

# The Impact of Performance Management System on Employee Performance

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## ABSTRACT

The aim of this master thesis is to define performance management system, employee performance and employee performance measurement, and also analyze the relationship between performance management system with employee performance. The data was analyzed in order to test the impact of performance management system on employee performance by using a package STATA for windows. The Kruskal-Wallis test and Ordered logit regression were used to test the relationship and the results show the activities: continuous communication within organization and personnel development impact significantly and positively on employee performance. However, the results show that the performance management system has a positive but insignificant relationship with employee performance

## 1. Introduction to this Thesis

### 1.1 Introduction

#### Objective of the study

This study focuses on analyzing and exploring the impact of performance management system on employee performance. According to Chan and Lynn (1991), the organizational performance criteria should include profitability, productivity, marketing effectiveness, customer satisfaction, but also employee morale. In this perspective, employee performance is tightly related to organizational performance, effective and efficient employee performance will positively influence organizational performance.

#### Scope of the study

On the other view, Millar (2007) built a framework of talent management which consists of planning, recruiting, performance, learning, career development, succession planning, compensation, and measuring and reporting. In order to organize a company effectively, companies must rethink how they hire, train and reward their employees; therefore, the employees could be encouraged to be competitive. Undoubtedly, there is an important factor is human in organizations. One of the main management strategies of the organizations is to invest in employees. Organizations are seeking to develop, motivate and increase the performance of their employees in a variety of human resources applications (Gungor, 2011). Thus, performance management should be an important step in the organization's HRM system and influences employee performance and then to organizational performance.

Performance management is a process for ensuring employees focus on their work in ways that contribute to achieving the organization's mission is indispensable for a business organization. Actually, performance management includes various types or system. Performance management system is a kind of performance management forms. Supervisors and managers are responsible for managing the performance of their employees. Each organization's policy should specify how the performance management system will be carried out. Organizations should adopt performance management practices that are consistent with the requirements of this policy and that best fit the nature of the work performed and the mission of the organization.

## 2. Literature review

In order to answer these questions, I need to do a literature review which is a body of text that aims to review the critical points of current knowledge including substantive findings as well as theoretical and methodological contributions to a particular topic. Initially, in 2.1 I will introduce the definition about performance management, and 2.2 is the literature review about performance management system which is made up of three stages: developing and planning performance, managing and reviewing performance and rewarding performance. Then, there will be an extensive literature review about employee performance and measurement, also the nature of relationship between each stage in performance management system and employee performance.

### 2.1 Performance management

The study of performance management has been popular within human resource management study. I attempt to define performance, as deploying and managing the components of the causal model that lead to the timely attainment of stated objectives within constraints specific to the firm and to the situation (Lebas, 1995). At an organizational level of analysis I assume that an organization that is performing well is one that is successfully attaining its objectives; in other words, one that is effectively implementing an appropriate strategy (Otley, 1999). The AMO-model

According to Fletcher (2001), who gave a completed and comprehensive HR related performance management definition which is “an approach to creating a shared vision of the purpose and aims of the organization, helping each individual employee understand and recognize their part in contributing to them, and in so doing manage and enhance the performance of both the individual and the organization”. Similarly, performance management is a management process for ensuring employees is focusing on their work efforts in ways that contribute to achieving the organization's mission. It consists of three phases: (a) setting expectations for employee performance,

The similarities of general performance management and HR related performance management are the goal setting, planning, evaluation, feedback and rewarding activities. However, the HR related performance management focus on the management of employee or managers, then motivating employees and managers. Moreover, general performance management was defined more widely than HR related performance management. It considers the definition of goals and the measurement of goal attainment) not just financially but also in terms of meeting all stakeholder aspirations.

HR-performance management aims at developing potential capabilities of human resource. The performance management must be in line with the company's long-term policies (Kandula, 2006). Performance management involves managing employee efforts, based on measured performance outcomes. Therefore, determining what constitutes good performance and how the different aspects of high performance can be measured is critical to the design of an effective performance management process. And performance management effectiveness increases when there is ongoing feedback, behavior-based measures are used and preset goals and trained raters are employed (Lawler, 2003).

### 2.2 Performance management system

In different literature, there are various models of performance management. Each model has its importance as a

system for managing organizational performance, managing employee performance, and for integrating the management of organizational and employee performance. Performance management involves multiple levels of analysis, and is clearly linked to the topics studied in strategic HRM as well as performance appraisal. Different terms refer to performance management initiatives in organizations, for example, performance-based budgeting, pay-for-performance, planning, programming and budgeting, and management by objectives (Heinrich, 2002). A performance management system, according to Rudman (2003), is increasingly seen as a means of integrating HRM activities with the business objectives of the organization, where management and HR activities. Besides, he also stressed that the performance management system must fit with the organization's culture. Performance management system is a kind of completed and integrated cycle for performance management. The emphasis of performance management systems is on continuously improving organizational performance, and this is achieved through improved individual employee performance (Macky & Johnson, 2000). Similarly, from the suggestion of Lawler (2003), the objectives often include motivating performance, helping individuals develop their skills, building a performance culture, determining who should be promoted, eliminating individuals who are poor performers, and helping implement business strategies. The main **purpose** of the performance management system is to ensure that:

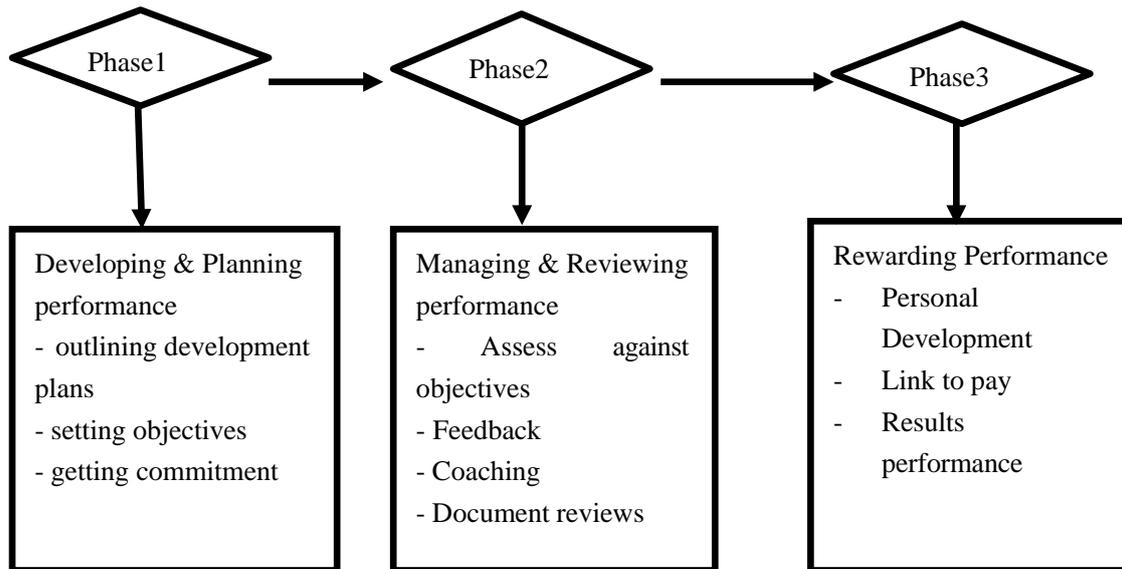
1. The work performed by employees accomplishes the work of the company;
2. Employees have a clear understanding of the quality and quantity of work expected from them;
3. Employees receive ongoing information about how effectively they are performing relative to expectations;
4. Awards and salary increases based on employee performance are distributed accordingly;
5. Opportunities for employee development are identified; and
6. Employee performance that does not meet expectations is addressed

Developing a performance management system is essential for an organization. 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.

### **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. Figure 2.1 below shows the contents of three phases according Schneier, Beatty and Baird (1987).

Figure2.1: Performance Management System



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

From above figure and according to Schneier, Beatty and Baird (1987), the performance management system consists of three phases: developing and planning performance is the Phase 1 which includes outlining development plans, setting objectives and getting commitment activities; managing and reviewing performance is the Phase 2 which includes assessing against objectives, seeking feedback, coaching and document reviews activities; rewarding performance is the last phase which has personal development, results of performance and link to pay activities. In the last chapter, I introduced the performance management system definition from Fletcher. He 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, I would combine the definition of performance management system from Macky, Johnson, Fletcher and Schneier. Clear and detailed employee performance objectives play a crucial role in strategic goals. Then, the managing performance activities like seeking feedback and coaching, also evaluation and rewarding are included in the theories of both authors. In addition to this, according to Fletcher (1996), I would analysis the continuous communication activity in the managing performance phase as well. The reason why I concluded communication activity in the performance system is that communication between managers and employees and communication within employees could make employees understand the objectives and make managers supervise the progress of daily work. Next, the details and contents in each phase would be introduced and discussed adequately.

Phase1: Developing and planning performance

Planning is 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**

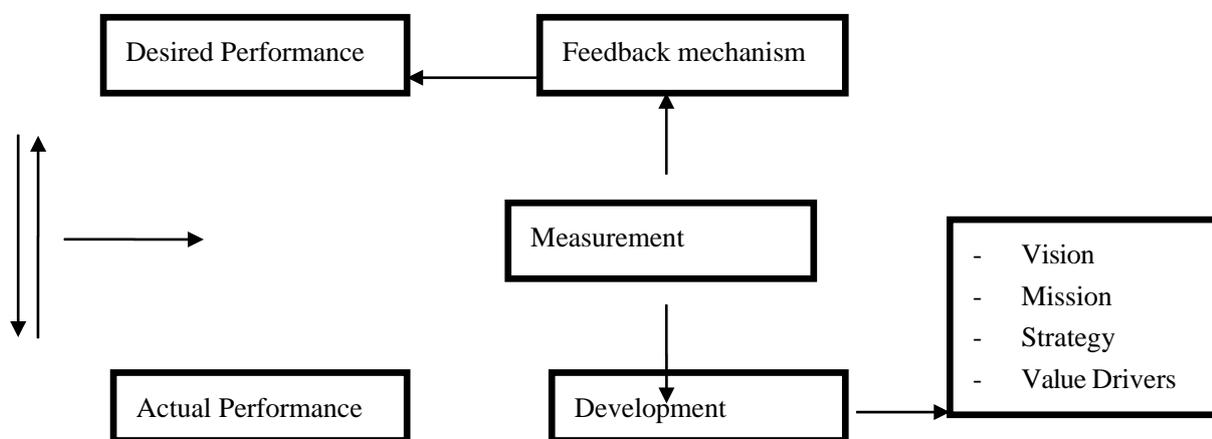
Managing performance is the second element of the performance management system cycle. This step distinguishes performance management as a process from performance appraisal as an activity (Schneier et al., 1987). According to Schneier et al. (1987), every employee is responsible for managing his or 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.

Amrstrong 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. Figure 2.2 shows the structure of performance comparing according to the view of Ashford and Cummings (1983).

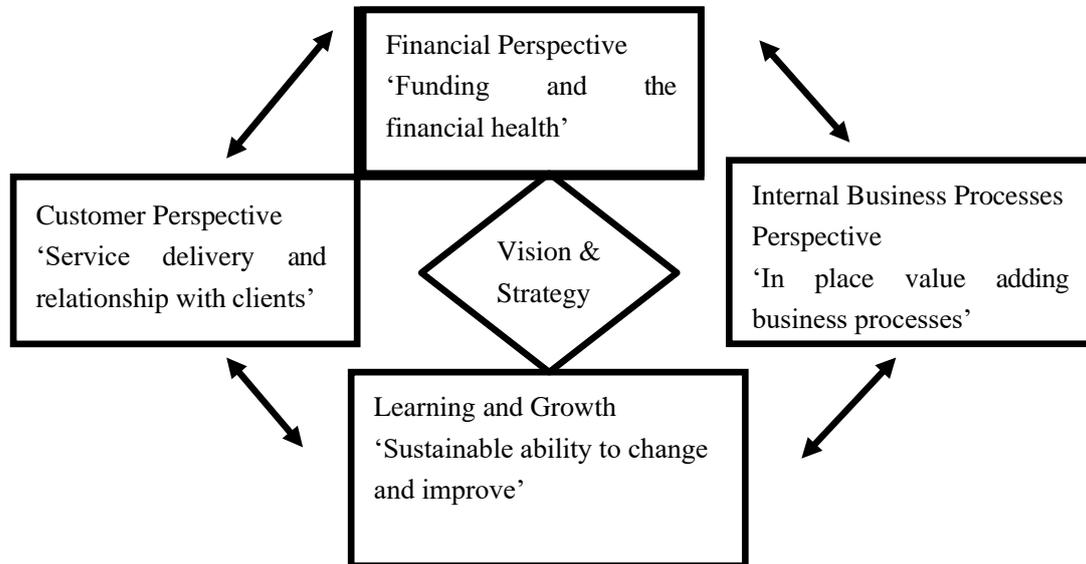
Figure 2.2: Performance Comparing



Source: Ashford, S.J. and Cummings, L.L. (1983), "Feedback as an individual resource: personnel strategies of creating information", *Organizational Behavior and Human Performance*, Vol. 32, pp. 370-98.

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.

Figure 2.3: A Balanced Scorecard to evaluate performance



Source: Huang, C.D. & Hu, Q. 2007. Achieving IT-business strategic alignment via enterprisewide implementation of balanced scorecards. *Information Systems Management*, 24:173-184.

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.

### 2.3. 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.

### 2.3.1 Employee performance measurement

The concepts of performance are studied through evaluation of overall performance and the management of the performance and the evaluation of performance is the process classifying certain outcomes within a definite timeframe (Coens & Jenkins, 2002). Moreover, the axiom, 'If you can't measure it, you can't manage it,' underpins the rationale for organization having a completed and comprehensive performance measurement system such as the Balanced Scorecard or total quality performance management. This approach connects measures throughout an organization to translate high level objectives into lower level activities. Then, measures are imposed on individual employees to monitor their performance of these activities (Platts & Sobotka, 2010). Performance criteria need to be unambiguous, clearly explained, relevant to the work tasks undertaken by employees and achievable. The criteria should not include factors beyond the control of the individual employee. Supervisors also need to be trained to provide regular, meaningful and constructive feedback. Employees should also be provided with appropriate training and development opportunities to overcome weaknesses in performance identified through the appraisal process. The assessment of individual employee performance also needs to focus on evaluating employee behavior and work performance and not the personality of the employee (O' Donnell & O' Brien, 1999).

According to Huselid (1995), employees within firms contribute for organizational performance and HRM practices can affect individual employee performance through their influence over employees' skills and motivation and through organizational structures that allow employees to improve how their jobs are performed. Also, he used labor turnover, productivity as employee performance measurement when he test the influence of HRM practices on employee performance. Labor turnover is the rate at which an employer gains and losses employees. Arnold and Feldman (1982) concluded that perceptions of job security, the presence of a union, compensation level, job satisfaction, organizational tenure, demographic variables such as age, gender, education, and number of dependents, organizational commitment, whether a job meets an individual's expectations, and the expressed intention to search for another job were all predictive of employee's leaving, and Sheridan (1992) also concluded that perceptions of organizational culture influenced turnover. Job dissatisfaction could cause employees to leave once they have reached decisions on the desirability of movement and the perceived ease of movement (March and Simon,

1958). Prior to leaving the organization, individuals experiencing job dissatisfaction explore job alternatives and evaluate these in terms of their expected utility (Mobley, 1977). The traditional approach therefore views voluntary separation as a consequence of low job satisfaction combined with alternative labor market opportunities that are subjectively perceived as having higher utility and relative ease of movement to alternative

employment (Price, 1977). In order to avoid job dissatisfaction, employees need adequate remuneration, job security and comfortable working conditions (Jonathan, 2004).

In Bhatti (2007) and Qureshi's (2007) perspectives, productivity is a performance measure encompassing both efficiency and effectiveness. Labor productivity means the output of workers per unit of time which is a commonly used and straightforward measure of productivity. The growth rate of labor productivity is approximately equal to the difference between the growth rate of output and the growth rate of the number of hours worked in the economy (Christopher Gust& Jaime Marquez, 2004). High performing, effective organizations have a culture that encourages employee involvement. Therefore, employees are more willing to get involved in decision-making, goal setting or problem solving activities, which subsequently result in higher employee performance. Moreover, labor productivity also could be impact by continuing information technology innovations which has the potential of changing the competitive game for many organizations (Mukhopadhyay, Javier Lerch& Mangal, 1994). If employee output is produced by two factors, labor and capital, then the growth of labor productivity depends upon the rate of 'capital deepening' and the growth of 'multifactor productivity' (Christopher Gust& Jaime Marquez, 2004). Capital deepening refers to a rise in the ratio of capital to labor, that is, an increase in the amount of capital which includes machines, structures, and infrastructure. For a given level of technology, capital deepening raises workers' ability to produce more output with the same level of effort. Increases in multifactor productivity may reflect advances in technology, but they may also reflect any other developments that result in greater efficiency, such as reorganization of tasks in a firm or improvements in distribution channels used to deliver goods and services.

2.4. The relationship between Performance management system between employee performance

#### 2.4.1 Developing and Planning--Mission and individual objectives

The first stage of performance management system is developing and planning. In this stage, business needs to set up mission and objectives, and then clarify the individual responsibility and duty. A mission is an organization's character, identity, and reason for existence. It can be divided into four inter-relating parts: purpose, strategy, behavior standards and values. Purpose addresses why an organization is in being; strategy considers the nature of the business; behavior standards are the norms and rules of 'the way we do things around here'; values are the beliefs and moral principles that lie behind the behavior standards, beliefs that have normally been formulated within the organization by a founding dynasty or a dominant management team (Campbell and Yeung, 1991). In order to maximize performance, organizations focus on the efforts of the organization on explicit, challenging and realistic aims and objectives. A clear mission answer the question: what business should the company be in, and it should be the guide line for employees and managers behavior and performance. Campbell and Yeung (1991a) refer to as creating a sense of mission--that is, employee's personal commitment to the organization's mission. There are two simple views on the purpose of the mission statement: one is that it is primarily for external public relations and the other is that it is to motivate staff within the company (Klemm, Sanderson&Luffman, 1991). A simple explanation of motivation is the capability to change behavior. Motivation is also a drive that holds one to act because human behavior is directed toward some goal. Grant (2008) established a study where motivation enforced the employee outcomes such as persistence, productivity and performance. Besides, motivated employees are found to be more self-driven and more autonomy-oriented than those who are less motivated (e.g. Ryan and Deci, 2000; Thomas, 2002, as cited in Grant, 2008), which suggests that they will take more responsibility when offered developmental opportunities. On the other hand, motivated employees are also more engaged and involved with their jobs (e.g. Guay et al., 2000; Vansteenkiste et al., 2007); they may be more involved in the work of their colleagues, when compared with employees with low motivation.

The organization still sets individual performance management targets which related both to operating-unit and wider organizational objectives (Bevan and Thompson, 1991). According to Costello (1994), performance

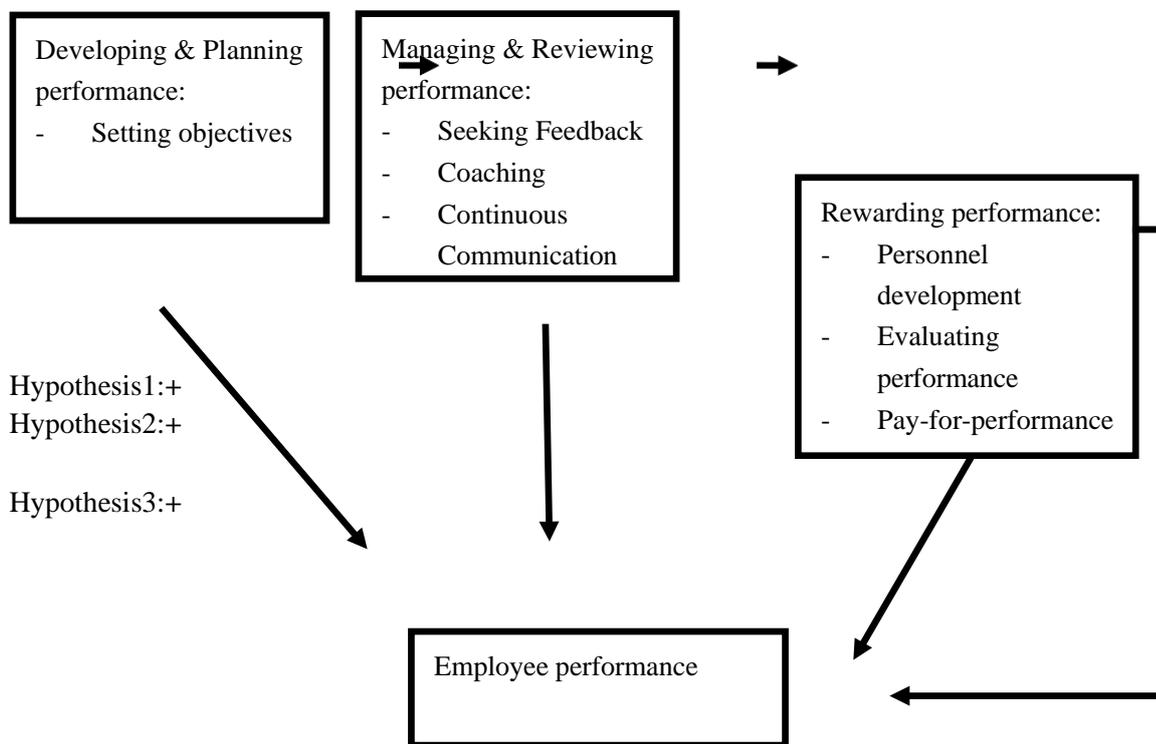
management supports a company's or organization's overall business goals by linking the work of each individual employee or manager to the overall mission of the work unit. Individual targets or responsibilities could be the mechanism to enable the performance of individuals within the organization to be aligned with the mission statement and the way of adjusting performance requirements to meet new challenges which may arise.

In the first stage, the most important thing of developing and planning performance is setting mission and objectives. Mission and objectives could motivate employees to act by the directions; therefore, motivated employees are more engaged and involved with their jobs. Moreover, motivated employees are found to be more self-driven and more autonomy-oriented. Therefore, I set up the first hypothesis:

Hypothesis 1: Developing and Planning phase will lead to better employee performance.

Hypothesis 1a: Having set objectives in organization will lead to better employee performance.

Figure 3.1: Research Model



Hypothesis4+

### 3. Methodology of the study

The research strategy is based on quantitative research. According to Babbie (2010), quantitative research can be described as involving a collection of numerical data and as presenting a view of the relationship between theory and research as a deductive and objectivist conception of social reality, with a preference for a mutual science approach.

#### 3.1 Introduction of Dataset

The research is based on secondary data analysis of the 2004 Workplace Employment Relations Survey (2004). According to Babbie (2010), secondary analysis is a form of research in which the data collected and processed by one researcher are reanalyzed--often for a different purpose--by another. This is especially appropriate in the case of survey data. The 2004 Workplace Employment Relations Survey (**WERS 2004**) is the fifth in a series of surveys and is the latest such survey in the series that aims to provide a nationally representative account of the state of employment relations and working life inside British workplaces. According to Babbie (2010), survey research in general offers advantages in terms of economy, the amount of data that can be collected, and the chance to sample a large population. The standardization of the data collected represents another special strength of survey research. On the other hand, survey research has several weaknesses: it is somewhat artificial, potentially superficial, and relatively inflexible. Using surveys to gain a full sense of social processes in their natural settings is difficult. In general, survey research is comparatively weak on validity and strong on reliability. Surveys include the use of a questionnaire--an instrument specifically designed to elicit information that will be useful for analysis. Questionnaires are used primarily in survey research and include open-ended questions which the respondents are asked to provide his or her answers and close-ended questions which the respondents are asked to select an answer from

among a list provided by the researcher. In WERS 2004, a majority of questions are close-ended questions. Moreover, WERS 2004 is a computer aided personal interview (CAPI) which is a computer assisted data collection method for replacing paper-and-pen methods of survey data collection and usually conducted at the home or business of the respondent using a portable personal computer such as a notebook. Around 2,300 workplaces, 1,000 employee representatives and 22,500 employees took part in the 2004 Cross-section Survey. Response rates of 64 per cent for the Cross-section's main management interview give a clear indication of the quality of the resultant data.

The purpose of each survey in the series has been to provide large-scale, systematic and dispassionate evidence about numerous aspects of employment relations across almost every sector of the economy in Britain. The Cross-Section interview with employee representatives contains questions on: structure of representation at the workplace, time spent on representative duties, means of communication with employees, incidence of negotiation and consultation over pay and other matters, involvement in redundancies, discipline and grievance matters, incidence of collective disputes and industrial action, relations with managers, union recruitment. The Cross-Section questionnaire for employees contains questions on: working hours, job influence, job satisfaction, working arrangements, training and skills, information and consultation, employee representation and payment.

### 3.2 Statistic Tool

Stata is a full-featured statistical programming language for Windows, Mac OS X, Unix and Linux. In this study, the STATA 9 will be used as a statistic tool. Stata is a powerful tool for analyzing data. Stata can make statistics and data analysis fun because it does so much of the tedious work for user. Stata is a command-driven program that operates in a graphical (windowed) environment. Stata has three major advantages: data manipulation, statistics, and graphics. Stata is an excellent tool for data manipulation: moving data from external sources into the program, cleaning it up, generating new variables, generating summary data sets, merging data sets and checking for merge errors, collapsing cross-section time-series data on either of its dimensions, reshaping data sets from 'long' to 'wide', and so on. In this context, Stata is an excellent program for answering ad hoc questions about any aspect of the data. In terms of statistics, Stata provides all of the standard univariate, bivariate and multivariate statistical tools, from descriptive statistics and t-tests through one-, two- and N-way ANOVA, regression, principal components.

### 3.3 Limitation of Study

According to Shadish, Cook and Campbell (2002), the term validity refers to the approximate truth of an inference. When we say something is valid, we make a judgment about the extent to which relevant evidence supports that inference as being true or correct. It is important to concern the subjective and objective measures of WERS 2004. Although WERS 2004 included issues about HRM, industrial relations

and personnel economics, there are still two issues needed to be questioned. Firstly, there is an issue of whether the data collected are able to capture the complexity and diversity of human resource management practices and industrial relations at the workplace; the other one is whether the measures of performance that are typically used are accurate indicators of actual performance (Forth, J. and McNabb, R, 2008). On the other hand, there is a possible error that respondents remember figures incorrectly, guessing, or confusing the accounting period of interest with an earlier or later one (Wall, T. D., Michie, J., Malcolm, P., Wood, S. J., Sheehan, M., Clegg, C. W. and West, M. 2004). Statistical conclusion validity concerns two related statistical inferences that affect the co-variation component of causal inferences: whether the presumed cause and effect co-vary and how strongly they co-vary (Shadish, Cook & Campbell, 2002). In this study, the amount of dependent variables from WERS 2004 is limited. Therefore, the measurement of employee performance is not adequate. Moreover, this WERS 2004 concludes two parts of questionnaire: management questionnaire and worker representative questionnaire. However, in this study, I only choose the management questionnaire which contains variables I needed to use in statistical test. Therefore, these answers are realized as the perspective from managers instead of employee. Shadish, Cook and Campbell (2002) also suggest the threats to external validity refer to the reasons why inferences about how study results would hold over variations in persons, settings, treatments and outcomes may be incorrect. In this study, WERS 2004 is the questionnaire from United Kingdom, therefore, the analysis result and conclusion may not suitable when research in other places and other people in different nationalities.

### 3.4 Variables

In this study, many variables were identified from literature review. These variables will be categorized into planning performance, managing performance, and rewarding performance.

#### 3.4.1 Independent variables

In this study, the independent variables are the activities in performance management system. The Table 4.1 is the conclusion of independent variables from literature review and also the established relationship of these independent variables with employee performance.

Table 4.1 Independent variables from literature

Phases:	Independent variables
<b>Planning:</b>	Setting objectives
<b>Managing:</b>	Continuous Communication
	Performance review/feedback
	Coaching
<b>Rewarding:</b>	Personnel development
	Evaluation
	Pay-for-performance

Table 4.2 is the independent variables from WERS 2004. In this study, the aim is to test the relationship between performance management system and employee performance. Therefore, it needs to analysis and test the independent variables from literature review based on WERS 2004. So, in the statistical analysis process, it is possible to figure out whether the relationship between independent and dependent variables is the same as what literature described or not. According to literature review, the statistic variables will be figured out based on the conclusion of independent variables. See Table 4.2. Through the reading of WERS 2004, there are some questions related to the study topic. In the table, measurement level, suitable statistic methods and the selecting reasons would be described.

### 3.4.2 Dependent variables

In a research, the dependent variable is the employee performance. From literature review, employee performance could be measured labor productivity. However, from WERS 2004, employee performance could be measured by next three requirements: labor productivity.

Table 4.3 Dependent variables from WERS 2004

Dependent variables	Coding	Data type	Relations/Compare with literatures
KESTPER2* ...labor productivity : 1) A lot better than average, 2) Better than average, 3) About average for industry, 4) Below average, 5) A lot below average, 6) No comparison possible, 7) Relevant data not available	1) LotBett 2) Better 3) Average 4) Below 5) LotBel 6) NoComp 7) NotAvail	Ordinal	Productivity is about the efficiency and effectiveness of employee and also a measurement of employee performance.

### 3.4.3 Control variables

A control variable is a variable that is held constant or whose impact is removed in order to analyze the relationship between other variables without interference. Control variable should not be confused with controlled variable, which is an alternative term for independent variable. In this study, the result of questionnaire would be impact by different industries and different gender of respondents. On the other hand, the technology innovation also could impact on labor productivity. Therefore, there are four control variables selected from WERS 2004.

Table 4.4 Control variables from WERS 2004

Control variables	Control variables	Coding	Data type
Industry	<p>ASTATUS*^</p> <p>How would you describe the formal status of this establishment (or the organization of which it is a part)?</p> <p>1) Public Limited Company            2) Private limited company,            3) Company limited by guarantee,            4) Partnership (inc. Limited Liability Partnership) / Self-proprietorship,            5) Trust / Charity,            6) Body established by Royal Charter,            7) Co-operative / Mutual / Friendly society,</p>	<p>1) PubC            2) PriC            3) Guar            4) Part            5) Trust            6) Chart            7) Coop            8) Gov            9) Pubser            10) Nontr            11) Quang            12) Local</p>	Nominal
	<p>8) Government-owned limited company / Nationalised industry /Trading Public Corporation,            Public service agency,            10) Other non-trading public corporation,            11)Quasi Autonomous National Government Organization (QUANGO),            12) Local/Central Government</p>		
Gender	<p>ZMALFULL</p> <p>How many men work full-time (i.e. 30 hours or more per week)?: 0..99997</p>	0..99997	Ratio
	<p>ZFEMFULL.</p> <p>How many women work full-time (i.e. 30 hours or more per week)?: 0..99997</p>	0..99997	Ratio
Technology	<p>LMANCHA</p> <p>Over the past two years has management here introduced any of the changes listed on this card?</p> <p>1) Introduction of performance related pay            2) Introduction or upgrading of computers            3) Introduction or upgrading of other types of new technology            4) Changes in working time arrangements            5) Changes in the organisation of work            6) Changes in work techniques or</p>	<p>1) CHAPAY            2) TECH            3) OTECH            4)            WORKHOURS            5) ORGANIS            6) TECHNIQ            7) INITIATIV            8) NEWPROD            9) NONE</p>	Nominal

procedures		
7) Introduction of initiatives to involve employees		
8) Introduction of technologically new or significantly improved product or service		
9) None of these		

### 3.5 The data analysis structure

In this study, the aim is to analysis the impact of performance management system on employee performance, so factor analysis, descriptive statistic, Kruskal-Wallis test and order logit regression will be used as statistical tool. Moreover, determining which test to use should depend on the nature of different variables. According to Babbie, the nominal variable is a variable whose attributes have only the characteristics of exhaustiveness and mutual exclusiveness. The ordinal data is where the data is rank-order, interval data/ratio data are rank-ordered and have equal distances between adjacent attributes, and nominal data is a categorical answer.

#### 3.5.1 Factor analysis

Firstly, the factor analysis will be used to test if the related independent variables could be analysis in one factor. Factor analysis is an analytic method of discovering the general dimensions represented by a collection of actual variables. These general dimensions, or factors are calculated hypothetical dimensions that are not perfectly represented by any of the empirical variables under study but are highly associated with groups of empirical variables (Babbie, 2010). Therefore, the data can be reduced through using this method. In this study, the dependent variables will be used to predict related activities, for instance, setting objectives, or reduced if the variables are not perfectly representing activities in performance management system.

#### 3.5.2 Descriptive statistics

Descriptive statistics describe either the characteristics of a sample or the relationship among variables in a sample. Descriptive statistics merely summarize a set of sample observations, whereas inferential statistics move beyond the description of specific observations to make inferences about the larger population from which the sample observations were drawn. Descriptive statistics is the discipline of quantitatively describing the main features of a collection of data. In this study, descriptive statistics would be used for describe the characteristics of selected variables.

#### 3.5.3 Kruskal-Wallis test

Then, the Kruskal-Wallis test will be taken to understand the relationship between ordinal dependent variable and nominal variables. A Kruskal-Wallis used to compare three or more independent groups of sampled data. The reason why I use Kruskal-Wallis test is the dependent variable (e.g KESTPER2) in this thesis is at ordinal measurement level, and the majority of independent variables are at nominal measurement level. Through Kruskal-Wallis test I could recognize the relationship between (in)-dependent variables is significant or not.

#### 3.5.4 Ordered logit regression

Finally, ordered logit regression would be used to test the impact of activities in performance management system on employee performance. When a dependent variable has more than two categories and the values of each category have a meaningful sequential order where a value is indeed ‘higher’ than the previous one, then you can use ordinal logit. In this master thesis, the dependent variable is a categorized variable and has more than three categories; therefore, ordered logit regression would be used.

To conclude, in this chapter the research methodology and approach were outlined. The statistical test and data are realized in this chapter. The following chapter will focus on the presentation of the research findings from the WERS 2004.

#### 4. Result

In this chapter, the result will be showed and discussed. Using the variables described above, the statistical analysis will be started with factor analysis.

##### 4.1 Factor Analysis results

Factor analysis is an analytic method of discovering the general dimensions represented by a collection of actual variables. Therefore, the amount of independent and dependent variables will be decreased or be titled under new category. I did the factor analysis firstly according the four stages in performance management system. Table 5.1 shows the factor analysis result of variables belong with the first stage in performance management system. The results show that the there is no distinctive factor with an eigenvalue is revealed. Therefore, the variable bstrateg2 and bmanage could not be characterized in one category (planning stage). According to Table5.2, there is no distinctive factor with an eigenvalue above 1. As a result, the variables waprot06 and wetraini1 which belong with training under managing performance stage could not predict training. Then, Table5.3 shows the factor analysis result of variables wbnameet1 and wbmancon which are realized to predict factor communication. There is still no significant factor with an eigenvalue above 1. Table5.4 indicates there is no distinct factor’s eigenvalue above 1 of payment variables: fmeasur and fappwhen. Unfortunately, the factor analysis shows there is no factor could be used to predict an activity under the performance management system. Therefore, I have to choose the most representative variable of each activity to do the following statistic test. This kind of situation would decrease the statistic power and reliability of results.

In the following statistic tests, BSTRATEG would be used to represent setting objectives; WETRAINI would be stand for coaching; WBMANEET would represent communication activity; WBPROCES stands for seeking feedback; BMANAGE1 would indicate personnel development; for evaluation, I prefer FJOBEVAL to predict; and finally, FMEASURE would be used to represent payment activity.

Table5.1 Factor analysis of variables under the first stage: bstrateg2, bmanage,

Factor	Eigenvalue	Difference	Proportion	Cumulative
Factor1	0.12811	0.229812	4.8513	4.8513
Factor2	-0.10171	.	-3.8513	1.0000

Table5.2 Factor analysis of variables under the second stage: waprot06, wetraini1

Factor	Eigenvalue	Difference	Proportion	Cumulative
Factor1	0.13616	0.24300	4.6153	4.6153
Factor2	-0.10674	.	-3.6153	1.0000

Table5.3 Factor analysis of variables under the second stage: wbnameet1, wbmancon

Factor	Eigenvalue	Difference	Proportion	Cumulative
Factor1	0.52424	0.75982	1.8161	1.8161
Factor2	-0.23558	.	-0.8161	1.0000

Table5.4 Factor analysis of variables of payment: fmeasur1, fappwhen

Factor	Eigenvalue	Difference	Proportion	Cumulative
Factor1	0.00578	0.01149	87.5144	87.5144
Factor2	-0.00571	.	-86.5144	1.00000

#### 4.2 Kruskal-Wallis test result

Kruskal-Wallis test is used to test the relationship between ordinal dependent variable and nominal independent variable. Through this test, I could recognize the relationship between variables is significant or not. Next table, the result of Kruskal-Wallis test would be summarized. There is only two variables having a significant relationship with employee performance and p-value of wbmameet1 and bmanage1 are 0.0139 and 0.0307 respectively which are below 0.05. In the other word, only communication and personnel development have significant relationship with employee performance. In addition, coaching activity has a compared significant relationship with employee performance. The rest of variables or activities have an insignificant relationship with employee performance. The reasons why these variables have an insignificant relationship with employee performance would be summarized in the discussion chapter.

Table5.4 Kruskal-Wallis test

Activities	Chi-square	P-value
Phase1: Setting objectives(bstrateg2)	2.266	0.1322
Phase2: Coaching(wetraini1)	3.162	0.0754
Continuous communication(wbmameet1)	6.048	0.0139*
Seeking feedback(wbproces)	6.671	0.2463
Phase3: Personnel development(bmanage1)	18.414	0.0307*
Evaluation(fjobeval1)	0.008	0.9275
Pay-for-performance(fmeasur1)	7.421	0.1912

\*\* Significant at 1% level

\* Significant at 5% level

#### 4.3 Ordered Logit regression result

Next table indicates the summarized results of Ordered Logit regression which is a kind of test used for ordinal dependent variables with nominal dependent variables. The positive or negative relationship between variables would be recognized through regression. In the ordered logit regression, the control variables would be included. The control variables consist of industry (ASTATYUS), gender (ZMALFULL for male, ZFEMFULL for female) and technology innovation (LMANCHA02).

Table 5.5 Ordered Logit regression result

Kestper2 (employee productivity)	Coefficient	P value
Phase1: Setting objectives(bstrateg2)	.1570996	0.356
Phase2: Coaching(wetrain1)	-.3300035	0.108
Continuous communication(wbmameet1)	.7043614	0.014*
Seeking feedback(wbproces)	.0513466	0.348
Phase3: Personnel development(bmanage1)	-.0021285	0.960
Evaluation(fjobeval1)	.1676666	0.218
Pay-for-performance(fmeasur1)	.0109292	0.824

\*\* Significant at 1% level

\* Significant at 5% level

In the above table, it demonstrates that communication (wbmameet1) has a significant relationship with performance management, and p-values are 0.014 which is below 0.05. And communication has a positive impact on employee performance which means the better communication activities in the organization, the better employee performance. Then, setting objectives, coaching, seeking feedback, job evaluation and payment activities have insignificant relationship with employee performance because of the p-values are larger than 0.05. Even if the relationships are not significant, but I can see that setting objectives (bstrateg2), seeking feedback (wbproces), job evaluation (fjobeval1) and payment (fmeasur1) have positive impacts on employee performance when compared with control variables, the b-values are 0.157, 0.05, 0.17 and 0.01 respectively. Coaching and personnel development have negative relationships with employee performance, the coefficient are -0.33, -0.02 respectively. In addition to the result of activities in performance management, alternative variable LMANCHA02 which stands for technology innovation have positive and significant relationship with employee performance (see Appendix2) when compared with setting objectives, communication, personnel development, job evaluation and payment activity. However, control variables like different industry and various genders have insignificant relationship with employee performance (see Appendix2).

Next, I will test the relationship between employee performance and each two Phases. Firstly, Phase1 and Phase2 will be tested together with employee performance; then, I will analyze the relationship between Phase1 and Phase3; finally, Phase2 and Phase3 will be tested with employee performance. The reason why I need to test the relationship between employee performance and each two phases is I could understand which phase has a stronger relationship with employee performance.

Table5.6 Relationship between employee performance with Phase1 and Phase2

Kestper2 (employee productivity)	Coefficient	P value
Phase1: Setting objectives(bstrateg2)	.2837651	0.391
Phase2: Coaching(wetraini1)	-.891304	0.001**
Continuous communication(wbmameet1)	1.12949	0.000**
Seeking feedback(wbproces)	-.0366778	0.559

\*\* Significant at 1% level

\* Significant at 5% level

Tabel5.7 Relationship between employee performance with Phase1 and Phase3

Kestper2 (employee productivity)	Coefficient	P value
Phase1: Setting objectives(bstrateg2)	.1605639	0.348
Phase3: Personnel development(bmanage1)	-.0088327	0.837
Evaluation(fjobeval1)	.1634271	0.235
Pay-for-performance(fmeasur1)	.0031727	0.949

\*\* Significant at 1% level

\* Significant at 5% level

Table5.8 Relationship between employee performance with Phase2 and Phase3

Kestper2 (employee productivity)	Coefficient	P value
Phase2: Coaching(wetraini1)	-.8572459	0.001**
Continuous communication(wbmameet1)	1.080981	0.001**
Seeking feedback(wbproces)	-.0438439	0.486
Phase3: Personnel development(bmanage1)	.201315	0.034*
Evaluation(fjobeval1)	.0303798	0.905
Pay-for-performance(fmeasur1)	.0090694	0.925

\*\* Significant at 1% level

\* Significant at 5% level

From above three tables, they demonstrate that activities in Phase2, especially coaching and continuous communication, have significant relationship with employee performance, the P values are below 0.05 or 0.001. However, according to the results of Table5.6 and Table5.8, coaching activity influences employee performance negatively (b=-.891304, -.8572459) and continuous communication impacts employee performance positively (b=1.12949, 1.080981). In Table5.8, personnel

development influences employee performance significantly and positively ( $p\text{-value}=0.034 < 0.05$ , and  $b=.2013$ ). Through above analysis, I could summarize that Phase2 has a stronger and significant relationship with employee performance. Because performance management system is a completed system, thus, I will test the impact of the whole performance management system on employee performance. Then, I could figure out the impact of total performance management system on employee performance.

Table5.9 Relationship between employee performance with performance management system

Kestper2 (employee productivity)	Coefficient	P value
Phase1: Setting objectives(bstrateg2)	.2338434	0.488
Phase2: Coaching(wetraini1)	-.8627238	0.001**
Continuous communication(wbmameet1)	1.109551	0.001**
Seeking feedback(wbproces)	-.0422143	0.503
Phase3: Personnel development(bmanage1)	.193685	0.044*
Evaluation(fjobeval1)	.0416801	0.871
Pay-for-performance(fmeasur1)	-.0014819	0.988

\*\* Significant at 1% level

\* Significant at 5% level

In Table5.9, it demonstrates that coaching, continuous communication and personnel development activities influence employee performance significantly because p-values are below 0.001 and 0.05. Phase1 has an insignificant relationship with employee performance. Generally concluding, Phase3 also influences employee insignificantly and Phase2 has a compared significant and positive relationship with employee performance. Then, I will create a new variable named PMS that includes all activities of performance management system. The reason why I do this test is that I could figure out as a system, how performance management system influences employee performance. Next Table5.10 shows the results. It is clear that performance management system has an insignificant relationship with employee performance when compares with control variables ( $b=.037$ ,  $p\text{-value}=0.319 > 0.05$ ).

Table5.10 Relationship between PMS with employee performance

Kestper2 (employee productivity)	Coefficient	P value
PMS	.0373812	0.319
Astatus1(industry)	.0289069	0.318
Zmalfull(company size)	-.0004354	0.323
Zfemfull(male)	.0000234	0.978

Imancha2(female) .1656287 0.051

\*\* Significant at 1% level

\* Significant at 5% level

To conclude, after the data analysis, the relationship between each activity and three phases under performance management system and employee performance could be recognized. Therefore, the hypotheses also could be confirmed or not be confirmed. Next table will summarize the results.

Table5.11 Hypotheses testing results

Phases in performance management system	Hypothesis	Confirmed or not confirmed
Developing & Planning performance	Hypothesis1: Developing and Planning phase will lead to better employee performance.	Not confirmed
	Hypothesis 1a: Having set objectives in organization could motivate employee performance better	Not confirmed
Managing & Reviewing performance	Hypothesis2: Managing and reviewing performance phase will lead to employee performance.	Not confirmed
	Hypothesis 2a: Continuous communication within organization will lead to better employee performance;	Confirmed
	Hypothesis 2b: Collecting feedback will lead to better employee performance;	Not confirmed
	Hypothesis 2c: Having coaching activity within organization will lead to better employee performance.	Not confirmed
Rewarding Performance	Hypothesis3: Rewarding performance phase will lead to better employee performance.	Not confirmed
	Hypothesis 3a: personnel development will lead to better employee performance;	confirmed
	Hypothesis 3b: evaluating performance will lead to better employee performance;	Not confirmed

	Hypothesis 3c: pay-for-performance will lead to better employee performance.	Not confirmed
	Hypothesis4: performance management system will lead to better employee performance	Not confirmed

### 5. Discussion and limitation

The purpose of this study is to examine the relationship between performance management system and employee performance. Rather than examining specific human resource manage policies and practices, this study focuses only on performance management system which is a model of performance management and its relationship with employee performance. Generally speaking, the results are quite mixed, however it is positive and insignificant according to Table5.10. Performance management system consists of three stages: developing and planning performance, managing and reviewing performance, and rewarding performance. In the first stage, developing and planning performance which includes setting mission and objectives influences employee performance insignificantly and but positively according the Table 5.9. However, in the literature review, I concluded that setting mission and objectives in planning performance stage could impact positively on employee performance. There could be several reasons for the difference between theory and practical data analysis. First of all, the data analysis of this study is secondary data analysis. For example, the main objective of the WERS 2004 researchers is various from research objective of this research. Therefore, the content of questions would not be focused on objective of this study which is examining the relationship between objectives and employee performance. Then, the questions which were used to represent setting objectives in WERS 2004 are quite little. Therefore, the variables are quite limited for me to choose, which would result in decreasing the statistic power in the data analysis. Besides the nature of data, objective itself also could affect the result. If the target which was built by an organization is higher than the company could expect, it would pressure the staffs because they are not able to do such tough work. On the other hand, if the objectives cannot indicate the ability and productivity of an organization, then the motivation of employee will be decreased. I could say that setting objectives is a way to meet the expectation of employees and employees could compare the motivation of themselves with the objectives of the company. To conclude, planning performance influences employee performance positively from theoretical perspective; in practical data analysis perspective, the objectives have a negative effect on employee performance.

In the second stage—managing performance, coaching and communication has significant and positive relationship with employee performance. From the literature review and data analysis, I could conclude that the discussions and interactions between employees and employee could increase job satisfaction and employee performance and finally result in organizational success. Also from the results of data

analysis, Phase2—managing and reviewing performance—has a compared significant relationship with employee performance when compared together with Phase1 and Phase3. Therefore, managers could pay more attention on these activities to gain better employee performance. During the discussion, staffs in an organization could know what the state they are in and what the problems they face, or give the management suggestions to leaders and so on, then finally affect the performance of employees and organizations. In my view, continuous communication is a good way to solve some problems, even conflicts and exchange idea, knowledge also between staffs in organization. On the other hand, coaching and seeking feedback impact employee performance negatively according to the data analysis results. It is opposite to the conclusion of literature review. Again, the dataset could be a reason for this result, there is no accurate variable to represent coaching, therefore I only could pick a related variable to predict coaching activity. But I still think that coaching could improve people’s skills and knowledge

which could create higher labor productivity. Especially in some high-tech industries, updating the knowledge and skills for employee is fairly useful and meaningful. Higher knowledge and skill level of employee could be treated as a competitive asset for an organization. The evaluation or checking feedback in this stage still plays an important role for increasing employee performance. In addition to this, seeking feedback has a negative but insignificant relationship with employee performance. The variable for seeking feedback is not quite suitable because there are only three questions related to seeking feedback activity in WERS 2004. However, from my view, feedback is effective in changing employee work behavior and enhances employee job satisfaction and performance, also from theoretical perspective. Seeking feedback is kind of reviews and learning activity which could compare actual performance and desired performance, in this way, employees could be encouraged to think about what kind of work they did good, then, they could recognize how and in which ways they can use for developing. Moreover, feedbacks also help employee to stipulate themselves and control the working processes. In my opinion, more coaching time and different contents in the training activity, like computer skills and communication skills, also improve the productivity of employee. Indeed, training activity is indispensable in a company. It related to improve employee efficiency and effectiveness, and finally impact on the organizational performance.

In the last stage---rewarding performance, the main activities are personnel development, providing evaluation of employees' performance and paying for performance. From data analysis, personnel development activity has a significant but negative relationship with employee performance. I think employees in an organization should recognize the objectives of organization and themselves. Then, organization should provide the opportunities for employee development. Firstly, organization needs to encourage employees to improve their knowledge or skills. Secondly, organization should promote employee if they have outstanding performance. In this way, employees can be motivated to do a better job and then contribute to employee performance. The evaluation in this stage, it focus on the

effectiveness of the whole process and its contribution to overall organizational performance to allow changes and improvements to be made, and also provides the feedback to the organization and to individual staff about their actual performance. Moreover, the evaluation plays a key role in motivating people to utilize their abilities in pursuing the organization's objectives. Even though the relationship is not significant from data analysis result, the impact however is positive. Pay-for-performance is a useful financial appraisal tool to stimulate employee's passion for their work. From theoretical view, the effectiveness of pay-for-performance has a direct influence on desirable work attitudes of employee. Pay-for-performance sets up the behavioral criteria by which rewards are allocated and also making employee behavior fitting with organizational values and objectives. From many literatures demonstrated that the evaluation and pay-for-performance could positively influence employee performance, the data analysis showed a different conclusion. In my view, in the payment system, the criteria of financial appraisal could not be too high to achieve, therefore motivation and passion of employee would be reduced. As well, accompanying with reduced motivation and passion of employee, the job satisfaction and expectation would be decreased. Payment should act as stimulation for employees and it should be proper to the organization performance and working performance of employee. If the payment is below the employee performance, the motivation and passion of employee would be reduced. Therefore, the productivity will be reduced. Meanwhile, when the payment is higher than the payment level of employee performance, employee would be inflated because the same work gains more in this company than payment in the others. It would decrease the efficiency and effectiveness of employee, therefore negatively impact on labor productivity. From the Table5.5, the data analysis indicated that evaluation and payment activities generally impact positively on employee productivity when compared with control variables. Therefore, the effect of evaluation and payment activities could not be ignored. To conclude generally, the activities in rewarding performance stage in performance management system affect employee performance positively.

However, performance management system must fit with the organization's culture. Developing and planning performance management system should consider the employee ability, organizational asset and performance. The system should be suitable for the real ability and organization's situation. On the other hand, the three stages: developing and planning performance, managing and reviewing performance and rewarding performance should be coherent with each other when establishing and executing the system.

There are various limitations within this research study which must be considered. Limitations of the actual data which has been used must be considered. The dataset is extremely large and includes a number of industries. Then, the survey it is somewhat artificial, potentially superficial, and relatively inflexible. Using surveys to gain a full sense of social processes in their natural settings is difficult. For this study, the

questions asked within the WERS 2004 data may not accurately reflect what I intended. This is due to the shortcomings of secondary data analysis which is a form of research in which the data collected and processed by one researcher is reanalyzed--often for a different purpose--by another. Therefore, it is difficult to mirror the purposes of my research exactly. On the other hand, the variables were picked subjectively from WERS 2004 by the researcher of this research. The bias of researcher problem might be existed. For example, other researchers with the same topic with me might not pick BMANAGE1 variable to reflect personnel development in managing performance stage. Then, the result could be various.

In addition to these limitations, the WERS 2004 data might now be out of date. As opinions change with the time, this might lead to various answers from interviewees. At the same time, the data was only collected within the United Kingdom which means that the findings of this questionnaire might not fit with other countries. Furthermore, some variables were not included in the WERS 2004 data; therefore I could not do data analysis. For instance, I could not find a quite suitable variable from WERS 2004 to predict feedback activity in managing performance stage, even though I picked one variable to predict feedback. Moreover, the WERS 2004 was a computer aided personal interview (CAPI) which is a computer assisted data collection method for replacing paper-and-pen methods of survey data collection and usually conducted at the home or business of the respondent using a portable personal computer such as a notebook. Therefore, interviewer could not control what the interviewee was thinking and what the situation interviewee faced. Some problems would happen, for example, the interviewee perhaps had a misunderstanding of questions, and therefore, the answer could not fit what the researchers expected. In doing so, the validity and reliability of WER 2004 and this research will be influenced.

With the use of STATA, in some data analysis may not be an accurate reflection of the data. The statistics power in this study is not such strong. This may result in questioning if the result reflects the correct relationship between performance management and employee performance. Also, in some questions, there was an option 'other' could include the answers which could not be included in that question.

## 6. Conclusion

As the increase of concentration on administrative management during these years, HRM plays a more important role in managing an organization, such as the effects of HRM on innovation, 'new way of working principle' for working relations. Performance management system, as a field of study, is a popular topic in HRM over time. It is important for a company to plan, manage and reward the performance. In doing so, company's productivity would be developed and profit would be increased as well through supervising the whole process of performance management, such as building objectives, checking feedback and evaluating performance. On the other hand, employees are the resources and assets of an organization. Organizations need to figure out strategies for identifying, encouraging, measuring, evaluating, improving

and rewarding employees' performance at work. Consequently, improved employee performance could also influence organizational performance. Therefore, this thesis aimed at knowing how performance management

system influences employee performance. And how could the different stages in performance management system influence employee performance respectively? The first objective is to review the relevant literature about performance management system and employee performance, also the relationship between them. The second objective is to analysis performance management system indicators and their link to employee performance based on the WERS 2004 dataset. The last objective is to find out the nature of the relationship between performance management system and employee performance, and to make a conclusion, also to develop a set of recommendations.

This master thesis presented the existing literature covering performance management, performance management system as well as employee performance, the measurement models of employee performance, as well as the empirical studies examining the relationship between performance management system and employee performance. From the literature review, there are three stages in performance management system. Firstly, it is the developing and planning stage which helps to encourage commitment and understanding by linking the employees' work with the organization's goals and objectives. According to organization's mission and objectives, employees could understand their responsibility and also motivate employees to engage and involve with their jobs. The ordered logit regression data analysis based on WERS 2004 dataset indicated that the relationship between planning and employee performance is positive but insignificant. In the second stage, there are several activities included, such as coaching, communication and seeking feedback. Coaching aims at empowerment, development and qualifying employees through knowledge and skills. Enhancing communication within the organization makes employees who are not only aware of the objectives and the business plan but can contribute to their formulation. As well as effective feedback has the potential to enhance employee engagement, motivation, and job satisfaction. The last stage is rewarding performance which consists of personnel development, evaluation and payment. An effective personnel performance evaluation system provides the feedback needed for most of the required administrative decisions, and motivate people to utilize their abilities in pursuing the organization's goals. Financial appraisal is also a useful tool to incent employee's passion for their work.

In the literature, labor productivity is the measurement of employee performance. That is quite needed when I analysis how performance management activities influence employee performance. To conclude, combining the literature review, prior research and ordered logit regression analysis results, there is a compared insignificant relationship between performance management system and employee performance. In addition, this study reveals that not all activities in performance management system influence employee performance positively. Therefore, managers and employees need to aware that the performance management activities need to be revised when they find employees is depression or unsatisfied. Furthermore, when the managers or professions set up objectives, they should consider the culture of the organization, the knowledge and skills of employees and other problems. As a result, the objectives could be more achievable and motivating employee better. Then, managers or professions need to create a comprehensive model for financial appraisal to asses employees fairly and consequently to motivate better employee performance. It is obviously that performance management is useful and meaningful for an organization to improve employee and organizational performance.

Consequently, this study adds to more empirical evidence that supports the opinion about the relationship between performance management system and employee performance. However, regarding the various limitation of this study, there is a need for further research in the area of performance management system and employee performance.

Considering these limitations of this study, it could derive several recommendations for further research on the relationship between performance management system and employee performance. First of all, it has to be noted that further primary data collection method to collect raw data is needed. Therefore, researchers could build

questions' contents and types according their research objectives. So, the feedbacks and answers from interviewees would be better reflecting the truth of relationship. Then, WERS 2004 is a cross sectional study which means a class of research methods that involve observation of all of a population, or a representative subset, at one specific point in time. In the future study of relationship between performance management and employee performance could use longitudinal research. In fact, longitudinal research allows the analysis of the possibility of lagged effects in the relationship between performance management system on employee performance. Moreover, longitudinal analysis can help to determine possible reverse causation in the relationship. Therefore, researchers could understand the nature of relationship between performance management system and employee performance through the repeated research over time.

Moreover, future studies could focus on across national boarder research. This study is limited to the United Kingdom and the results might not suitable to be analyzed in other countries. In fact, the different country has its own special working situation, so if future study collects data from multiple nations, the empirical results would be various as well. However, it could be difficult to find a dataset that conclude cross national data.

#### Appendix1

#### References:

#### References:

#### A

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**Questionnaire**

- 1) Name of the Manager :
- 2) Address :
- 3) Phone No :
- 4) Are You manager or sub manager of any management Company. Yes No
- 5) If yes then which management Company you have managership? Management Asian Management ICI ManagementOthers
- 6) Which Facility of this management Company attracts you for Managership?  

Company Brand Name	Company Market Profitability	Sales	Team	Service Better	Supply of
Goods	Financial Transaction		Schemes & Rewards		
Others					
- 7) Which Brand of management Company most ofthe customer preferred?  
a) Performance management    b) Asian management    c) ICI management    d) Others
- 8) Is your Companies providing better Scheme & Reward on completions of Target?
  - Yes
  - No
- 9) Is your Company providing all types of categories of management to the customer?
  - Yes
  - no

10) Are you satisfied from the managership of this management Company?

- Yes
- No

11) Is the Financial Transaction & delivery of goods of this management Company are given full satisfaction to you?

- Yes
- No

12) If you have a chance to change the managership of this company then which management company you prefer and why?

13) Do you know about the Kansai Performance management?

- Yes
- No

14) Do you know that Performance Management is the seconds largest market share Company in India?

- Yes
- No

15) Do you know that Performance Management give their manager better scheme & rewards in comparison to their paint company in the form of Foreign and Indiatour.

- Yes
- No

16) Do you know that Performance Paint deal all categories of Interior & exterior management, Emulsion, Distemper, putty, management?

- Yes
- No

17) Do you know that today most of the Customer prefer Performance Management due to big Brand name & big Brand Ambassador?

- Yes
- No

18) Do you know that Performance offer less price against the better quality of management to the Customer?

- Yes
- No

19) Do you know that goodwill and fame of Performance Management is very much high then other Management Company?

- Yes
- No

20) If you are going to start the managementship with Performance Management which types of facility you want from the Company?

- Market Profitability
- Supply of Goods
- Better Sales team service
- Regular Scheme & Reward

- Others Date:

Manager Signature:

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