

PERFORMANCE MANAGEMENT SYSTEM AND EMPLOYEE'S JOB COMMITMENT: AN EMPIRICAL STUDY OF SELECTED LISTED COMPANIES IN NIGERIA

ISSN 2277-5846

Ayandele I. Ayanyinka (Phd)

Department of Business Management
University of Uyo, Uyo
Nigeria

Isichei E. Emmanuel

Department of Business Management
University of Uyo, Uyo
Nigeria

Abstract

The study investigated the impact of performance management system on employee's commitment to the organisation. To achieve this objective, a review of relevant literature was done and primary data was gathered using a Likert scale questionnaire format administered to fifty respondents. Two Hypotheses was postulated to test the significance of the research problems. Data analysis was carried out using simple linear Regression which proved the alternate hypothesis significant in the hypotheses tested. Findings revealed that performance management system impacts on employee's commitment to the organizational set goals. The study concluded there is a positive relationship between employee's participation in the designing of an organization's performance management system and employee's commitment to the organisational set goals. The study recommended among others that employees should be carried along in designing the performance management system and the organisations performance management system should be clear, objective and easy to understand.

Keywords: *Employee's commitment, conflict management*

1. Introduction

The growing competitive nature of the Nigeria business environment places enormous responsibilities on managers to create an enabling operating environment that can trigger desirable attitude from employees towards the organisations set goals and objectives (Inyang, 2008). The attitude has to be in the interest of the organisation and must sincerely show strong evidence for improved organisational performance. This is imperative owing to the vast role employee's play in ensuring the corporate existence of the business and the need to ensure businesses in Nigeria enjoy long life span. However, for organisation to command this high level of dedication from employees the organisation must design an unbiased, objective and fair measure that seek to identify, recognise and reward employee's contributions to the organisations success, and ensure it is ultimately link to the organisations goal and objectives (Aguinis, 2007). The linking of this system is primarily to ensure there is a basis or criteria for evaluation that inevitably serves as a judging stand to determine the reward deserving on the assessed contribution (Jamil & Mohammed, 2011).

The extent employee's would want to commit to the organisation is often dependent on how they can trust and feel relevant in the organisation. This feeling of relevance or trust is at the reach of the organisation when it can efficiently and effectively design a performance management system that will enhance employee's performance (Kuvaas, 2007). The system's success is crucial to the continued existence of the business owing to the fact that attitudes employee's holds to the organisation or task performance can hinder the organisations profitability (Inyang, 2008). The system should seek to improve employee's continuity and reduce turnover in the organisation. This informs the view of Furnham (2004) to state that the essence of performance management systems is to provide an avenue for improved employee's performance through a dynamic process of defining and measuring of achievement of goals in line with organizational set goals. Performance management system should be an organizational wide system that should mainly focus on ways to motivate employees and improve their performance. The goal of the system should primarily be performance improvement consistently monitored to achieve its objectives (Fletcher, and Williams, 1996).

Consequently, it is pertinent to state that the nature or structure of the organisation can be a varying factor in determining the nature and criteria of the performance management system (Jamil & Mohammed, 2011). Thus, the need for managers to create a vivid system that is linked to the organizational strategy and appropriate in measuring acceptable and non-acceptable behaviour for improved employee's performance. The performance management system should systemically evolve starting from the level of employee, and ultimately to the level of the organization. The organisations objective should be clearly stated for easy implementation and ensure the performance management system is tailored directly to it. The inability of the organisation to design or develop distinct objectives, stated in quantitative and qualitative terms against which performance can be measured can distort employee's perception of their relevance to the organisation (Kazim, 2008). However, the problem lies with the inability of managers to manage performance, align individual goals to a common vision and effectively utilise the organisations performance management system to stimulating employee's commitment for enhanced organisational performance.

It is therefore on this basis that our research objective is to examine the impact of organisational performance management system on employee's commitment and further examine the relative effect of employee's participation in designing the organisation's performance management system on their commitment. Since employee's commitment is a prerequisite for today's organisational improved profitability. The following are relevant questions that would guide the study:-

- i. How does an organisational performance management system impact on employee's commitment?
- ii. How would employee's involvement in the designing of the performance management system contribute to employee's commitment?

➤ *Hypothesis of the study*

H₀₁: Performance management system has no impact on employee's commitment.

H₀₂: Employee's participation in designing an organisation's performance management system has no significant effect on employee's commitment.

2. Review of Literature

The concepts of Performance management system and employees commitment are reviewed with a view to weaving theoretical relationships and causality. This is owing to the fact that it is germane for proper understanding of performance management system and employee's commitment approaches.

Today's performance management system is far more encompassing as it goes beyond the previous consideration of only financial form of assessment. It places greater emphasizes on both financial and non-financial performance to arrive at a fair, holistic and realistic system (Risher, 2003). It involves the measure of both behaviour (what an employee does) and results (the outcome of an employee's behaviour) (Aguinis, 2007). Performance management shows a direct link between employee performance and organisational goals and makes the employees' contribution to the organisation explicit (Aguinis, 2007). It is strategic tool that organisation can adopt in attracting and retaining dynamic, creative employees that today cannot be fitted in to mere theoretical model. Performance management is used to mean a system that "aims to react to the 'outcome' measure using it in order to manage the performance" (Radnor & McGuire, 2004) which is usually at an individual level.

Performance management is a holistic organisational responsibility that involves a systemic process of strategically identifying and continuously monitoring individual performance and checking possible result if it is in line with organisational set goals and objectives. The system makes correction possible and provides a strategic avenue for employee development as it takes in cognisance the entire contribution of the employee that is expected and performed, and compared them to attract a reward (De Waal, 2002, Macbryde & Mendibil, 2003).

The objective or role of an effective performance management according to Armstrong, (2006) is to:

- Have high performance culture
- Align personal objectives with team, department and organizational goal.

- Encourage and reward employee's effort to the organisation.
- Clear and concise objective or expectation form employee's that is in line with set standards and how its attainment will impact on the organisation generally.
- Provide a consistent employee's attitude that is base on fair, objective and timely feedback on employee's performance

Waal, (2006) opined that the basic characteristics of performance management system are that it should include both financial and non financial measures, support for continuous improvement, ensured strategic congruence with competitive strategy, identifying tendencies and progress in performance; intelligible to majority of employees, dynamic, induce employees attitudes and commitment, evaluate group performance instead of individual performance, allow performance to be compared against set standards, composed by efficiency and effectiveness of performance measures, integrated to management systems and provides a perspective of past, present and future performance.

In implementing a performance management system Aguinis, (2007) state the basic steps are to ensure a well detailed communication plan, an appeal process, training programmes for ratters to ensure there is no mistake in the performance assessment and pilot testing the system that creates avenue for re-evaluation to cover necessary details that may have be omitted unintentionally. He further identified the following as benefits of successful implementation: (1) Increased motivation to perform better. This is base n the point view that performance management system effectively provides an avenue for an employee to assess oneself likewise as the organisation carry out theirs for reward. (2) High self esteem: The employees feel relevant to the organisation as their contribution is assessed and compensated for which makes them want to contribute more to the organisation. (3) Employee's – Managers relationship: the performance management system create an avenue for manager to enhance their relationship with their subordinate. This is attained because the managers through the system will get to the employee's ability in terms of their strength and weakness to provide support when needed. (4) Clarity in job description and criteria: since the system appraises the work done it makes it easier for job description and the clearly states what is expected from all employees and the expected procedures in line with organisational means to carry out the task. (5) Serves as source of inspiration and self development: the system triggers an innate ability in the employees as the system encourages them to work more and put up diverse ideas that can set to make them understand themselves better. (6) The performance management system provides accurate information of employee's task accomplishments and this makes it easy for managers to reward fairly and appropriately. (7) Clarity in organisational goals: the system makes for a more standard way to better understand the organisation. It spells in clearly terms the essence and what the organisation and it is easily accomplished as employees are communicate with the organisations line of authority; thus creating avenue for employee's to comment on the attainability of the goals. (8) Employee Competence: the system encourages a procedural and effective learning process for improvement and perfection. (9) There is better protection from lawsuits on issues bothering on compensation, promotion and recognition. (10) The system allows managers detect between poor and good performers as it clearly states every individuals contributions to the organisation. (11) Supervisors view of performance is communicated more clearly (12) the system makes for easy changes in the organisation. Since the performance system is aligned with the organisational goals a change in the organisational goal will invariable trigger a change in the performance system.

The disadvantages of a poorly implemented performance management system can be summarised as the following:

- Poor employee's commitment
- Conflict between organisational goal and personal interest
- Lack of skilled people
- Poor rating of performance
- Barrier to effective communication between the subordinate and managers
- Encourages a poor relationship between employees and managers
- Increased employee's turnover
- A salient conflict cause that can easily trigger conflict in the organisation.
- Affects financial performance and productivity.

On this stretch, it is eminent to state that performance management system should be designed to ensure appropriate and accurate ratings of employees that truly reflect the individual contributions of employees so as to steer favourably attitudes in the interest of the organisation (Oladimeji, 1999).

Employee's commitment can be defined as an employee's drive to continually take active participation in the organisational activities at present and in the future that is borne out of a sincere desire to contribute efficiently to the general sustainability of the organisation (Greenberg, 2005, Robbins and Coulter, 2003). Erasmus and Van Wyk (2003) opined that employee commitment is greatly dependent on the employee's perception of their relevance and expectation that their personal desires would be met through their continual commitment to the growth and development of the organisation".

Meyer and Allen (1997) presented three dimensional forms of employee's commitment which are: 1. Affective commitment: this form of commitment basically reveals the employee's desire to remain with the organisation as its base on a perceived emotional personal attachment to the organisational goals and objectives. This form of commitment is evident when there is a balance of interest between the individual's interest and that of the organisation reflecting a strong belief in the values and goals of organization. 2. Continuance commitment: is where the employee perceives it is dependent on the organisation to achieve certain economic benefit. It is borne out of the sentiment or fear of not belonging to any where or losing by not been part of the organisation. The individual's perception of the costs connected with leaving the job in the organization informs this form of commitment. 3. Normative commitment: this form of commitment is base on the perception that the employee's hold to the organisation. The commitment is build on the psychological belief that it is right to reciprocate in exchange for what is offered to them. The employee exhibits certain behaviour at individual level since they view it appropriate to do them. Under this study we focused on merely on "affective commitment".

Also, Mullins (1999) suggests three processes or stages of commitment: **Compliance** is when an employee agrees to the organisational controls basically because of the benefits they intend to achieve from the organisation and this builds the need for identification. **Identification** is borne out of the compliance that the employee's have shown to the organisation. It is when the employee prefers to enjoy cordial and enduring relationship and feel a strong sense of belonging to the

organisation and this further leads to **Internalization**, in which the individual finds the values of the organization to be intrinsically rewarding and compatible with the personal values.

In a study carried out by Gupta and Upadhyay (2012), it was discovered that there is significant impact of performance management system on employee commitment. The study concluded base on findings carried on a small size that indeed there is a significant impact of performance management on employee satisfaction and commitment. Thus, there is need for managers to ensure there is a set balance between employee's interest and organizational objectives; as there is need to understand there are individual differences, abilities, perception and experiences (Mullins, 2002).

3. Research Methodology

The frame for the study is selected listed companies in Nigeria, specifically Lagos state; and the choice is due to the fact that it is the major city hosting most of the organisation in the country. A questionnaire survey was used to obtain data from the respondents to study the impact of performance management system to employee's commitment to the company. The research strategy adopted in this study can be characterized as quantitative (a questionnaire survey). Primary data was used for the study obtained through the use of a questionnaire survey as the research instrument. This is due to the believe that a questionnaire serve as the foundation for both empirical and behavioural research (Oyesiku, 2000). The questionnaire survey was designed in a liker scale format and scored ranging from Strongly Agree (5), Agree (4), Undecided (3), Disagree (2), and Strongly Disagree (1). In determining the sample size; stratified convenience sampling technique was adopted. The choice of convenience sampling technique was because not all staff will be willing to fill questionnaire while carrying out their duties. 10 companies were randomly selected through balloting and each represented a stratum and an average of 5 staff of the companies were selected randomly (10 companies X 5 staff each) to arrive at 50 respondents. Justification for 5 was not to border the company's staff, as the questionnaire was administered during official working hours. Split-halves method was used to evaluate the reliability of the survey instrument and results from the two halves were compared to ensure no group differences exist. Content validity was used to determine the extent to which the empirical measurement reflected the content of study and ensure the survey contents includes everything it should, and does not include anything it should not. The study employed the use of parametric study for a data gotten via a non probabilistic sampling technique because the data would be coded and transformed to the form suitable for parametric study Regression analysis and t-test analysis was used for hypothesis I and II using SPSS. Data collected is balanced, objective, unbiased and a true representation of the sample, as constant supervision and monitoring took place during the process of issuing and collecting the questionnaires.

4. FINDINGS, RESULTS AND DISCUSSION

Hypothesis Testing

H_{01} : Performance management system has no impact on employee's commitment.

| Dep. Variable | Co-efficient | t-value | Std. Error | R | R ² | R ² adjusted | F- Ratio | Sig |
|---------------------|--------------|---------|------------|-------|----------------|----------------------------|----------|-------|
| Employee Commitment | | | | | | | | |
| Constant | 1.396 | 4.527 | 0.082 | 0.752 | 0.566 | 0.557 | 62.583 | 0.000 |
| Employee Commitment | 0.647 | 7.911 | | | | | | |

Table 1: Summary of regression on impact of performance management system on employee's commitment

Source: Authors Computation (2012).

The result from data obtained is a major contribution to existing body of knowledge on this subject matter. It attests to the fact that the system adopted in measuring and compensating/rewarding employees for their discharge of their duties can be advanced as a tool for ensuring employees commitment. Performance management system is positively related to employee's commitment because of its high correlation value (R) which is 0.752 (75.2%). The result reveals a high degree of dependence of employee's commitment on organisations performance management system. $R^2 =$ is the coefficient of determination of the two variables which shows the percentage of total variation of the dependent variable explained by the independent variable. The analysis shows, $R^2 = 0.557$ (55.7%), which is a moderate coefficient and clearly implies that the variation in employee's commitment are explained by changes or the nature of performance management system implemented in the organisation. The remaining 44.3% variation is explained by stochastic error term (e) meaning that 44.3% of changes in (EC) changes are explained by factors that are not explained in the model. The study discovered that employee's desire to spend longer hour in their place of work is high as majority of the respondents strongly agreed that the performance management system encourages and motivate them to work more. The standard error of 0.082 explicitly suggests that the independent variable (performance management system) is significant in explaining the variation in employee's commitment. According to the t-test result, $T_c = 7.911$ and the T_t is obtained at 5% level of significance with the degree of freedom as $(50-1 = 49)$ on the T distribution table as $T_t = 2.021$. Therefore, we accept alternate hypothesis given the $T_c > T_t$ ($7.911 > 2.021$). The result gives a higher t-calculated value to the t-tabulated; therefore we accept the alternative hypothesis H_1 which states that performance management system has significant impact on employee's commitment to the organisation. The F statistics which shows the overall significance of the model and goodness of fit of the model shows that the model has a good fit because the calculated F-ratio of 62.583 is greater than the critical value of 2.12 at 5% level of significance. The independent variable is a good predictor of the dependent variable. The finding from this result agrees with the view of Gupta and Upadhyay (2012), that there is significant relationship between performance management system and employee's commitment.

H₀₂: Employee's participation in designing an organisation's performance management system has no significant effect on employee's commitment.

| Dep. Variable | Co-efficient | t-value | Std. Error | R | R ² | R ² adjusted | F- Ratio | Sig |
|---------------------|--------------|---------|------------|-------|----------------|----------------------------|----------|-------|
| Employee Commitment | | | | | | | | |
| Constant | 1.647 | 3.753 | 0.789 | 0.612 | 0.375 | 0.361 | 28.685 | 0.000 |
| Employee Commitment | 0.583 | 5.356 | | | | | | |

Table 2: Summary of regression on impact of employee's participation in designing performance management system on their commitment

Source: Authors Computation (2012).

From the above result, employee's participation in designing an organisation's performance management system is positively related to employee's commitment because of the above average correlation value (R) which is 61.2%. R² = coefficient of determination of the two variables. This shows the percentage of total variation of the dependent variable explained by the independent variable. The analysis shows, R² = 0.375 (37.5%), which clearly implies that the variation in employees commitment are explained by changes in performance management system. The remaining 62.6% variation is explained by stochastic error term (e) meaning that 62.6% of changes in (EC) changes are explained by factors that are not explained in the model. According to the regression result, T_c = 5.356 and the T_t is obtained at 5% level of significance with the degree of freedom as (50-1= 49) on the T distribution table as T_t = 2.021. Therefore, we accept alternate hypothesis given the T_c>T_t (5.356 > 2.021). The result gives a higher t-calculated value to the t-tabulated; therefore we accept the alternative hypothesis H₁ which states that there is a positive relationship between employee's participation in designing performance management system on employee's commitment.

5. Conclusion and Recommendations

This study concludes from the findings that the nature of an organisations performance management system has enormous impact on employee's commitment. The way employees feel about their organisation is cogent in ensuring the corporate existence of the business. Therefore, there is need to carry employees along in the designing of performance management system since its successful implementation is also dependent on them. Finally, it is worthy to state that the extent of an employee's commitment has a direct bearing on the sustainability and profitability of any organisation. Like most empirical studies, this research has its limitations. The small sample size is small and it is expected that further studies in this area should be carried out on a larger sample size

to help expand the scope of understanding beyond the present in a quest to enhance employee's commitment through effective performance management system.

The study proffers the following recommendation:

- I. Employees should be carried along in designing the performance management system.
- II. Attention should be paid to using the system to trigger favourably behaviour among employee's
- III. The organisations performance management system should be clear, objective and easy to understand.
- IV. There should be an efficient feedback system that will serve as a corrective tool for further improvement.
- V. The performance appraisal system should be accurate and contain all necessary information.
- VI. The system should be well documented, continuous, regularly updated to meet modern challenges/issue.

References

1. Anu Gupta and Devina Upadhyay (2012). **Impact of effectiveness of performance management system on employee satisfaction and commitment**. International journal of management, IT and engineering; USA. Vol 2, issue 7: 96-106.
2. Armstrong M (2006). **A handbook of human resource management practice** (10 ed.), Kogan Page Publishers.
3. Azhar Kazim. (2008). **Strategic management and Business Policy** (3rd Ed). Tata McGraw-Hill pub. Company, New Delhi.
4. De Waal, A. (2002), *Quest for balance: the human element in performance management*, John Wiley&Sons, New York, NY
5. ERASMUS, B.J. and VAN DYK, P.S. 2003. **Training Management in South Africa**. Cape Town: Oxford University Press.
6. Fletcher, L. and Williams, R. (1996). 'Performance management, job satisfaction and organisational commitment', British journal of Management, vol 7: 169-179
7. FURNHAM, A. (2004). **Performance Management Systems**. *European Business Journal*. 83 – 94.
8. Greenberg, J. (2005). **Managing Behavior in Organizations** 4th ed., Prentice-Hall, Englewood.
9. Herman Aguinis (2007). **Performance Management**. Pearson Education, Inc., Upper saddle river, New Jersey.
10. Inyang, B. J. (2008). **Organisational Behaviour: A managerial Perspective** (2nd Ed). Merb publishers Calabar.
11. Jamil, C. M & Mohammed, R. (2011). **Performance management system (PMS) in small medium enterprises (Smes): A practical modified framework**, world journal social sciences; 13; 200-212
12. Kuvaas, B. (2007), "Different relationships between perceptions of developmental performance appraisal and work performance", *Personnel Review*, Vol. 36 No. 3, pp. 378-397.
13. Macbryde, J. & Mendibil, K. (2003). **Designing performance measurement systems for teams: theory and practices**. *Management Decision*, 42, 722-733.
14. Meyer, J.P and Allen, N.J. (1997) "Commitment in the Workplace – Theory, Research and Application", *Sage Publications*, Thousand Oaks, CA.
15. Mullins, L. J. (1999). **Management and Organisational Behaviour**. Harlow: Prentice Hall.
16. MULLINS, L.J. 2002. **Management and organizational behaviour**. 6th Edition. London: Financial Times Prentice Hall.
17. Oladimeji, A. (1999). **Human resource management in Nigeria**. Lagos: Business and Institutional Support Associates Limited.
18. Oyesiku, O.O. (2000). **Fundamental of Research Methodology**.Ikeja: HEB Publisher.

19. RADNOR, A. and McGUIRE, M. (2004). **Performance management in the public sector: fact or fiction?** International Journal of Productivity and Performance Management. 53(3):245-260.
20. Risher, H. (2003), “**Refocusing performance management for high performance**”, Compensation and Benefits Review, Vol. 35 No. 5, pp. 20-30
21. Robbins and Coulter, (2003), “**Management**”, 7th ed., Prentice-Hall, Englewood Cliffs, NJ.
22. Waal AA (2006). ‘**The Role of Behavioral Factors and National Cultures in Creating Effective Performance management systems**’, Syst. Practice Action Res., 19(1): 61-79.

Appendix

Research Questionnaire

Please respond to the following research related questions by marking appropriate box in front of each question.

Select only one response per question.

(SA = *strongly agree*, A = *agree*, U = *undecided*, SD = *strongly disagree*, D = *disagree*)

| | | SD 1 | D 2 | U 3 | A 4 | SA 5 |
|-----|---|---------|--------|--------|--------|---------|
| 1* | Our organisation has an established performance management system | | | | | |
| 2* | I am satisfied with the current performance management system in my organisation | | | | | |
| 3* | The performance management system in our organisation is fair and thorough | | | | | |
| 4* | My organisation performance management system clearly spells out my responsibility and reward for performance | | | | | |
| 5* | My organization is good at providing recognition for good performance | | | | | |
| 6* | My organisations ensures I am consulted in the designing of the performance/appraisal system | | | | | |
| 7* | My organization provides a positive feedback for good performance | | | | | |
| 8* | My organisation goals and objectives are clearly stated that makes task accomplishment easy | | | | | |
| 9* | I enjoy my place of work | | | | | |
| 10* | I would still want to work for my organisation in the nearest future | | | | | |
| 11* | I actively carry out all of my organisations responsibility assigned to me | | | | | |
| 12* | The tasks that I do at work are themselves representing a driving power in my job | | | | | |
| 13* | I am happy to spend longer working hours for my organisation | | | | | |
| 14* | The company's interest is most paramount to my personal interest | | | | | |
| 15* | I am ready to contribute ideas and innovation to position my organisation to be the best | | | | | |

Topic: PERFORMANCE MANAGEMENT SYSTEM AND EMPLOYEE'S JOB COMMITMENT: AN EMPIRICAL STUDY OF SELECTED LISTED COMPANIES IN LAGOS, NIGERIA.

*H₀₁: Performance management system has no impact on employee's commitment.

*H₀₂: Employee's participation in designing an organisation's performance management system has no significant effect on employee's commitment.

