

Examining the Performance Management System as a Predictor of Organizational Effectiveness: Perspectives from the Indian Manufacturing Sector

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Abstract: Regular and systematic assessment of performance is a crucial responsibility for management. It not only evaluates and monitors organizational growth but also provides career direction for individual employees. Establishing clear performance expectations, encompassing results, actions, and behaviors, helps employees understand their job requirements. Well-defined goals, coupled with regular performance assessments, are vital for defining corporate competencies and identifying skill gaps. This information serves as a valuable input for designing Human Resource Development (HRD) plans.

Despite the importance of performance appraisal systems, there is often a gap between intention and actual practice in many organizations. Previous research in Indian organizations revealed that existing performance management systems (PMSs) may allow for the use of appraisal data for administrative purposes, but there is a missing link between appraisal outcomes and the subsequent design and execution of developmental programs.

In light of this, researchers aimed to assess employees' perceptions of PMS and its role in achieving organizational effectiveness. A survey, including a questionnaire and focused group discussions, was conducted with a purposive sample of 200 professionals in Indian manufacturing industries. The analysis confirmed the association between PMS and organizational effectiveness. However, there were differing perceptions among line managers about PMS, and even when there was agreement, it did not lead to superior outcomes due to a lack of clarity in the existing system.

The discussions highlighted a distinct differentiation in the involvement of different levels of management in the performance appraisal mechanism. Additionally, the reciprocal trigonometric relationship between PMS, competency management systems, and training and development was emphasized.

Keywords: Manufacturing industry professionals, performance appraisal (PA), performance management system (PMS), perception, key result areas (KRAs), organizational effectiveness

1. Introduction

Industries worldwide are actively engaged in efforts to retain their valued employees through various means. One prominent tool for understanding and motivating employees' achievements is the effective implementation of a performance management system (PMS). Renowned management guru Peter F. Drucker emphasized the importance of employees seeing the connection between their actions and the outcomes of their efforts. The HR discipline's PMS is instrumental in establishing this link, aligning individual employee performance with organizational goals. The shift from traditional performance appraisal systems underscores the realization that a robust PMS is integral to organizational success.

Performance management is perceived as a holistic, participatory, and goal-congruent process for managing and supervising employees at work, as highlighted by Cardy and Dobbins (1994). However, the exaggeration of performance management poses challenges for human resource development (HRD) and human resource management (HRM) (Austin, 1992; Bernardin et al., 1998). Despite high expectations, performance management practices often result in conflicts, problems, and resistance, rather than positive outcomes (Bernardin & Beatty, 1984). This presents challenges for HRD practitioners to establish an effective PMS that eliminates negative consequences and promotes positive ones for individual and organizational performance (Lawler, 1994; Mohrman et al., 1989).

Given these conflicting views, PMS is perceived as a delicate issue requiring a thorough scientific

approach. This study aims to provide insight into how the adopted performance management philosophy of Indian manufacturing organizations aligns the efforts of managers and employees with organizational goals.

2. Review of Literature

Industries worldwide are actively engaged in efforts to retain their valued employees through various means. One prominent tool for understanding and motivating employees' achievements is the effective implementation of a performance management system (PMS). Renowned management guru Peter F. Drucker emphasized the importance of employees seeing the connection between their actions and the outcomes of their efforts. The HR discipline's PMS is instrumental in establishing this link, aligning individual employee performance with organizational goals. The shift from traditional performance appraisal systems underscores the realization that a robust PMS is integral to organizational success.

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Philosophy of Modern Performance Management and Organizational Effectiveness

The philosophy of modern performance management and organizational effectiveness is deeply rooted in the pursuit of wisdom, with a focus on unbiased critical evaluation of experiential facts. When applied to Performance Management Systems (PMSs), this philosophy entails a value-based approach to assessing employee performance. Professionally managed organizations prioritize the development of PMSs aligned with their performance management philosophy (Pettijohn, Pettijohn, & D'Amico, 2001). The core aim is to cultivate employees to deliver their best, serving as the guiding principle for such organizations. Through well-crafted PMSs, organizations ensure individuals are poised for success, ultimately contributing to the achievement of business goals (Kane & Kane, 1992; Roberts, 2003).

Modern PMSs are built on the facilitation model of leadership, recognizing people as the sustainable resource for competitive advantage. Practices like linking employee performance to organizational strategic intents have elevated performance management to a high-priority HRM function (Armstrong, 2012). As a process, performance management provides a platform for mutual discussion on the development goals of both employees and organizations, designing feasible plans to attain these goals (Bretz, Milkovich, & Read, 1992). This not only fosters organizational growth and excellence but also equips organizations to effectively respond to changes. The contemporary model of performance management not only emphasizes goal achievement but also instills a sense of responsibility in individuals within their day-to-day work systems. For instance, a customer-centric organization's focus on a service culture extends to operational levels, requiring PMSs aligned with a customer-centric approach and team rewards based on valuing customer services.

Among other aspects, modern PMSs prioritize managing, supporting, and developing human resources across all organizational levels (Roberts, 1998). These systems systematically monitor individual and team performances, rewarding those who excel and implementing corrective actions for those who fall short. To yield effective performance management results, organizations must invest in continuous learning and development for their people (Kennedy & Dresser, 2001; Rasch, 2004). In this refocused approach, a manager's involvement in performance management is ensured through specific actions:

Establishing specific job assignments

- Writing job descriptions, assigning responsibility for strategic initiatives, and developing

performance standards

- Discussing job performance with employees, providing feedback on strengths and weaknesses as needed
- Conducting periodic performance evaluations to enhance performance and achieve employees' developmental goals.

Performance management is currently a crucial aspect, especially in times of intense competition and the organizational battle for leadership (Cederblom & Pernerl, 2002). It is a comprehensive and intricate HR function encompassing joint goal setting, continuous progress review, frequent communication, feedback, coaching for improved performance, implementation of employee development programs, and recognition of achievements (Conry & Kemper, 1993; Fletcher, 2001). The performance management process begins with the onboarding of a new employee and concludes when an employee leaves the organization. It can be seen as a systematic process aiming to enhance overall organizational performance by improving individual performance within a team framework. It serves as a means to promote superior performance by clearly communicating expectations, defining roles within a required competence framework, and establishing achievable benchmarks

Rationale of the Study

Given the noted significance of research conducted by various scholars, researchers have endeavored to evaluate employee perceptions concerning Performance Management Systems (PMS) and its expected contribution to organizational effectiveness. The study's objective is to investigate the effectiveness of performance management as an HR intervention tool. Finally, this research aims to explore how PMS influences employee retention in manufacturing industries.

3. Methodology

This research heavily relies on extensive fieldwork, involving a month-long visit to a manufacturing organization in India for uninterrupted data collection using a pre-designed questionnaire. The gathered information comprises both primary and secondary data. Secondary data, sourced from the internet, books, magazines, and articles, was utilized to assess the company's background, mission, vision, and performance management policies. The collected data were tabulated and classified as needed, with simple summary measures and percentages employed for analysis.

For the sample frame, convenience sampling was employed by visiting manufacturing public sector industries in the eastern Indian subcontinent. Two hundred questionnaires were distributed to full-time employees and executives, with the assurance of confidentiality for the information provided. Respondents were informed that their individual identities would remain undisclosed during data analysis, ensuring a generalized conclusion for study purposes. All distributed questionnaires were returned, indicating a high response rate. The sample included 12.5 percent female executives, with 82.5 percent of respondents aged over 30 and 77 percent being married. Thirty percent of the population had postgraduate and doctoral-level studies, while 70 percent had graduate-level engineering studies.

In terms of data design and analysis, quantitative techniques were employed to analyze responses from the questionnaire. The items were designed as multi-response items, presenting data in categorical form for both qualitative and quantitative analysis. The sampled employees' responses were collected and categorized into four sub-perceptive domains of Performance Management Systems (PMS).

Performance Appraisal Vs. Performance Management System

Sl. No.	Statements	Satisfied	Partially Satisfied	Not Satisfied	No Opinion
1.	Your opinion regarding the last appraisal ratings	136	30	22	12
2.	Your opinion about the performance related pay70 amount received last year		30	98	02
3.	Your opinion about the PMS procedure manual	120	70	06	04
4.	The PMS is open and transparent	120	14	30	36

5.	Level of satisfaction regarding the current PMS	118	16	44	22
6.	Your opinion about the authenticity of the appraisal ratings	120	28	34	18
7.	Employees are mostly given average ratings regardless of their performance in PMS	134	16	20	30

My Understanding on Present PMS

Sl. No.	Statements	Satisfied	Partially Satisfied	Not Satisfied	No Opinion
1.	The PMS is done in a time bound manner	122	38	36	04
2.	The ratings in the PMS are mostly subjective in nature	126	34	22	18
3.	The evaluation done is totally fair and just	122	38	34	06
4.	The evaluation is sometimes biased due to personal relations	138	40	20	02
5.	The online executive appraisal system (EAS) is more streamlined and transparent	120	64	04	12
6.	The existing on-line EAS is better than the earlier offline system	130	50	10	10
Sl. No.	Statements	Satisfied	Partially Satisfied	Not Satisfied	No Opinion
7.	There is effective communication system in PMS	130	10	24	36
8.	The performance-related pay depends upon the appraisal ratings	68	52	80	00
9.	The PMS treats men and women equally	120	60	10	10
10.	Promotion is directly based on the appraisal ratings	122	40	22	16
11.	Your opinion about the Bell-Curve approach	122	18	50	10

Learning and Development Opportunities

Sl. No.	Statements	Satisfied	Partially Satisfied	Not Satisfied	No Opinion
1.	The executives are trained to make effective use of the PMS	122	50	22	06
2.	The linkage of PMS with other HR intervention like competency modeling, training etc.	128	12	20	40
3.	PMS helps in career planning and development	130	18	34	18
4.	The PMS encourages continuous feedback between the appraiser and the appraisee	130	42	20	08
5.	Working of the counseling and mentoring process as a part of training & development of the employees post PMS	100	40	36	24

Organizational Effectiveness of PMS

Sl. No.	Statements	Satisfied	Partially Satisfied	Not Satisfied	No Opinion
1.	The current PMS is compatible with the organizational structure	130	20	16	34

2.	The PMS contributes to improve the company's productivity	128	28	30	14
3.	The overall working of the PMS	130	44	10	16
4.	The PMS is a part of the overall organizational development system	138	18	24	20
5.	Role of the higher management in the PMS	134	42	22	02
6.	The role of PMS in succession planning	136	34	20	10
7.	Implementation of ERP-SAP in PMS	122	50	18	10

4. Summary of Findings

Performance appraisal vs. Performance management system

With regard to the opinion regarding the last appraisal ratings, only 68 percent of the respondents were fully satisfied; 15 percent of them were partly satisfied; 11 percent of them were found to be dissatisfied with their last appraisal ratings; and 6 percent of them did not answer this statement. Since the system is partially open, the response comes so.

Only 35 percent of the executives were satisfied with the performance related pay (PRP) amount they received last year and around 49 percent of them were dissatisfied with the PRP amount they received last year. Whereas 15 percent of them had a partially favorable response and only 01 percent of them had no opinion on the subject.

When asked about their opinion on the PMS procedure manual, only 60 percent of the respondents were fully satisfied with the PMS procedure manual; 35 percent of them had a mixed response on the statement; 2 percent of them did not comment; and 3 percent of them showed a negative response to the statement.

Sixty percent of the executives are having positive opinion regarding PMS being open and transparent, whereas only about 7 percent and 15 percent of the respondents were partly satisfied and not satisfied, respectively; 18 percent of them had no opinion on the statement. The transparency and openness leads to better communication with the organization.

Fifty-nine percent of the respondents were satisfied with the current PMS; 22 percent of them were dissatisfied with the current PMS; and around 11 percent of them had no opinion on the statement.

Regarding the statement on opinion about the authenticity of the appraisal ratings, around 60 percent of the respondents had a positive response and 17 percent of them had a negative response; 09 percent of them had no opinion on the statement, whereas 14 percent were partly satisfied with the statement.

Sixty-seven percent of the executives are of the opinion that the employees are given average ratings regardless of their performance; 8 percent of them were partly satisfied with the statement; 10 percent of the executives were dissatisfied with the statement, whereas 15 percent of the respondents had no opinion on the statement.

My understanding on present PMS

Sixty-one percent of the executives had the opinion that the PMS is done in a time bound manner; 19 percent of them showed a mixed response; 18 percent of them were not in favor of this statement; and only 2 percent of the respondents had no opinion on the same.

Sixty-three percent of the executives believed that the ratings in the PMS are mostly subjective in nature; 17 percent of them partly favored this statement; 11 percent of the executives had a negative opinion on the statement; and 09 percent of them had no opinion on the statement.

Regarding the evaluation done is totally fair and just, 61 percent of the respondents had a positive response and 19 percent of them had a partly favorable opinion. At the same time around 17 percent of them had a negative response and 3 percent of them had no opinion on this statement.

Sixty-nine percent of the respondents believed that the evaluation is sometimes biased due to personal relations and only 10 percent of them had a negative response to this statement. Twenty percent of them were partly satisfied with the statement and only 01 percent of them had no opinion on the same.

When asked about the Online EAS as more streamlined and transparent, 60 percent of the

executives had a positive response to this statement and only 02 percent of them had a negative response. Thirty-two percent of them had a mixed response on the statement and 06 percent of them had no opinion on the statement.

About 65 percent of the executives felt satisfied about the existing Online Appraisal System and had the view that it is better than the offline system. Twenty-five percent of them were partly satisfied with this statement and 05 percent of them had a negative response to this statement and 05 percent of them had no opinion on the subject.

The statement regarding effective communication in the PMS, 65 percent of the executives were fully satisfied with the fact; 18 percent of them remained silent on the statement; 12 percent of them did not favor this statement; and 05 percent of them were partly satisfied with the statement.

Many executives were dissatisfied with PRP aligned with PMS. Forty percent of them believed that the PRP does not depend upon the appraisal ratings. Thirty percent of the respondents only favored this statement and 26 percent of them had a partly favorable response to this statement.

Around 60 percent of the executives felt that the PMS treats men and women equally and 30 percent of them were partly satisfied with the statement. At the same time, 05 percent of them had a negative response to the statement and 05 percent of them had no opinion on the statement.

When asked about the opinion regarding promotion is directly based on the appraisal ratings, 61 percent of them strongly favored this statement and 11 percent of them were dissatisfied with the same. Twenty percent of the executives were partly satisfied with the statement and 08 percent of them had no opinion on the statement.

As many as 61 percent of the executives had a positive reaction to the Bell curve approach of PMS and 25 percent of them had a negative reaction to the same. At the same time, 09 percent of them had a mixed response to the statement and 05 percent of them had no opinion on the same.

Learning and development opportunities

Sixty-one percent of the respondents felt that the executives are trained to make effective use of the PMS and 25 percent of them were partly satisfied with the statement. Eleven percent were dissatisfied and only 03 percent of them had no opinion on the statement.

Sixty-four percent of the respondents had the view that PMS should be linked with other HR interventions like competency modeling, training etc., whereas 10 percent of them had the opinion that no such linkage of PMS is required. Six percent of them partly favored this statement and 20 percent of them had no opinion on the statement.

Sixty-five percent of the executives felt that the PMS encourages continuous feedback between the appraiser and the appraisee, and 21 percent of them partly favored this statement. Ten percent of them shown their dissatisfaction regarding the same and 04 percent of them had no opinion on the statement.

Half of the target respondents were satisfied with the statement that working of the counseling and mentoring process should be a part of training and development of the employees. Twenty percent of them were partly in favor of the same. Eighteen percent of the respondents were having a negative response and 12 percent of them had no opinion on the statement.

Organizational effectiveness of PMS

Sixty-five percent of the respondents found the current PMS compatible with the organizational structure and 08 percent of them revealed that the current PMS is not compatible with the organizational structure. Likewise, 17 percent of the respondents had no opinion on this statement.

It is observed that around 64 percent of the executives believed that the PMS contributes remarkably in improving the company's productivity, whereas 14 percent of the executives believed that the PMS contributes to improve the company's productivity to some

extent only. At the same time, 15 percent of the respondents were dissatisfied with the statement and 07 percent of the executives had no opinion on the statement. Hence, PMS is contingent to productivity.

Out of the total respondents, around 65 percent of the executives are satisfied with the working of the PMS. Only 22 percent of the executives are partly satisfied with the overall working of the PMS. Thus, it can be

stated here that the present PMS is viewed positively and mostly accepted by the executives.

Out of the total lot of executives, 69 percent of them firmly believed that the PMS is a part of the overall organizational development system and 12 percent of them were not satisfied with the statement and 10 percent of them had no opinion on the statement.

Sixty-seven percent of the executives felt that the role of higher management is important in PMS and 11 percent of them had a negative response to this statement; 21 percent of them had a partly favorable response to this statement and only 01 percent of them had no opinion on the same.

Sixty-eight percent of the executives felt that succession planning plays a major role in PMS, whereas 10 percent of them felt that succession planning has nothing to do with the PMS. Seventeen percent of the respondents partly favored this statement and 05 percent of them had no opinion on the statement.

On implementation of ERP-SAP in PMS is concerned, 61 percent of the respondents had a favorable response and 25 percent of them had a partly favorable response. Nine percent of them had an unfavorable response and 05 percent of them had no opinion on the statement.

It is inferred from the discussion made above that the responses of the sample respondents are quite close and more toward a favorable side of PMS. In the context of the perceived use of performance appraisal as well as the desired use of appraisal, the finding of the present research shows that in manufacturing organizations the employed executive respondents perceive performance appraisal ratings for both administrative and developmental purpose. Further, the respondents have desired that the appraisal rating to be used more for developmental purposes. It may be because of the working together over years the opinion of the respondents have become identical and indicate a common line of thought. Based on the opinion survey and interpretation of the data, it was revealed from this study that most of the executives in manufacturing industries are under pressure. Proper communication should be made for reducing such apprehensions. The organizational management should extend vigorous training programs for the employees for boosting up their morale.

Managerial Implications

Performance management serves as a crucial strategic mechanism for organizations, with the potential to elevate them to high-performing status. However, if perceived merely as a routine and administrative function, its effectiveness diminishes, reducing its application to a mechanical and ritualistic process. Decotiis and Petit (1978) demonstrated that raters with a developmental orientation are more motivated to provide accurate and honest assessments within a Performance Management System (PMS). Therefore, a performance management process seen as a developmental tool can lead to a focused and effective appraisal aligned with the organization's business objectives (DeNisi & Pritchard, 2006). Such an outcome from performance management holds significant benefits for the organization. Consequently, the implications drawn from the findings of this research study are vital for the organization under examination.

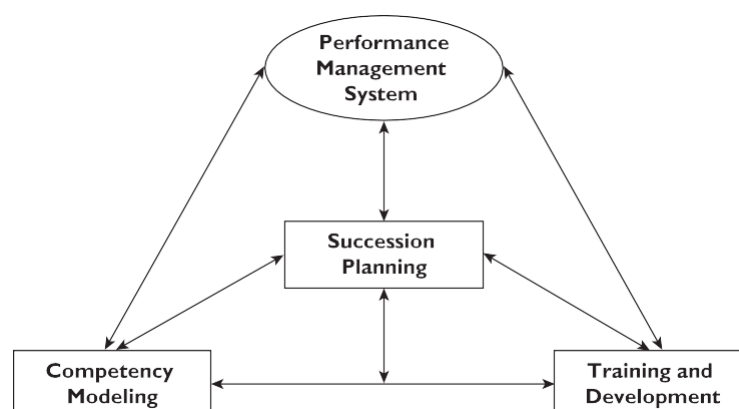


Fig 1: Proposed Trigonometric Model

To begin with, our study on Performance Management Systems (PMS) underscores the importance and sensitivity of this discipline, emphasizing the necessity for a thorough and scientifically sound approach.

Successful succession planning in any organization demands a seamless interconnection with three other proactive HR tools: (1) PMS, requiring a systematic and scientific cycle; (2) Competency Modeling, involving comprehensive modeling supported by necessary technological tools; and (3) Training and Development, necessitating an objective-oriented system.

We propose a model (Figure 1) that establishes a reciprocal trigonometric relationship between these three crucial dimensions: training and development, PMS, and competency modeling.

The journey toward effective performance management is often challenging, but incremental changes aligned with a long-term vision yield significant results. Acknowledging imperfections is crucial, as no individual or manufacturing industry is flawless. Therefore, continual improvement is always possible. Key elements for a successful PMS process include:

- Establishing a standardized method for setting goals aligned with the organization's HR philosophy, mission, vision, and core values.
- Transforming the satisfaction level of executives from "not satisfied and neutral" to "satisfied and highly satisfied."
- Making jobs more interesting and less routine.
- Applying focused and scientific methods for promotions, incorporating business process re-engineering and organizational restructuring.
- Enhancing the effectiveness of training and development through additional organizational development interventions.
- Ensuring executives understand the purpose and value of the overall PMS process in alignment with organizational objectives.
- Setting comprehensive goals for the organization, allowing sufficient scope for individual career goals.
- Cultivating a culture of mentorship and sponsorship for career development.
- Providing continuous reviews and feedback at least once each quarter, with clear expectations set vis-à-vis past results.
- Initiating the entire PMS process with performance planning before defining Key Performance Areas (KPAs).
- Ensuring the uninterrupted continuity of the PMS as an ongoing process.
- Gathering essential information before finalizing a PMS, including practices in other Public Sector Units (PSUs) or Multinational Corporations (MNCs).
- Placing increased focus on documentation and interpretation.
- Adequately preparing and training managers for key positions, aligning their career plans with the organization's success plan.
- Delivering objective reviews summarizing the effectiveness of ongoing processes.
- Formulating a policy to link PMS with other talent management processes such as competency modeling, entrepreneurship, and strategic leadership.
- Implementing an automated system to simplify tasks like reminders and follow-ups.
- Enhancing technology orientation in data warehousing and data mining for PMS, ensuring data security and ease of access.
- Engaging a team of experts to evaluate and streamline the PMS process for maximum participation.
- Making PMS more system/policy-driven and time-bound.
- Increasing transparency in PMS for executives to boost commitment and involvement.
- Considering the adoption of global and benchmark practices such as 360-degree appraisal and Behaviorally Anchored Rating Scales (BARS).

Organizations should leverage automation for cost and resource savings, optimizing performance management. The impact of technology and flexible work practices on organizational structures necessitates ongoing adaptation for work to be completed at acceptable service levels. While knowledge workers increasingly take charge of their own careers, collective performance coordination is vital. Clear communication of the organization's strategic and visionary objectives ensures everyone pulls in the same direction, fostering a

united and sustained performance, a challenging aspect for management.

5. Conclusion

Continuous feedback, comprehensive performance reviews, and appraisal for generating results. It emphasized that proper training and commitment alone do not guarantee success; these must be complemented by these essential elements.

Organizational effectiveness, measured through financial success and employee growth and satisfaction, holds paramount importance. The satisfaction and happiness of employees significantly impact an organization's overall health. Poor working conditions or unfair employee practices contribute to high turnover, job alienation, sabotage, tardiness, and absenteeism, leading to poor morale, lower productivity, quality issues, and reduced sales/profit. Maintaining a well-motivated workforce is a challenge for good managers, and an effective Performance Management System (PMS) emerges as a solution. The research findings suggest that the proposed performance appraisal management system would yield the desired results, as evidenced by the responses of the respondents.

In surveyed manufacturing organizations, the current use of performance appraisal ratings is perceived primarily for promotion, routine identification of training needs, and Performance-Related Pay (PRP). Categorizing the multiple uses of appraisal ratings, it becomes evident that performance appraisal systems in manufacturing organizations are more geared toward administrative purposes and relatively less toward development. While the appraisal formats are designed with a scope for employee development, the actual practice sometimes falls short of this purpose, creating a gap between intention and execution. In many Indian organizations, the appraisal systems may theoretically support both administrative and developmental purposes, but the link between appraisal data and various developmental programs is often lacking in practice. This gap may render the training needs assessment ritualistic rather than developmental, potentially leading to dissatisfaction. A sophisticated appraisal system, as suggested by Boswell and Boudreau (2000), serves as a means to realistically assess an employee's work, allowing them to propose measures for improvement in the final performance appraisal report. An appraisal conducted with a positive attitude and dedicated commitment toward organizational goals paves the way for the organization's growth and prosperity.

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