The Impact Of Performance Management System On Employee Involvement And Interpersonal Trust: A Survey Among Scientists

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ABSTRACT

The phenomenon of performance management, which holds a significant place in management literature encompasses crucial decision making processes and outcomes and its potential and possibilities gather momentum with every attempt of research and discourse on the topic, the new insights of which are sure to brighten its pathways of progress. This paper attempts to foresee the impact of performance management system on employee involvement and interpersonal trust. This study intends to empirically validate the mediating role of employee involvement in the relationship between performance management system and interpersonal trust. It is envisaged that this study based on primary data collected from 150 scientists working in nationalized research and development organizations in Kerala and carried out during the time period of January – March 2015 ,will add to our understanding of the link between performance management system, employee involvement and interpersonal trust.

Partial Least Squares (PLS) was used to authorize the relationship among the variables. Findings of the study are conferred, together with limitations and suggestions for future research. This empirical study reiterates through its analysis and results that there is significant relationship between performance management system and employee involvement. The study provides a deeper and richer understanding in explaining the relationship between employee involvement and interpersonal trust. Thus performance management system implies employee involvement and interpersonal trust in organization and portrays that employee involvement partially intercedes the relationship between performance management system and interpersonal trust.

Key words: *Performance management system, Employee involvement, Interpersonal Trust, Scientists*

JEL Classification: Research Paper

1. INTRODUCTION

Are current systems of performance management failing to demonstrate good outcomes? This paper contends the idea of illuminating the functional outcomes of performance management which is one of the imperative functions of human resource management. Performance management is a crucial activity as it upsurges performance driven behaviour and consequently the results of the organisation (Waal & Medema, 2006). Michael Armstrong &Angela Baron, (2004) opine that performance management is a process which contributes to the effective management of individuals and teams in order to accomplish high levels of organisational performance. Literature recognises 'performance' both as behaviour and results. (Brumbarch, 1998). (Cones & Jenkins, 2002) believe that: 'individual performance is mostly resolved by the system in which the work is done rather than by the individual's initiative, abilities and efforts.' Performance management is the process through which managers assure that employee's activities and outputs contribute to organisational goals (Gomez& Mejia, 1999) and is illustrated as a data guided approach to managing work behaviour (Daniel& Rosen, 1984). In a nut shell performance management is a means of

getting superior results from the organisation, teams and individuals by managing performance in consonance with organisational strategy.

The second concept delineated through this study is employee involvement, which visualizes every employee as an exclusive human being, not just a cog in a machine, and being involved in aiding the organization meet its goals. Each employee's input is solicited and valued by management. Employees and management recognize that each employee is involved in running the business. (lou, January 2000). Trust is based on confidence that people represent in relationships with no concern about exploiting vulnerabilities (Dyer &Chu, 2000). Empirical in approach, this paper sheds light on the concepts like performance management system, employee involvement, the linkages between performance management system and employee involvement, interpersonal trust, linkages between employee involvement and interpersonal trust.

2. LITERATURE REVIEW

PERFORMANCE MANAGEMENT – LITERATURE REVIEW

Tracing the ancestry of performance management, one may arrive at concepts like merit rating, management by objectives and performance appraisal. W D Scott (1950) was the American pioneer who introduced rating of the abilities of workers in industry prior to the First World War. The term 'management by objectives' was first coined by Peter Drucker (1955) as follows: What the business enterprise needs is a principle of management that will give full scope to individual strength and responsibility and at the same time give common direction of vision and effort, establish teamwork and harmonise the goals of the individual with the common weal. The only principle that can do this is management by objectives and self-control. As defined by the Advisory, Conciliation and Arbitration Service (ACAS) in 1988: 'Appraisals regularly record an assessment of an employee's performance, potential and development needs. The appraisal is an opportunity to take an overall view of work content, loads and volume , to look back at what has been achieved during the reporting period and agree performance objectives for the next'. (Armstrong, 2010)

The earliest reference to performance management in the literature was made by Warren (1972). On the basis of his research in a manufacturing company he defined the features of performance management as follows: expectations, skill, feedback, resources and reinforcement. Beer and Ruh (1976) were of the opinion that performance is best developed through practical challenges and experiences on the job with guidance and feedback from superiors. One of the first books devoted exclusively for performance management was published by Plachy & Plachy (1988). Performance management is communication: a manager and an employee arrive together at an understanding of what work is to be accomplished, how it will be accomplished, how work is progressing toward desired results, and finally, after effort is expended to accomplish the work, whether performance has achieved the agreed upon plan. (Plachy & Plachy, 1988). In the UK the first published reference to performance management was made at a meeting of the Compensation Forum in 1987 by Don Beattie, Personnel Director , ICL, who described how it was used as ' an essential contribution to a massive and urgent change programme in the organisation' and had become a part of the fabric of the business.(Armstrong, 2010)

By 1990 Performance management had entered the vocabulary of human resource management in the UK as well as in the United States. Full recognition of the existence of performance management was provided by the research project conducted by the Institute of Personnel management (1992).The following definition of performance management was produced as a result of this research: ' A strategy that relates to every activity of the organisation set in the context of its human resource policies, culture, style and communications systems. The nature of the strategy depends on the organisational context and can vary from organisation to organisation'. (Armstrong, 2010)

The 1998 IPD research project (Armstrong and Baron, 1998) revealed that in many instances performance management practices had moved on since 1992. Performance management is regarded as a number of intertwined processes. Seen as an unceasing process and not as a once a year appraisal, its spotlight was on employee development rather than on performance related pay. There has been a shift towards getting line managers to accept and own performance

management as a natural process of management. The recognition that performance management had to focus on organisational as well as individual effectiveness, is its ensuing stage of development. As Coens and Jenkins (2002) says: 'An organisation, because it is a system, cannot be significantly improved by focusing on individuals.' The shift now is aligning both organisational and individual performance. Latham, Sulsky and Macdonald (2007) commented that 'a distinguishing feature of performance management relative to performance appraisal is that the former is an on-going process whereas the latter is done at discrete time intervals.' Performance management can be viewed as a natural function of managing that involves the activities of planning, monitoring, analysing and reviewing. It is therefore legitimate to refer to the process of performance management where 'process' is defined as a way of doing things in order to achieve a purpose.

Performance Management System

There are those who object to associating the word 'system' with performance management because of its connotations with the notion of a sort of mechanism. This may be indisputable but the term 'performance management system' is in universal use. Williams (1998) took a systems view when he identified three models of performance management.1) performance management as a system for individual performance 2) performance management as a system for managing organisational performance and 3) performance management as a system for managing individual and organisational performance. A performance management system is a set of interrelated activities and processes that are treated holistically as an integrated and key component of an organisation's approach to managing performance through people and developing the skills and capabilities of its human capital, thus augmenting organisational capability and the achievement of sustained competitive advantage (Armstrong, 2012). A performance management system caters diversified benefits to organisations. A performance management system empowers organizations to plan, measure and control their performance, so that decisions, resources and activities can be better aligned with strategies to accomplish coveted results (Bento and Bento, 2006). There is evidence that an effective performance management system can lead to enhanced organizational performance (Bevan and Thompson, 1991) and contribute to other imperative outcomes such as improved employee involvement, commitment and motivation (Taylor and Pierce, 1999).

A performance management system is "a system that covers all aspects of performance that are relevant for the existence of an organization as a whole". The performance management system should provide management with an insight into "how well the organization is performing its tasks and to what extent the organizational objectives are achieved" (Flapper et al., 1996). This can involve motivating, monitoring, controlling, and rewarding employees for attaining desired outcomes (Lawler, 2003). It contributes to aligning the interests of employees and management by providing a clear indication of the strategic direction of the organization (Becker et al., 2011). Performance management systems are a means of executing organizational strategy by signaling to employees what is really imperative in the organization, fixing accountability for behavior and results, and helping to improve performance (Biron et al., 2011; Bae, 2006). Thus the concept of performance management system is indispensable and has abounding benefits. (Kevin Baird H.S, 2012)

EMPLOYEE INVOLVEMENT – LITERATURE REVIEW

Employee involvement means involvement of employees in their business related enhancement activities, processes and cross functional activities. (Holt, 2002). A deeper and richer understanding of job involvement is provided by Kanunga (1982) specifying that job involvement is the individual's level of psychological identification with the specific job in which he or she is engaged. There are two types of involvement: job involvement and employee involvement. Job involvement is a specific belief regarding one's relationship to one's present job. (Bussing, 2002).

Lawler (1991, 1994) sees involvement as commensurate to participation and distinguishes four elements – power, information, knowledge and rewards. Other writers include influence sharing, participative decision making, the degree of employee involvement, empowerment, participation, consultation and other terms (Black and Gregersen, 1997; Glew *et al.*, 1995; cf. Wagner, 1994;

Cotton *et al*., 1988)

In the opinion of Denison (2007), involvement refers to the level of participation by members in an organization's decision-making process. It also means the sense of responsibility and commitment thereby engendered (Denison, 2007). Involvement entails building human capacity, ownership and responsibility. It is very crucial as it leads to united vision, values and purpose. Employee involvement is also termed participative management and it refers to the degree to which employees share information, knowledge, rewards and power throughout the organization (Randolph, 2000; Vroom and Jago, 1988).

Cai (2001) divided employee involvement into the five dimensions: "work concentration", "work evaluation", "work identification", "work participation" and "fun from work". Alternatively, Yang et al (2006) divided employee involvement into four dimensions, consisting of "fun in work", "work evaluation", "work identification", and "work concentration". Employee involvement can be construed as the direct participation of the staff to help an organization fulfill its mission and meet its objectives by applying their own ideas, expertise and efforts towards solving problems and making decisions. (Robert Bullock, 2010)

Employee involvement can take on a number of varieties, such as: (1) downward communications, including employee involvement practices such as a house journal/company newspaper, employee report and regular briefing session, (2) upward problem solving, such as suggestions schemes, attitude surveys, quality circles, and total quality/customer care programs, (3) financial employee involvement, including profit sharing, employee share ownership, and value added or establishment-wide bonus arrangements, and (4) representative participation, such as joint consultative committees/advisory councils and collective bargaining (Marching ton et al, 1992).

Employee involvement is a process designed to empower members of an organization to make decisions and to solve problems appropriate to their level in the organization (Pace, 1989). The logic of employee involvement is that the people closest to a problem or opportunity are in the best position to make decisions for improvement if they have control of the improvement process. (Honguyi Sun, 2000)

INTERPERSONAL TRUST – LITERATURE REVIEW

In the words of Gibb (1964: 1977), "One of the fundamental dimensions of interpersonal relations and organisation life is the level of trust." It is probably impossible to carry out any activity in an organisation if the interpersonal trust is totally absent in its work culture. (Anwer K ,Prathap Reddy ,M.M , 1994). Trust in the workplace ,whether it exists between co-workers, leaders and followers, employers and employees, between different organizations or towards an institution , has been shown to have a strong and robust influence on a variety of organizational phenomena, including job satisfaction, organizational citizenship behaviors, organizational commitment, turnover, job, employee & team performance, innovative, workplace, and counterproductive behaviors, organizational revenue and profit (e.g. Dirks, 2000; Ferrin, 2001; Flaherty & Pappas, 2000; Frenkel, & Orlitzky, 2005; Tan and Tan, 2000; Simmons & Mclean, 2000; Colquitt et al., 2007)

According to Dyer and Chu (2000), trust is based on confidence that people represent in relationships with no concern about exploiting vulnerabilities. According to Six (2007), interpersonal trust is a psychological state comprising of one's intention to accept vulnerability to the actions of another party. This is based upon the expectation that the other party will perform a particular action that is important to the originating one. Cook and Wall (1980) recognized trust as showing faith and confidence in the ability and intentions of individuals. Lewicki et al., (1998) asserted that trust is usually linked with one's confidence and positive expectation. (Paliszkiewicz, 2013). "Trust is one's expectations, assumptions, or beliefs about the likelihood that another's future actions will be beneficial, favourable, or at least not detrimental to one's interests" (Robinson, 1996). "Trust is a psychological state that manifests itself in the behaviours towards others, is based on the expectations made upon behaviours of these others, and on the perceived motives and intentions in situations entailing risk for the relationship with those others." (A Costa, 2001)

Merriam-Webster on line dictionary has defined trust as an assured reliance on the character, ability, strength, or truth of someone or something. Thus,

trust can be conceptualized in both forms i.e., personal and impersonal forms. Trust is conceptualized differently in various disciplines, including management, ethics, sociology, psychology, and economics as: 1) a behavioral intention or an internal action, similar to choosing, judging, or preferring, 2) synonymous with trustworthiness within the context of personal characteristics that inspire positive expectations on the part of other individuals, 3) a facet of personality that develops early in life and remains relatively stable through adulthood, and 4) a synonym for cooperation or risk taking (e.g. Rousseau et al., 1998; Colquitt et al., 2007).

Interpersonal trust can be delineated as "the willingness of a party to be vulnerable." (Lisa C. Abrams, 2003). Davis and Schoorman (1995) define trust as "the willingness of a party to be vulnerable", which in turn depends on perceived trustworthiness - that quality of the trusted party that makes the trustor willing to be vulnerable. It is an expectation that alleviates the fear that another partner will act opportunistically (Bradach & Eccles, 1989) and that tasks will be accomplished reliably (Sitkin & Roth 1993). Interpersonal trust, thus can be defined as a psychological state comprising the intention to accept vulnerability to the actions of another individual (a trustee), based upon the expectation that the other will perform a particular action that is important to the trustor (e.g. Mayer, Davis, & Schoorman, 1995; Lewis, & Weigert, 1985).Interpersonal trust is positively associated with strategic innovativness. (Fatih Semerciöz,April 2011)

LINKAGES BETWEEN PERFORMANCE MANAGEMENT SYSTEM AND EMPLOYEE INVOLVEMENT

Involvement is more than just the exchange of information. It is the gradual but radical delegation of control to those closest to the process itself. Self-managed teams, cell-based manufacture, autonomous workgroups, high performance work systems, are all examples of true involvement (apostolou, January 2000). Since high performance work systems are part of performance management system, effective functioning of performance management system implies employee involvement.

Teamwork, recognition, process improvement and measurement are predominantly controlled by operational level employees. All levels of employees have involvement. (Holt, L Jawahar Nesan, Gary D, 2002). As measurement and recognition are components of performance management system; performance management system may lead to establish the imperativeness of employee involvement.

In order to implement employee involvement and empowerment to an enterprise the following key actions need to take place 1) Giving employee the responsibility 2) Training employee to accept responsibility 3) Communicating and giving feedback 4) Giving rewards and recognition (apostolou, January 2000). Giving rewards and recognition, as a part of performance management system, seems to have a bearing on employee involvement. For achieving higher levels of job involvement, one method is to offer support for employees and the second method is to provide employees with salient rewards. (Michael P. O'Driscoll, 1999). This implies that a good performance management system is germane to employee involvement.

It seems plausible that effective employee involvement systems require relatively sophisticated human resources capacity. Human resource capacity is reflected in more employee-centered systems of supervision, greater use of teamwork, stronger systems of performance assessment, opportunities for career advancement and reward systems that reflect collective performance. (Eurofound, 2013). This highlights that performance management system can lead to employee involvement.

In one of the studies, it has been depicted that 360 degree feedback can promote increased involvement of people at all levels of the organization. (Diane Bailey , April 2002). As 360 degree feedback is a part of the performance management system, this study contributes to the association between performance management system and employee involvement.

There is evidence that a competent performance management system can result in enhanced organizational performance (Bevan and Thompson, 1991) and contribute to other relevant outcomes such as improved employee involvement, commitment and motivation (Taylor and Pierce, 1999).

LINKAGES BETWEEN EMPLOYEE INVOLVEMENT AND INTERPERSONAL TRUST

Employee involvement refers to the direct participation of staff to help an organization fulfill its mission and meet its objectives by applying their own ideas, expertise and efforts towards solving problems and making decisions. (Bullock, 2010).Trust is defined as "having faith or confidence that other person's behaviour will conform to one's expectations, and behaving towards that person reflecting those expectations". (Anwer K. R., 1994)

Employees who perceived themselves to be empowered had higher levels of interpersonal trust. (Melinda J. Moye, 2005). Empowerment is the process of increasing the capacity of individuals or groups to make choices and to transform those choices into desired actions and outcomes. Thus empowerment increases involvement of people. (web.worldbank.org, 2014). From this we can infer that employee involvement leads to interpersonal trust among employees.

Employee involvement in the process of change is likely to have an impact on interpersonal trust. (Clark and Payne, 1997). The direct involvement of senior managers with all employees is likely to increase interpersonal trust. (D.Morgan, 2014). Morgan (2014) was also of the opinion that direct consultation with higher levels of management is the most successful mechanism in sustaining trust .

When employees experience involvement through direct contact with senior management ,they are more likely to develop trust (D. Morgan,2014). Employee involvement processes have been designed to increase employees interpersonal trust as well as commitment to the organisation. (Magjuka, 1993). There is significant relationship between trust and involvement . (A.Bussing, 2002)

The above debate led to the development of the theoretical model illustrating the linkages between performance management system ,employee involvement and interpersonal trust.Performance management system leads to employee involvement and ultimately result in interpersonal trust.The theoretical model of the study is lucidly sketched here.

Objectives of the study

1. To study the satisfaction levels of employees about the performance management system characteristics.
2. To evaluate the relationship between performance management system and employee involvement
3. To evaluate the relationship between employee involvement and interpersonal trust.
4. To evaluate the mediating role of employee involvement in the relationship between performance management system and interpersonal trust.

Based on the discussion the following hypotheses were developed

Hypothesis 1: There is positive relationship between performance management system and employee involvement.
Hypothesis 2: There is positive relationship between employee involvement and interpersonal trust
Hypothesis 3 : There is a positive relationship between performance management system and interpersonal trust
Hypothesis 4: Employee involvement mediates the relationship between performance management system and interpersonal trust.
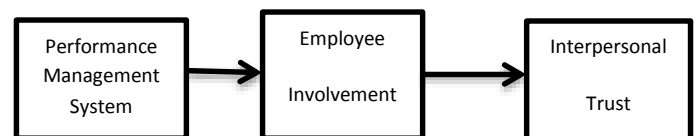
THEORETICAL MODEL FOR THE STUDY

Figure 1 showing theoretical model

Based on the literature review, objectives and the hypothesis, the above theoretical framework was developed. Please refer to Figure 1 which depicts the theoretical frame work of the study.

3. METHODOLOGY

Population and Sample
Population consisted of scientists from nationalized Research &Development organizations in Kerala. The inclusion criteria for selecting R&D organizations were:-

1.) The organization should have performance management system implemented
2.) The organization must have some level of research and development activity.
3.) The designation of the scientist should be junior scientist, senior scientist and principal scientist.

The sample was determined to be 100 scientists from 3 nationalized research and development organizations in Kerala.

Measures

The performance management system questionnaire was adopted from the SHRM/PDI Performance Management Survey 2000. Responses were rated on a five point Likert scale with anchors—(1) strongly disagree to (5) strongly agree.

The employee involvement was measured using the scale (Vandenberg et al., 1999). The responses were measured using a five point Likert scale ranging from strongly disagree (1) to strongly agree (5).

The interpersonal trust was measured using the Specific Interpersonal Trust Scale by Johnson-George, C., & Swap, W. C. (1982). The responses were measured using a five point Likert scale ranging from strongly disagree (1) to strongly agree (5).

4. DATA ANALYSIS

The Partial Least Squares (PLS) was adopted for analyzing the theoretical model in this study. PLS was first introduced by H. Wold (1975) under the name *NIPALS* (*nonlinear iterative partial least squares*), and it focuses on maximizing the variance of the dependent variables explained by the independent ones. (Michael Haenlein, 2004). PLS was used to test the theoretical model.

Partial least squares analysis is a multivariate statistical technique that allows comparison between multiple response variables and multiple explanatory variables. This technique was designed to deal with multiple regression when data has small sample, missing values, or multicollinearity. (Pirouz, 2006)

The goal of partial least squares is to predict Y from X and to describe the common structure underlying the two variables (Abdi, 2003). Partial least squares is a regression method allows for the identification of underlying factors, which are a linear combination of the explanatory variables or X (also known as latent variables) which best model the response or Y variables (Talbot, 1997).

The PLS Test results for the study are as follows:-
Table 1 showing PLS results

	PMS	EI	IT
R – Squared		0.566	0.345
Adj R –Squared		0.557	0.317
Comp.Reliability	0.901	0.952	0.894
Cronbach Alpha	0.877	0.947	0.873
Avg Var.extracted	0.559	0.511	0.513
Full Collin VIF	2.318	2.421	1.486
Q –Squared		0.567	0.352

Warp PLS software, the first SEM software which identifies non-linear relationship among latent variables and corrects the values of path coefficients accordingly, was used for this study. The individual item reliability is evaluated by examining the loading of the measures with the construct; all the indicator loadings in the study are higher than 0.7 and is acceptable (Hair et al., 2011). All the composite reliability indexes in the study are higher than the expected 0.7(Hair et al., 2010). All the cronbach alpha measures in the study are greater than the expected 0.7(Nunnally&Bernstein, 1991).Please refer to Table 1 for the PLS results.

The primary evaluation criterion for the structural model is R^2 measures along with the level of significance of the path coefficients. R^2 reflects the share of the latent variables explained variances and it varies between 0 and 1.The larger the R^2 the larger is percentage of variance explained. In the study a 56% variance in Employee Involvement ($R^2 = 0.56$) is caused by PMS. And 34% variance in Interpersonal trust ($R^2 = 0.34$) is caused by Employee Involvement.

Analysis of Partial Mediating Effect of Employee Involvement

Mediational effect of employee involvement in the relationship between performance management system and interpersonal trust was done with PLS - SEM. The mediation analysis followed the Baron and Kenney (1986) approach for testing mediation.

Baron and Kenney approach is one of the most widely used procedure to test the effect of a mediator in the relationship between an independent variable and a dependent variable. Baron and Kenny (1986) procedure confirms mediating influence when the following conditions are satisfied in a relationship.

Step 1: Independent variable should have significant effect on the mediator. (path a)
Step 2: The mediator should have significant effect on the dependent variable. (path b)
Step 3: Independent variable should have a direct significant effect on dependent variable. (path c)
Step 4: The effect of independent variable on the dependent variable when the effect of mediator is also controlled should be less than its direct effect on dependent variable. (path c')

Complete mediation is the case in which the independent variable no longer affects dependent variable and mediator has been controlled and so path c' is zero. Partial mediation is the case in which the path from independent variable to dependent variable is reduced in absolute size but is still different from zero when mediator is introduced. (D.A, 1986)

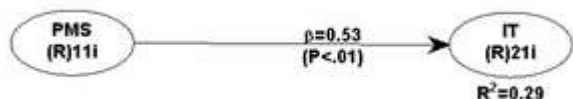**Figure 2: The direct relationship between PMS and IT**

Figure 2 shows the direct relationship between independent variable and dependent variable .Path c is significant

Figure 3: The relationship between PMS and IT when EI is introduced
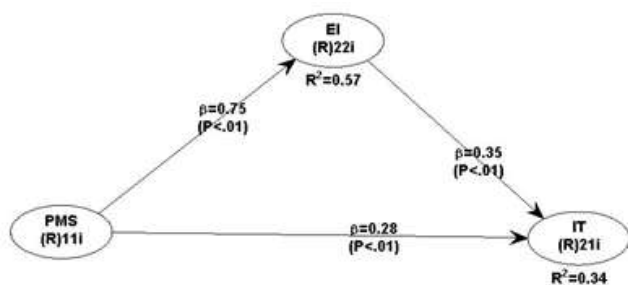

Figure 3 shows the relationship between performance management system and interpersonal trust when employee involvement is introduced. The direct relationship between performance management system and interpersonal trust as per the analysis is found to be $\beta = 0.53$. But when the mediator variable employee involvement is introduced the path from the independent variable performance management system to dependent variable interpersonal trust (path c') is reduced to $\beta = 0.28$. Thus the conditions of the partial mediation effect confirmed by Baron and Kenney method is fulfilled here. The study proves that the variable employee involvement partially mediates the relationship between performance management system and interpersonal trust.

Table 2: Path coefficients with the mediator (Employee Involvement)

Path	Path Coefficient
PMS → IT	0.28
EI → IT	0.35
PMS → EI	0.75

Table 3: Path coefficients (without Employee Involvement)

Path	Path Coefficient
PMS → IT	0.53

Tables 2 and 3 depicts the path coefficients of the study.

5. DISCUSSION AND CONCLUSION

The theme of performance management system is a matter of concern for organizations across the globe. Repeatedly, the literature suggests that performance management system is indispensable for the success of organizations. The paper investigates the relationship between the variables; performance management system, employee involvement and interpersonal trust. This empirical study reiterates through its analysis and results that there is significant relationship between performance management system and employee involvement. The study provides a deeper and richer understanding in explaining the relationship between employee involvement and interpersonal trust. Thus performance management system implies employee involvement and interpersonal

trust in organization and portrays that employee involvement partially intercedes the relationship between performance management system and interpersonal trust.

Despite the significant academic interest in performance management system and employee involvement and interpersonal trust, there is a dearth of literature investigating the relationships of the three variables; performance management system, employee involvement and interpersonal trust in the Indian context and beyond. This paper sheds light into the relationship among performance management system, employee involvement and interpersonal trust in the Indian context. By creating a good performance management system, the organization can endeavor for an elicit employee involvement and interpersonal trust.

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