An Investigation of Performance Management System and its Effectiveness with Special Reference to Garment Factories in Katunayake Export Processing Zone in Sri Lanka

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Introduction

Human capital can be identified as an essential element of sustainable competitive advantage and thus it is indispensable to focus on the way they are managed (Smith and Rupp, 2002). The critical need of streamlining the human resource outcomes with company vision, mission and strategies led the organizations to put more emphasis on improving employee performance. In this background, managing employee performance can be identified as a key strategic lever to develop and sustain core competencies and as an essential requirement for strategy implementation. Hence, most of the organizations are interested in implementing performance management systems. But, the issue is to which extent these systems are effective. The purpose of this study was to study the performance management systems implemented by garment factories located in Katunayake export processing zone in terms of their systems and effectiveness. The main reason for selecting the garment factories is the performance-driven nature of the sector and the attempts and cost incurred by these factories on performance management systems. Due to these reasons, it is essential to study the effectiveness of their implemented performance management systems and identify the most influential factors on the effectiveness.

Literature review

Armstrong (2015:618) defines performance management (PM) system as 'a set of inter-related activities and processes which are treated as an integrated and key component of an organization's approach to managing performance through people and developing the skills and capabilities of its human capital'. PM system will consist of a range of activities engaged in by an organization to enhance the performance of a target group or a person and finally the organizational performance. Buchner (2007) emphasizes the relevance of motivational theories in developing proper PM system. He identifies Goal-Setting theory introduced by Locke and Latham in 1990, Control theory by Carver and Scheier (1998) and

Social cognitive theory by Donovan which underpin the concept of performance management.

According to Tovey (2010), a PM system consists of main three phases: planning performance, monitoring performance and reviewing performance and finally performance should be improved as well as unsatisfactory performance should be managed. As Tovey (2010) explains, organizations can achieve the objectives of PM through this process as it is more rigorous, clear and specific. Planning performance is an essential element in the performance management process and it can be identified as 'a process of defining the organizational objectives, establishing an overall strategy for achieving these goals and developing a comprehensive hierarchy of plans to integrate and coordinate activities' (Tovey, 2010). After the completion of the performance planning process, individual and team performance should be monitored systematically. After the completion of monitoring performance, collected evidence of employee performance should be reviewed. The reviewing performance step consists of two sub-elements: performance analysis and performance appraisal. Performance should be appraised once after completing analyzing the performance and it is essential to establish a systematic method of appraising employee performance. Personal development plans can be developed based on the appraisal results in order to ensure the continual growth of the employees. Performance management system should be adequate to clearly identify the skill gaps of the employees. This entire process is significant to understand the deviations from the standards. After appraising performance, it is essential to improve the performance as per the requirements. A well-planned performance management system should facilitate the process of managing unsatisfactory performance.

Methodology

Relevant information regarding the garment factories was gathered from the Board of Investment (2016), Sri Lanka. As the unit of study is individual employees, the sample was selected based on the number of managers and executive level employees who were employed at these selected organizations. The total sample size was one hundred and sixty-one employees. A sample of the managerial and executive employees was selected from the population through convenience sampling technique and researcher developed questionnaires were sent to all the individuals in the selected factories (managers and executives). The independent variables of the study were planning performance, monitoring performance, reviewing performance, improving performance and managing unsatisfactory performance. The dependent variable of the study was the effectiveness of a performance management system.

Results and Discussions

Based on the Person's correlation coefficient values, there was a moderate positive correlation (0.529) between planning performance and effectiveness of the PM system which is statistically significant at one percent of error level and a positive relation (0.631) in-between monitoring performance and effectiveness of the PM system which is significant at 99% confidence level. Also, it was identified that in-between reviewing performance and effectiveness of the performance management system has a positive relation (0.563) at 99% level of confidence. Also, there was a weak positive correlation (0.283) between improving performance and effectiveness of the performance management system at 95% confidence level. Supported with the statistical results, it was found that the correlation between managing unsatisfactory performance and effectiveness of the performance management system has positive value (0.278) at 95% level of confidence level. In addition to that, there was a moderate positive relationship (0.691) between overall PM system and effectiveness of the systems at 99% level of confidence.

Regression analysis was conducted in order to identify the impact of the elements of a performance management system on the effectiveness of the performance management system. Multiple regression analysis was used to describe the way in which independent variables are related to the dependent variable. In addition to that, it can be used to derive a linear model or mathematical equation to predict successive data points as better estimations.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. The error of the Estimate
1	.670[a]	.449	.432	.18493

a. Predictors: (Constant), Reviewing Performance, Monitoring Performance
b. Dependent Variable: Effectiveness of the Performance Management System

Source: Survey data, 2016

Adjusted R square value for the appropriate linear regression model is around 0.432 with lower estimation of standard deviation error value (0.18493) (Table 1). As mentioned in the above table 1, approximately forty-three per cent of the variation of the dependent variable is explained by the two independent variables (reviewing performance and monitoring performance)

Table 2: ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	1.783	2	.892	26.074	.000[b]
Residual	2.189	64	.034		
Total	3.972	66			
a. Dependent Variable: Effectiveness of the performance Management System					
b. Predictors: (Constant), Reviewing Performance, Monitoring Performance					

Source: Survey data, 2016

Analysis of variance (ANOVA) table for predicted linear regression line is significant at ninety-five per cent of the confidence interval.

Table 3: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.947	.248		7.840	.000
Monitoring Performance	.222	.057	.458	3.909	.000
Reviewing Performance	.214	.088	.283	2.418	.018
a. Dependent Variable: Effectiveness of the Performance Management System					

Source: Survey data, 2016

Regression analysis was conducted further using 'backward regression' and only two independent variables were found to fit with the model (table 3).

Based on the data analysis, it was found that the effectiveness of the PM system in garment factories in the Katunayake Export Processing Zone is at a good level. Based on the data analysis, effectiveness of the performance management system is positively related with planning performance (0.529 at 99% confidence level), A moderate positive relationship was found between monitoring performance and effectiveness of performance management systems (0.631 at 99% confidence level), a moderate positive relationship between reviewing performance and effectiveness of the system (0.563 at 99% confidence level), a weak positive relationship was figured out between the measures taken by the organization in order to improve employee performance and effectiveness of the performance management system (0.283 at 95% confidence level) and a weak positive relationship was found between the mechanisms which were implemented by the organizations to manage unsatisfactory performance and the effectiveness of the performance management system (0.278 at 95% confidence level). These

relationships were in line with the previous studies conducted by Wong and Snel (2003), Rao (2007), Fox (2010), Daoanis (2012), Qureshi and Hassan (2013) and Dewettinck and Dijk (2013), Ferreira and Otley (2009), Biron *et al.* (2011), Mone, *et al.* (2011) and Komati and Zhou (2013) Taylor *et al.* (1984), Zvavahera (n.d.), Buchelt (n.d.), Qureshi and Hassan (2013), Buchner (2007), Haines and St-Onge (2012), Clark (2015) and Rashidi (2015) .

Conclusions and Recommendations

As per the main objective of this research, performance management system and the effectiveness of the system were investigated and positive relationships were found between different practices of performance management and the contribution of those to system effectiveness. In addition to that, monitoring and reviewing performance were noted as the most critical steps to be handled carefully as these two steps have a greater influence on the effectiveness of the system. Hence, it can be recommended for the organizations to follow a systematic process for managing employee performance and specifically focus on monitoring and reviewing employee performance.

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