describe an employee's pattern of performance over time. On the other hand, Darden and Babin (1994) said employee's performance is a rating system used in many corporations to decide the abilities and output of an employee. Good employee performance has been linked with increased consumer perception of service quality, while poor employee performance has been linked with increased customer complaints and brand switching. To conclude, employee
performance could be simply understood as the related activities expected of a worker and how well those activities were executed. Then, many business personnel directors assess the employee performance of each staff member on an annual or quarterly basis in order to help employees identify suggested areas for improvement.

3. STATEMENT OF PROBLEM
It was understood by the literature review that, since performance management system plays a vital role in determining the employee’s performance, as well as the organisation’s overall performance. Hence, the researcher felt that, it is important to keep the right variables into consideration and implement the system to eliminate the loopholes and improve the individual and organizational performance from time to time. Hence, the researcher has taken up this topic as research study and would like to study the impact of PMS on Employee Performance.

Objectives of the Study
1. To explore the impact of performance management systems on Employee performance in general.
2. To develop a model based on the three phases of the Performance Management System which influence Employee Performance.

Significance of the Study: The study has got the following significance.

- This study will be useful to top management in identifying the various loop wholes in terms of all the three phases, and will generate an idea where the PMS is going wrong. It helps managers in forecasting the employee performance by ensuring the total use of performance management systems for the betterment of the organization.
- The study will help the management to know better how to use performance management systems to improve the performance of their employees.
- The findings of this study may inspire other researchers’ curiosity to conduct research deeply in the area related to performance management systems on employee performance with specific focus in IT Industry.
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Research Model: Based on the above theoretical concepts the researcher has developed the following model

4. IMPLICATIONS FOR FURTHER RESEARCH

Further research can through light on the following areas such as

- Setting up an accurate and ambiguous objectives or goals for organization and employee could guide for staff to produce effectively and efficiently in a certain period. In addition, such a goal and plan could improve employee's initiatives and commitment for their job.

- Performance review provides the feedback of employee performance which could reflect the problems during the production and advantages for employees. Facing those problems, organization needs to solve it.

- In performance management system, communication and training could play an important role in improving employee performance. The continuous communication between managers and employees, also the communication between employees would contribute to update organizational and individual goals, solve and improve the deficiencies in the production process so that the performance quality would be improved and guaranteed.

- On the other hand, coaching focuses on empowerment, development and qualifying employee through knowledge and skills so that the problems would be corrected and the success opportunity of the organization would be increased.
• Performance appraisal or pay-for-performance could be treated as a tool to reward employee for their good performance and motivate employee to perform better in the next process. To sum up, I would like to build a hypothesis that the whole performance management system will have impact on employee performance.

5. CONCLUSION

The model that is developed in this research paper provides a clear understanding of various Variables that influences employee performance based on which hypothesis can be built and analysis can be done to find out ways to contribute to overall organizations performance in an indispensable manner.

REFERENCES


