

Achieving Effective Performance Management Through Hr Systems and Performance Factors Linkage: in Perspective of Pakistani Banks

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Abstract: The last decade is counted as the boom phase for Pakistan's banking industry and still the said industry is on the track of boom growth. During boom growth period performance management system adopted by the banks remained a question mark for its effectiveness. This focus of the study is to find out the possible mix of strategies for the effectiveness of PMS by linkage with different sub-systems. For the study sample, employees working with different banks were questioned. This study first investigates the possible mix of HR and performance systems with PM for effectiveness. Multiple regression is used to ascertain the relationship among all and further affirmative hypothesis were evident.

Key words: Banking, HR system linkage, performance appraisal, performance factors

INTRODUCTION AND THEORY

Performance Management is counted as individual performance measurement or appraisal schemes (Kloot and Martin, 2000). Performance management is now the widely implemented and accepted phenomenon for accessing the individual performance or the performance related to specific teams. Perform or perish is now counted to be the most provoking slogan for the economies (Hindustan Times, 2001). Performance management is considered important for implementation of business strategies (Fredrik and Magnus, 2002) because it aligns the individual goals with business goals. Performance management is counted as an incessant process that identifies measures and further develops human performance in organizations (Srinivasa, 2007). The basic aim of Performance management is to set apart the levels of performance, validate the rewards and to promote employees accordingly (Grote, 1996).

This work is based on the study conducted by Srinivasa (2007) on different companies of India. Due to having many similarities in economic, social and organizational cultures same can be tested here. The current study is focused on the banking industry of Pakistan. The need for PM system in banks of Pakistan is there for several reasons i.e., firstly High Performance Work Systems are important for maintaining competitiveness and adequate performance management process can be defined through it (Cardy and Dobbins, 1994; Marquardt and Engel, 1993; Smither, 1998), secondly employees in sub-continent countries are not been engaged in the overall process of performance management by the managers (Mendonca and Kanungo,

1990; Virmani and Guptan, 1991). Paradigm shifts are evident in the banking industry of Pakistan in last decade. Mushroom growth proclaimed for the boom of this industry in Pakistan in last decade. Expansion on a large scale requires benchmarking within organizations, improved standards in contrast with local competition on horizontal level. Banks have to monitor the key performance measures to be in the best line.

With recent privatization and restrained regulations the Pakistani banking industry has to undergo transformation in their HRM policies. To have higher level of organizational performance large array of management reforms are to be deployed (Richard and George, 2006). For nourishment transformational actions were taken in this sector related to different areas of HR. The intensity of managers being engaged in strategic planning for implementation of performance factors would depend on managerial, environmental and organizational factors (Willie and Shirley, 1997). The effects of these factors are evident through many studies (Cragg and King, 1988; Gable and Topol, 1987; Kallman and Shapiro, 1978; Orpen, 1985; Robinson *et al.*, 1984; Unni, 1981; Watts and Ormsby, 1990). With increasing expectations of customers the banks have to constantly innovate to stay in market and to create the value for their customers. Therefore, the focus for achieving these levels of competitiveness the banks have to motivate and reward their employees for success.

Performance management comprises of three main processes-Planning, improving and reviewing (Bredrup and Bredrup, 1995) or planning, managing and appraising (Guinn, 1987) and can be implemented organization wide (Mabey and Salaman, 1995). Skimmed points of these

studies tell that involvement and participation are key to performance management and the line managers have a particular part to play as key party. Some tools have been developed for measuring the performance within organization like statistical tools (Wilcox and Bourne, 2003).

(Farr, 1993) 'Informal or day-to-day feedback is more important than feedback that occurs during the annual or semi-annual performance appraisal session in terms of its impact on work performance and attitudes.' Regular feedback makes organization more ally with performance standards between employees and organization (Taylor *et al.*, 1984).

Participation is positively associated with performance appraisal outcomes (Cawley *et al.*, 1998). In saturated banking industry of Pakistan having effects of bureaucratic structure prevailing the participation of employees is not much valued. Annual appraisal system is used by management to control or threaten in bureaucratic structures (Barlow, 1989; Newton and Findlay, 1996; Townley, 1993). The need for this study is due to the reason that banking industry of Pakistan got a rapid uplift and still is enjoying much of it. Alongside this banking industry was previously a nationalized industry and due to that regime of nationalized organizational structure much is to be done. Bureaucratic cultures do prevail in industry due to which the appraisals are counted as yearly exercise having no impact. Although privatized banks are now on the track and have introduced much complying PM systems. Still, the effectiveness of these systems is a question mark and is needed to be critically analysed.

In a much passive way the performance management system is counted as a tool for threatening the subordinates or to have administrative upper hand, on the other hand the appraisers have much autonomy in their hands to decide the appraisal in their own way. Armstrong and Baron (1998) assert that performance appraisal too often degenerates into a 'dishonest annual ritual', thus causing much difficulty in implementation of true and fair performance appraisal system. These sorts of views do prevail in current scenario and needed to be addressed, because if discriminating PM systems would prevail, then ultimately the upfront Human Resource Capital will drain out.

Hypotheses: As being evident form precedent literature, much of the studies were done with the view of finding out the factors associated with performance appraisal systems. The study conducted by Srinivasa (2007) was aimed at to ascertain the effectiveness of PA system rather than focusing on factors. Same study is deployed here for Pakistani banks, because in Pakistan banks are much diversified in nature and has much complex structures.

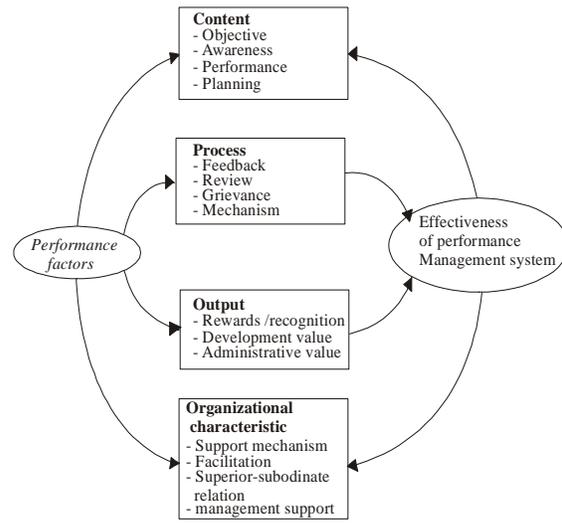


Fig. 1: Frame work for H₁

In organization of sub-continent the performance management is counted to be a difficult issue (Mendonca and Kanungo, 1990), beside counted as difficult issue to address it is essential for HR functions in the sector i.e., developmental aspects (training and development of employees) and evaluation aspects (pay and reward structure). This study first deals with the factors associated with effectiveness of performance management system including Process components (feedback mechanisms, implementation of appraisals); output components (rewards, development aspects for employees, administrative issues in appraisals); content components (planning, objectives, awareness, planning); organizational characteristics components (structure, mechanism of evaluation, facilitation in whole process etc).

This hypothesis statement would test the effectiveness of performance management system in organizations by using performance factors. Factors are more likely to be the same as in the parent study and would be deployed here to test in banking industry of Pakistan.

H1: Performance factors (awareness, planning, feedback, system support) influence the effectiveness of performance management system in Pakistani banks (Fig. 1).

In the economy, having high power distances hierarchical relations and gap in management communication causes hurdles in inculcating performance culture in banks. Many authors suggest that by linking performance management with HR sub-systems (career planning, reward mechanism etc) would help to study the effectiveness of performance management system in contrast of appraisers and appraises. In sub-continent

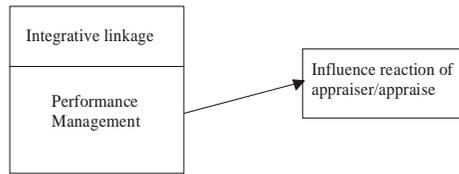


Fig. 2: Frame work for H₂

economies the managers generally favour centralized decisions with tight controls (Hickson and Pugh, 1995; Kakar, 1971) and institution are over-whelmed with personalized leadership rather than organization arrangements (Virmani and Guptan, 1991).

This hypothesis is formulated to identify the set of organizational characteristics that would influence the performance management implementation in banking sector in context of HR sub-systems because the HR Sub-Systems stands as key for linkage of performance management measures.

H2: Linkage of performance management system with HR subsystems (Career planning, reward structure and support systems etc.) influences reactions of appraiser and appraises in context of implementation of performance management systems (Fig. 2).

In sub-continent most of firms deploy performance review methods for managers and employees depending on the structure, but ultimately the purpose may differ among all process and firms (Virmani and Guptan, 1991). In banks due to saturated structures these systems may be used in different ways and perspectives, but the main aim would remain in line. For the effective allocation of resources and to motivate the employees and provoke them for more reward the use of performance management system both at developmental level and evaluation level is always useful. The use of these kinds of actions and plans are consistent with strategic HRM system (Osterman, 1992).

Although the cultural effects remain common in Pakistani banks, but the differences in bank's approach of performance management deployment depicts the use of different practices of performance management among banks. Pakistani banks are greatly influenced by their prior public entity status. Therefore they use professionals for their HRM functions. Hence, they use performance management process as informational source for development and evaluation, although the managers keep the results confidential from employees and usually don't discuss it with the employees.

H3: Managers are more likely to use performance appraisal systems for administrative purposes than for developmental purposes.

METHODOLOGY

For the research detailed questionnaire consisting of 38 items as were previously used by (Srinivasa, 2007) was used for the different banks of Pakistan (Table 1). Few questions were removed after pilot testing and discussing them with researchers to comply with current study. The sample size was 300 for the study. Random sampling method was used. The sampling was done on the basis of size of the bank.

Measures: For the purpose of research four independent variables, i.e., content variables, process variables, output variables and organizational characteristic variables were used. For regression analysis and for interpretation of relation ship of effectiveness of the system on dependent variable was deployed i.e., effectiveness. Detailed questionnaire consisting of 38 items was used for the study. The first section of the instrument consisted of different demographic details and statements related to performance management. Rest of the questions related to variables were measured using five-point response scale with scale anchors "Strongly Agree" and "Strongly Disagree".

Analysis: For quantitative analysis, SPSS 16 was used. As the data consisted to single dependent variable and multiple independent variables therefore multiple regression was deployed.

RESULTS AND FINDINGS

Table 1 shows depicts the mean and standard deviation values of the items used for the study. Items represented above were used as questionnaire and the results of the same are given above. The overall picture of all the items pertaining to different variables shows some what closeness to neutral status of the response. Organizational characteristics variable shows more strength towards agreeeness as compared to other variables. But still is not counted that much tilting towards agreeeness. The overall naturalness of the response is the picture of presence of lags in the overall process including communication of performance standards, feedback mechanism and trust of employees on the productive use of the system.

The Table 1 is used here to show the dimensions and the results further would be explained in hypothesis confirmation/deny section of results.

Table 2 casts the different values of the data obtained by adding a depending variable to it and multiple regression was used to quantify the same. Co-efficient values show the beta of all variables in contrast to

Table 1: Result of the items used for the study

	Mean	S.D
Content component variable	-3.32	-
Company communicate objectives	3.05	1.066
Communication by superiors	3.50	0.671
Alignment of performance with business objectives	3.87	1.048
Considering the views of appraises in goal setting	2.68	0.653
Clear-cut performance standards	3.24	0.937
Adequate opportunity regarding hindering/helping factors	3.34	0.874
Specific feedback to appraises	2.80	0.499
Laying down clear roles to appraises	4.06	0.547
Process component variable	-3.12	-
Well written KRA (Key responsibility area)/goals	3.65	0.803
Setting specific and measurable goals to appraises	2.95	0.437
Best use of appraises' skills and abilities	2.66	0.611
Conducting analytical and objectives performance reviews	3.95	0.548
Giving honest performance feedback during review	2.97	0.572
Appreciating subordinates for genuine objections	3.26	0.735
Genuine objections will improve superiors; performance	2.43	0.526
Output component variable	-3.23	-
Merit pay is linked to individual performance	3.13	1.024
Variable pay component makes distinction	2.57	0.674
High potential employees being retained through rewards	3.09	0.953
Use of performance appraisal data in rewards/recognition	3.03	1.012
Use of performance appraisal data in administration/transfers	3.80	0.567
Use of performance appraisal data for disciplinary action	3.32	0.662
Existing reward system is a good motivational tool	2.96	0.507
PA data to reveal individual's strengths and weaknesses	3.41	0.831
PA data to help individuals' performance	3.60	0.686
Use of performance appraisal data for career planning	3.95	0.548
PMS is implemented with development focus	2.68	0.697
Organizational characteristic variable	-3.40	-
PA process to assert superiors' authority	4.29	0.696
Discussing all issues during performance review	3.01	0.462
Giving specific examples during review meeting	3.96	0.690
Performance feedback helpful in subordinate's performance	3.57	0.738
Getting good support from superiors to perform effectively	2.88	0.623
Management is taking care in individuals' career aspirations	3.48	0.640
Management is most concerned about human capital	2.68	0.669
Extending full support to subordinates in smooth functioning	3.50	0.656
Reasonable performance standards being set in the organization	2.90	0.594
Setting high performance standards is a good motivational tool	3.62	0.964
Management makes efforts in smooth implementation of PMS	3.90	0.683
Effective implementation improves company's performance	2.86	0.550

Table 2: Result obtained by adding a depending variable.

Constant	IV1	IV2	IV3	IV4	R ²	F
3.369	0.621	-0.697	0.453	-0.368	0.663	76.287
(0.645)	(0.090)	(0.117)	(0.093)	(0.120)		
[5.522]	[6.870]	[-5.938]	[4.855]	[-3.056]		
0.000	0.000	0.000	0.000	0.003		

Co-efficient, standard error (parenthesis), t-value (brackets) and p-value/sig. (in italic)

dependent variable. As per β two variables i.e., content component and output component variable shows positive relation with dependent variable. This positive relation shows that content wise clarity would invariably made the performance system more effective. Along side output variable of rewarding employees and working for their growth through PMS would made it more enchanting and effective. Like wise on vice versa ladder the variables (process component and organizational characteristics) haven't been counted as for effectiveness of the said system. This negative relation is possibly due to lack of trust of employees on the overall evaluation process and

organizational structural lags. This situation is further confirmed through t-values as two positive variables (i.e., content component and output component) show a strong positive relation with dependent variable, while rest two shows a negative relation.

CONCLUSION AND RECOMMENDATIONS

Hypothesis 1: The first hypothesis of the study regarding the influence of performance factors on organizational performance is confirmed as R Square value shows 66% impact of independent variables on dependent one. The

factors like feedback review, grievance mechanism etc affirms the hypothesis and gives a much clear picture that if the overall performance factors are deployed in well dressed manner then fruitful results pertaining to PMS would be evident.

Hypothesis 2: Linkage of performance management with HR systems would influence the reaction of appraises. This hypothesis is also confirmed as the output component variable shows much tenderness of employees towards agreeeness, that if rewards and development is linked to performance along side other critical HR issues, then they would work more efficiently and their reactions would be changed. Further more as PMS is counted to be a part of HR, therefore if other HR functions related to employees rights and obligation are fully deployed then PMS would be effective also.

Hypothesis 3: Third hypothesis stands as the basis for the Pakistani environment because Pakistani banks have passed through a wide spread era of nationalization and have undergone bureaucratic structure. Therefore, normally the performance related issues are counted as a stick used by managers to threaten the employees. Like wise in organizational characteristics, the dimension i.e., PA process to assert superiors authority, is showing the highest means value towards agreeeness. Still PA is counted as an annual exercise and for effective implementation of PA systems banks are facing much problems. With the privatization and induction of foreign banks, transformational measures are evident and banks are moving towards the implementation of PM in effective way. But still nationalized part of this sector is having a big question mark regarding their PMS.

LIMITATIONS

This study focuses on the effective implementation of the PM systems for Pakistani banks. Keeping view the diversified structure and hindrances, study is needed with the focus of ascertaining that what factors would make the PMS of Pakistani banks more fruitful.

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