

**IMPACT OF EFFECTIVENESS OF PERFORMANCE  
MANAGEMENT SYSTEM ON EMPLOYEE SATISFACTION  
AND COMMITMENT**

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**Abstract**

Performance management system has become the backbone of any organization specifically in competitive industries like banking, pharmacy etc wherein increasing cut throat competition is new buzzword .and survival of the fittest has become the realities of the day. Poaching has emerged as latest employee recruitment strategy specifically in the today scenario wherein the banks end up paying 200% more than the previous company. The research paper therefore focuses on evaluation of effectiveness of performance management system and concurrently reviews both job satisfaction and organizational commitment. The present study therefore attempts to explore the relationship between effectiveness of performance management system and employee satisfaction and commitment. Models adopted from Allen and Meyers commitment scale and Minnesota scale of satisfaction has been used for checking the satisfaction and commitment level and factorial based questionnaire adopted from- Giller and Moss holder(1990);Brinkerhoff and Kant 1980;Cleveland, Murphy and William 1989has been used to check the effectiveness of performance management systems. The findings suggest that there is significant correlation between performance management system and satisfaction and moderate correlation between employee job satisfaction and commitment. Therefore to conclude we can have the finding that effective performance management system is only mantra to build the loyalty index of the employee to keep them happy as happy mind work best.

**Keywords:** Performance management system, efficacy, job satisfaction and organizational commitment

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## Introduction

Human capital management, encashing human assets these words have become parallel to the success of any organization. Performance management system is considered to be one of the strongest tools for developing human asset as it lays the foundation for training, promotion, career planning and competency mapping etc. Though many researches have been carried out for in the field performance management system very few of them actually relate to evaluation of its effectiveness. This paper therefore aims to study the same by linking it to employee job satisfaction and commitment the most vital concept of human capital management .To get the conceptual clarity for the same the literature review is presented which is done in following parts:

- **Performance management system,**
- **Efficacy of performance management system**
- **Employee job satisfaction**
- **Organization Commitment**
- **Relationship between performance management systems, Employee Job Satisfaction, Organization Commitment.**

### **Performance management system:**

Performance Management System (PMS) is defined as ‘strategic and integrated approach of conveying continued success to institutions by developing the people in a way that improves group and personal performance’ (Armstrong and Baron, 1998).Being the most important aspect performance management system is failing to deliver the expected result. (Armstrong, 2001). An increasing number of profit and nonprofit organization are turning towards PMS for their organizations in order to achieve better results and better psychosomatic outputs (Carpinetti et al. 2002; Chau, 2008; Lam, 2008;Lawrie et al., 2004; Luthans et al., 2008; Mwita, 2000;Reilly, 2003; Verbeeten, 2008; De-Waal, 2007). Beer and Ruh (1976) first coined the phrase performance management in 1976. Despite being, avant-garde approach there has been many difficulties in the proper implementation of the approach (De-Waal, 2007). PMS is impossible to be effective if focus is not given to performance driven behavior rigorously and managers acting as role models (De-Waal and Covert, 2007).. In order to deal effectively with the pressures and changes in the current environment, the organizations are seeking for effective management techniques (De-Waal, 2007)..

### **Evaluation of Performance Management efficacy:**

Performance management is one of the most widely research areas in industrial and organization psychology( Murhy And Cleveland 1991.Over 90% of the large organizations employ some or other kind of appraisal ( Locker & Teel 1998,Murphy & Cleveland 1991; Seldom, Ingraham & Jacobson 2001) the widespread use of the performance management can be attributed to the belief by many managers and human resource professionals that performance management is critically needed tool for effective human resource management and performance improvement( Longenecker& Goff,1992) .The assumption appears to be that an effectively designed

,implemented and administered performance management system can provide the organization, the manager and the employee with plethora of benefits( Cascio ,1987;Copens & Jenkins,2000)

The literature indicates that there are many factors to consider in the evaluation of performance management including employee attitudes towards variables such as perceptions of fairness. Bretz, Milkovich And Read (1992) indicate that the most important performance management issue faced by the organizations is the perceived fairness of the performance review their findings suggested that most employees perceive their performance management system as neither accurate nor fair. Skarlicki And Folger (1997) suggest that the appraisal process has become a source of extreme dissatisfaction when employees believe the system is biased, political and irrelevant. In general research indicates that perceptions of fairness arise from consideration of the outcomes (procedural fairness) and the way in which the decision making procedures were implemented and explained (interpersonal fairness).

### **Job Satisfaction**

Job satisfaction has been defined as a pleasurable emotional state resulting from the appraisal of one's job; an affective reaction to one's job; and an attitude towards one's job.

Job satisfaction is anchored in multiple theoretical frameworks regarding Organizational and motivational psychology (Green, 2000). Green concluded that there were several historical frameworks (Adams, 1963; Glisson&Durick, 1988; Herzberg, 1966; Maslow, 1954; Quarstein, McAfee, & Glassman, 1992; Vroom, 1964) and can be thought of as content theorists, process theorists, and situational theorists.

Content theorists (e.g.,Herzberg, 1966; Maslow, 1954) stated that need fulfillment leads to overall job satisfaction(Locke, 1976). Next, process theorists (e.g., Vroom, 1964; Adams, 1963) explained job satisfaction as the interaction between expectancies, values, and needs (Gruneberg, 1979).Finally, situational theorists (e.g., Glisson&Durick, 1988; Quarstein, McAfee, &Glassman, 1992) believed that job satisfaction is the interaction of the individual, job, and organizational variables (Hoy &Miskel, 1996).

### **Organization Commitment:**

Since the early 1960, study of commitment of an individual to his her organization have tried to understand organization commitment, it antecedent and its outcomes (e.gJaoras Et Al 1993,Mathew And Zajac, 1990, Mowdayetal-1982) .Across the study commitment has been defined in variety of ways .In one of the earliest definition Etzion(1961) defined commitment to organization as high level involvement .Modaday et al (1982) in their widely quoted work defined organization commitment as real strength of an individual identification with and involvement in particular organization .The most recent conception of commitment by Allen And Meyer (1990) is based on the review of various earlier conception. Allen and Meyer 1990 argued that difference between these conceptualization involve the psychological state reflected in commitment the antecedent condition reflected in its development and the behaviors that are expected to result from communication ( Allen And Meyer 1990)

## Relationship between Performance management, Organization commitment and Job Satisfaction.

Very limited literature is available depict the relationships between performance management system, Organizational Commitments, and Job Satisfaction. Overall theories on Organization Commitment, Organization Job Satisfaction and Performance management have been contributed mainly by scholars from the western developed countries. Consequently, the review of the literature exhibits that there is still room for penetrating in the above mentioned aspects of HRM .This research also reveals that objective and in-depth studies about issues surrounding performance management linking with the organizational commitment and job satisfaction are scarce and lacking.

The research was carried out in top three private banks i.e HDFC,ICICI,AXIS to check the effectiveness of performance management system and concurrently review the relationship of performance management system with employee job satisfaction and commitment. It is the intention of this research to fill in these gaps, at least partly, and to contribute to a better understanding of the employees' grievances and grudges alongside the materialization of vision and business mission which in turn are the basic pre-requisite norms for the effective performance management which would indirectly relate to the issue of job satisfaction and commitment The details of the research carried out is mentioned briefly below:

### Research Methodology

#### Objectives

- To Study the impact of Effectiveness Of Performance Management system on employee satisfaction
- To Study the impact of Effectiveness Of Performance Management system on employee commitment
- To study the impact of employee Satisfaction and commitment
- To study the satisfaction level of employees in the three leading private banks

#### Sampling frame:

Sample size = 90 respondents

Sampling Unit = Employees of banks HDFC,ICICI,AXIS

Collection method= Primary as well as secondary

Primary data: Using Questionnaire

Secondary: website, books.

Sampling technique: Convenience sampling

**Analysis Tool** = Statistical tools and Graphical presentation

**Statistical tools:** Mean, Regression and Correlation

### Hypothesis Formulation

H0: There is no significant Impact of effectiveness of performance management on satisfaction of employee

H1: There is a significant impact of effectiveness of Performance Management system on satisfaction of employee

H0: There is no significant Impact of effectiveness of performance management on Commitment of employee

H1: There is a significant impact of effectiveness of Performance Management system on commitment of employee

Ho: There is no significant impact of employee satisfaction on employee commitment level.

H1: There is a significant impact of employee commitment and satisfaction level

### Analysis and Interpretation Using Statistical tools

The questionnaire was collected from 90 employees of HDFC,AXIS,ICICI bank from Ahmedabad region . All the employees were in the age group between 25 to 35 and majority of them were males with female constitution as 20% only. Data can be presented as follows:

**Table 1: Regression table**

#### Regression

Independent variable	Performance management system	Performance Management system	Satisfaction
Dependent variable	Satisfaction	Commitment	Commitment
Significance value (P)	0.00	0.00	0.00
Level of significance( $\alpha$ )	0.05	0.05	0.05

From the output,

For all the cases  $P < \alpha$  so we cannot accept  $H_0$ .

We can say that there is significant impact of effectiveness of performance management system on employee satisfaction and effectiveness of performance management system on employee commitment. There is also a significant impact of employee satisfaction and commitment.

**Table 2: Correlation**

Independent variable	Dependent variable	correlation
Performance management system	Satisfaction	0.649
Performance Management system	Commitment	0.475
Satisfaction	Commitment	0.467

We can say that PMS and Satisfaction are highly correlated with each other, while there is a significant impact of PMS on commitment and Satisfaction on commitment but degree of association is moderate.

**Analysis and interpretation using graphical presentation**

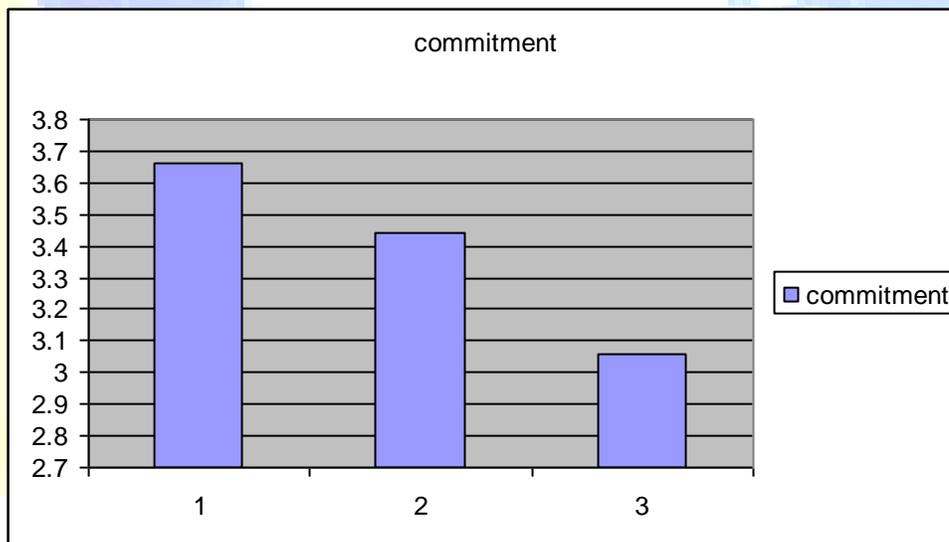
1. Age and satisfaction level

Age	satisfaction level	Frequency
1 (0-25 years)	3.758218126	7
2 (25-35 years)	3.878202765	62
3 (35 or more)	3.526260005	21
	Total	90



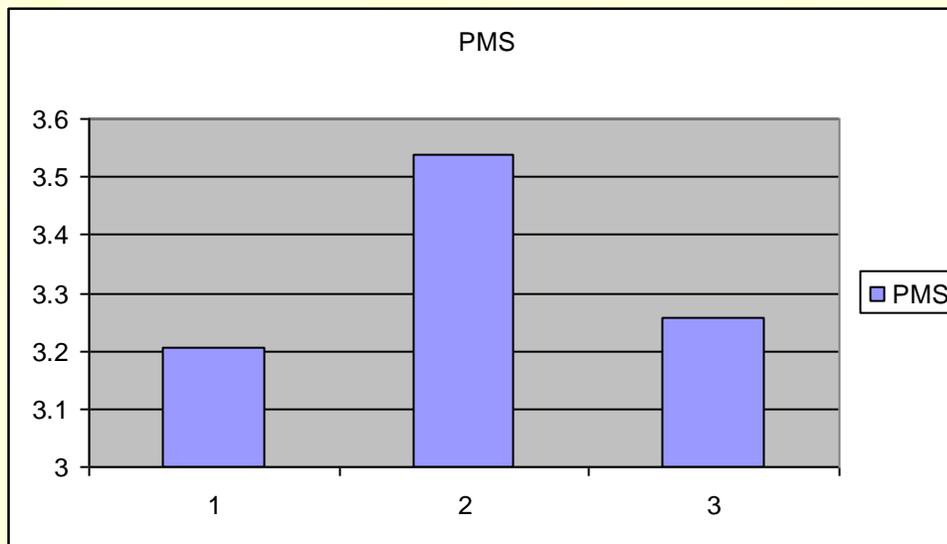
2. Age and commitment level

Age	age	commitment	Frequency
1 (0-25 years)	1	3.663865546	7
2 (25-35 years)	2	3.444023	62
3 (35 or more)	3	3.056022409	21
	Total		90



### 3.Age and PMS

Age	age	PMS	Frequency
1 (0-25 years)	1	3.207143	7
2 (25-35 years)	2	3.536694	62
3 (35 or more)	3	3.257143	21
		Total	90



#### Findings:

1. We can say that there is significant impact of effectiveness of performance management system on employee satisfaction and effectiveness of performance management system on employee commitment. There is also a significant impact of employee satisfaction and commitment
2. We can say that PMS and Satisfaction are highly correlated with each other, while there is a significant impact of PMS on commitment and Satisfaction on commitment but degree of association is moderate.

3. We can say that there is no major difference for the satisfaction level among people from different age group but mean and graphical presentation says that the people from age group 25-35 years is more satisfied.
4. There is no major differentiation as far as age is concerned on the level of effectiveness of performance management system and commitment.
5. Maximum commitment level is shown by the age group of 0-25 years and max effectiveness of performance management system is found in the age group of 25-25 years.

### **Conclusion & Recommendation.**

Findings of the study show that there is strong correlation between effectiveness of performance management system and employee satisfaction .There is moderate correlation between effective performance management system and employee organization commitment and moderate correlation between job satisfaction and employee commitment. Therefore the organization should focus on developing ways to make the performance management system effective as it will pave way for building the employee satisfaction .Commitment of an employee would increase by increasing the satisfaction level of employee but the proportional increase would not be there. Therefore we can recommend that the cure for all the management issues like high attrition, commitment and satisfaction can be enforcing ways to make the performance management system effective. It would not guarantee the success but certainly it would help to dissolve the issue of low satisfaction and commitment. Though Performance management system effectiveness is not the only source of making the employee satisfied but its considered to one of major factors affecting employee satisfaction.

### **Limitation and future research**

The sample size taken is very small and is concentrated to one geographical area therefore it may not be generalized. As performance management system is very confidential and sensitive issue the chances of biasness in the response of respondents are very high. The findings would be helpful to find out the factors which contribute to effectiveness of performance management system. The future research should therefore be based on testing the hypothetical relationship among the various factors influencing the effectiveness of performance management system and larger sample size from diverse geographical area should be taken for the study as it would bring the role of cultural differentiation in the effectiveness of employee satisfaction and commitment. Similar studies in the other industrial sectors are also advocated for future studies.

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