The Effect of Performance Management System Implementation: The Case of a Malaysian Service Organisation

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ABSTRACT
The objective of this research is to investigate the impact of employees’ attitude derived from the usage of Balanced Scorecard (BSC) Customers’ perspective as the Performance Management System (PMS) in ABC Service Organization (ABC). Other objectives include finding solutions to improve existing Performance Management System (PMS) practices and to identify issues and challenges in its implementation which merits further research. A total of 1000 respondents were surveyed and the data was analysed using Pearson Correlation Analysis and Regression Analysis. Analysis of results indicated that there is a positive relationship between the implementation of BSC Customer’s perspective and Employee Attitude in ABC. The implication of this research benefits the organization in terms of employees’ effectiveness and the pervasiveness of the performance metric implementation.

Keywords: Organizational Performance, Employee Attitude, Performance Management System, Balanced-Score Card.

1. Introduction
1.1 The Importance of Measuring Employee Attitude in Enhancing Organisational Performance
This research examines the perception and attitude of the employees of a Malaysian organization on the Performance Management System and its effectiveness on the organization. Many business companies nowadays are using various methods of Performance Management Systems to enhance the efficiency and the productivity of their employees. Some of the methods used are Six Sigma, Balance Scorecard (BSC), and Social Return on Investment (SROI) etc. Hence, it is critical for the employer to analyse the
effects and the implication of the measurement towards the attitude of their respective employees. This is because the organization needs to raise the performance and productivity in order to generate the expected profit.

2. Objectives of the Study

Based on the research questions and hypothesis, this research has two objectives:

(i) To identify the effects of implementing Performance Management System on employees’ attitude in pursuit for better performance

(ii) To investigate the pervasiveness of Balanced Scorecard Customer’s perspective approach in the development of effective Performance Management System.

3. Literature Review

Traditional management control systems have been obsolete because of the inability to provide the relevant information for decision-making (Johnson & Kaplan 1987). Hence, a new performance management system which could be relevant, timely and able to produce the necessary information has been found to be critical in this information era (Otley, 1999). However, Otley (1999) proposed that there are two major roles for the Performance Management (PM): firstly, PM must ensure that the employees usually follow the policies and procedures at all times in order to protect the interests of the organisation and secondly, the new PM must have the ability to motivate the employees to act in accordance with the organisational goals and objectives. Moreover, some scholars have claimed that performance management has been found to involve some processes of quantifying action that should lead to performance (Neely etal. 1995). The limitation of the top down approach was discovered and it was suggested that the PM should include conscious reflection of the strategy, objective and the organisational culture (Smith & Goddard, 2002).

3.1 BSC as a Strategic Management System

Strategy and vision are at the core of the Balanced Scorecard. Necessary action or behaviour according to the vision must be taken by the employees in order to achieve the agreed goals. Kaplan and Norton (1996) have highlighted four important processes in linking BSC with the strategy:
i. Overcoming the vision barriers through the translation of strategy
ii. Cascading the Balanced Scorecard to overcome the employee’s barriers
iii. Strategic resource allocation to overcome the resource barriers
iv. Strategic learning to overcome the management barriers

(i) Overcoming the vision barriers through translation of strategy

The usage of BSC in this research is to provide guidance to the organisation on the overall strategy that has translated nebulous declarations into measurable achievements. The mission, vision and core values of the organisation would only be established if the organisation takes necessary action or behaves accordingly and thus, BSC acts as a tool to transform vision based on the management’s strategy.

(ii) Cascading the scorecard to overcome the people`s barriers

Norton (2002) stated that 95 percent of the workforce did not understand the organisation’s strategy. BSC elaborates on the mission and the strategy by providing “line of sight” from the director’s office to the front line (Azhar, 2008). Therefore, employees know clearly their specific functions and contributions to the overall outcome of the organisations. Hence, the employees could agree to emphasize on the performance drivers that could lead to the desired outcomes by the management.

(iii) Strategic resource allocation to overcome the resource barriers

Resources and processes are the two critical elements that BSC could assist in ensuring the success of managing the organisation (Kaplan & Norton 2002). The missed opportunity on recruitment and the inability of the firm to realize the processes would affect the final outcome.

(iv) Strategic Learning to overcome barriers

This research will identify the processes carried out in the course of implementing the performance management system by ABC Manufacturing. The lack of information had caused the obtained knowledge to be short term in nature and obsolete. Hence, it is critical to gain the accurate information combined with the vision, resources and people’s barriers in the organisation.

3.2 Employee Attitude

Employee attitude plays a vital role in determining organisational performance in the long run because it could lead to the employees’ desired behaviour and attitude that are needed
in order to achieve the objective, mission and vision of the organisation (Moorhead & Griffin, 1992). Kreitner and Kinicki (1992; 1998), stated that attitude could be defined as ‘a learned predisposition to respond in consistently favourable and unfavourable manner with respect to a given object’. Moreover, Moorhead and Griffin (1992) outlined that attitude could arise from three major factors namely organisational factors, group factors and personal factors.

Employee attitudes are associated with vital aspects of organisational behaviour such as job performance. Nevertheless, despite the increasing attention among scholars on employee attitude, research by Mowday et al. (1982) shows a negative relationship between job satisfaction and absenteeism and turnover. However, positive attitudes should occur when the workers have high job satisfaction resulting from the opportunity for promotion and recognition (Du Brin, 2005). Saari and Judge (2004) stated that management must be able to understand the relationship between business performance and work environment through employee attitude. The internal and external factors that affect the work situation or working environment would enhance the employees’ capabilities to the fullest.

3.3 Hypothesis for this Research
To achieve the objectives of this research, the following hypothesis was tested.

**Hypothesis 1: There is evidence of a positive significant relationship between the BSC Customer Perspective and the Employees’ Attitude in ABC.**

The hypothesis analyses the effect of the Performance Management System on the employees’ attitude in ABC Service Organisation.

4. Methodology

This research uses a positivist paradigm, which is a quantitative approach used mostly because of its main strength: generating precise, quantitative, numerical data from large survey sizes. Furthermore, the findings from this approach are reliable and can be generalised and replicated on many different populations (Maxwell & Delaney, 2004). The objectives of this research, however, are largely directed at understanding the effects of organisational culture and performance management system towards the employees’ attitude in government agencies. This is the main reason why only the quantitative or deductive approach is being applied in this research.
A research is conducted as a quantitative research due to the application of a more quantitative design for well-known subjects (Ward, Pearson & Entrekin, 2002). Furthermore the research was conducted in a natural environment of the organisation, thus, the interference and bias is minimized by the researcher. Moreover, this research is concerned with the statistical significance and effect size for an overall model; hence, the correlation and regression analyses were appropriate.

The Social science research could be made available through case research, exploratory, descriptive or hypothesis testing (Cavana et al., 2001). However, Morgan, Gliner and Harmon (1999) comments that if there is little or no information available about the subject, the researcher must perform an exploratory research so that the grasp of the phenomena or interest on the subject matter could be obtained. Hypothesis testing is applicable in establishing and understanding further the relationship between the variables (Cavana et al., 2001; Morgan, 1999). A total of 1000 respondents were randomly selected and surveyed in the particular organization. The respondents represented a variety of management levels; specifically junior, middle as well as upper level management. Prior to the fieldwork, a pilot testing was conducted with a sample of 50 individuals to ensure the validity of the questionnaire. To analyse the data, regression analysis was used in order to determine the relationship between the studied variables.

5. Analysis of Findings and Discussion

From a total of 1000 questionnaires, 507 responses were collected out of which 400 were usable, implying response rate of 40%. Of the 400 respondents, 256 (64%) were males and 144 (36%) were females. In terms of age composition, 150 (37.5%) were less than 30 years, 127 (31.7%) were between the ages of 30 and 40, while the remaining (30.8%) were of the age of 40 or above. In terms of educational background, a total of 150 or 37.5% of the respondents were degree holders, 187 or 46.8% were diploma holders, 49 or 12.3% held school certificates, whereas 10 or 2.5% were post-graduate and 4 or 1% of the remaining respondents held professional qualifications. The breakdown compositions of respondents in terms of organizational positions are as follows: 226 (38.2%) were junior level employees, 150 (37.5%) represented the mid-level and the remaining 24 (6%) were from top level management. In terms of working experience, a total of 153 (38.2%) had less than 5 years of experience, 172 (43.0%) had between 5 to 15 years and the remaining 75 (18.8%) were senior staff with more than 15
6. Reliability Test for This Research

Testing the reliability of the questions using Likert’s Scale showed that data from this research were reliable with a Cronbach’s Alpha value of at least 0.70 as shown in Table 1.1. Sekaran (2003) states that the closer the alpha value is to 1 means, the more reliable is the data. In general, scores less than 0.60 are considered to be poor, those in the range of 0.60 to 0.70 are acceptable, and those over 0.80 are considered good. Therefore we can conclude that the data collected in this research are reliable and acceptable. The Cronbach’s Alpha for the 5 items in BSC Customer perspective components was .701 in this research. According to Hair et al. (1998), ‘the generally agreed upon limit for Cronbach’s Alpha is 0.70 although it may decrease to 0.60 in exploratory research’. Thus, all components in BSC Customer perspective have been found to be reliable in this research.

<table>
<thead>
<tr>
<th>Questions Category</th>
<th>Cronbach’s Alpha</th>
<th>No of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Perspective</td>
<td>0.701</td>
<td>5</td>
</tr>
</tbody>
</table>

Table 1.2: Summary of Result of Pearson Correlation Analysis

<table>
<thead>
<tr>
<th>Variables</th>
<th>R Value</th>
<th>R-Square</th>
<th>F-Statistic</th>
<th>Std. Error Estimate</th>
<th>P-value</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>BSC Customer</td>
<td>0.43</td>
<td>0.18</td>
<td>89.32</td>
<td>0.31</td>
<td>&lt;0.001</td>
<td>Significant at p&lt;0.001</td>
</tr>
</tbody>
</table>

Table 1.3 Pearson Correlation Analysis

<table>
<thead>
<tr>
<th>Perspectives</th>
<th>Pearson’s R</th>
<th>R²</th>
<th>F-statistic</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>BSC Customer Perspective</td>
<td>0.43</td>
<td>0.18</td>
<td>89.32</td>
<td>&lt;0.001</td>
</tr>
</tbody>
</table>

7. Result of the Pearson Correlation Analysis (PCA)

Firstly, referring to table 1.3, the Pearson Correlation Analysis (PCA) evaluated the BSC Customer perspective and found it to be significant with a p value of less than 0.001 and a Pearson R value of 0.43. Thus, the BSC Customer was a significant predictor of EA because the R Value was 0.43 and R square was 0.18 with the p value less than 0.001. Each component of
the BSC Customer had a significant proportion of its variance explained by Employee Attitude components. The findings also indicated that the BSC Customer perspective and EA in the sample share 18 percent of their variation in common. The hypothesis, which states that there is evidence of a significant positive relationship between the BSC Customer perspective and Employees’ Attitude in ABC, was thus supported by the findings of this research.

8. Regression Analysis

Table 1.4: Summary of Regression Analysis

<table>
<thead>
<tr>
<th>Variables</th>
<th>R Value</th>
<th>R-Square</th>
<th>B</th>
<th>Std. Error of Estimate</th>
<th>P-value</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>BSC Customer</td>
<td>0.43</td>
<td>0.18</td>
<td>0.143</td>
<td>0.31</td>
<td>&lt;0.001</td>
<td>Significant</td>
</tr>
</tbody>
</table>

A standard regression was performed with employee attitude as the dependent variable and BSC Customer as the Independent variable. The correlation coefficient (R= 0.43) was significantly higher than zero, F (1,398) = 89.32, p less than 0.001, and 18.3% of the variation in the dependent variable was explained by the sets of independent variables (R² = .183). BSC Customer, β=.143, t=9.45, p less than 0.001, was found to significantly and uniquely contribute to the prediction of Employee Attitude. The overall result of the regression model is significant as p=0.000, less than the threshold of 0.001. This indicates that BSC customer as the independent variable significantly affects the dependent variable, the EA. The result also shows that R-squared for BSC Customer is 0.18 which indicates that the independent variable contributes 18% towards the dependent variable (employee attitude) and the significant value is less than the alpha value of 0.05. The value of standardized coefficient also indicates the relative importance of this independent variable in the Regression analysis. Referring to Table 1.4, for BSC Customer, it is an evidence of a positive relationship β being 0.143 is an evidence of a positive relationship. The result of the standardized coefficient (beta) reveals that BSC customer perspective (β=0.428) is a relatively important predictor of Employee Attitude (EA) as the variable is significant. Therefore, Hypothesis H₁ is supported.
9. Discussion and Conclusion

The results of the analysis from this study show a positive significant relationship between performance management system and employee attitude. This positive finding is similar to Kaplan and Norton’s (1996) study which concluded that the positive relationship actually leads to organisational improvement in terms of quality of work and productivity. The positive relationship provided evidence for this particular organization having a balanced framework for PMS practices. Examining the relationship between BSC Customer perspectives and Employee Attitude, it was revealed that BSC customer is significantly related to the Employee Attitude. Work performance is affected by role clarity, motivation and satisfaction levels, work attitude, and ability (Carmeli & Freund, 2004). The customer perspective in BSC postulates that the customer factor was one of the major requirements in the performance metric implementation because it emphasized critical quality characteristics (Coronado & Antony, 2002). Thus, the hypothesis presented evidence of a positive significant relationship between BSC Customer perspectives and the employees’ attitude in ABC. This was relevant, valid and incorporated into this research. The main contribution of the research was the outcome of the implementation of PMS towards the employees’ attitude in ABC, within the existence of an organisational culture. The role of employee attitude is found to be critical in determining the success of an organisation’s performance. Previous research has been silent on the effect of PMS towards the attitude of employees. Thus, this research has focused on and measured the work attitude that has been a great influence in the effectiveness of job performance. This research is in line with the statement made by Morehead and Griffin (1992), which suggested that employees' attitude plays a vital role in determining organisational performance in the long run because it could lead to the desired employee behaviour required to achieve the missions and objectives of a firm.

In Malaysia, the use of BSC Customer’s perspective is gaining importance in line with the global push towards performance management systems as a means to enhance the agency’s growth and to maintain organisational discipline and focus. A Balanced Scorecard is useful in translating strategy to realisable goals with KPIs measuring performance (Bourne &Bourne 2007). It is a necessity, especially for larger organisations such as ABC who have adopted more informal means of managing resource allocation and goals. However, prior literature was silent on these research hypotheses, especially on several key issues on policies and practice pertaining to this kind of research. Furthermore, empirical studies reveal that the work-related attitude is
vital and contributes significantly to increase the level of performance and productivity in the organisation (Misener et al., 1996; Moorhead & Griffin, 1992). The customer’s perspective in BSC has affected the attitude of the ABC employees and this finding shows that this perspective has been neglected or overlooked by the management. Overall, the universal perspective which provides the empirical basis for the behavioural-based theory has been supported in this research. The PMS practices were found to be significantly associated with the work related attitude which consisted of job satisfaction and the organisational commitment. The results of this research underlines the values of creating enriched and challenging activities such as open communication and power sharing to change the firms’ management style in order to improve the effectiveness of Human Resources practices and consequently, organizational performance (Guerrero & Barraud-Didier 2004). This research has also supported the findings of Moorhead and Griffin (1992), the work of Aldag and Kuzuhara (2002) and the research by Messersmith, Patel and Lepak (2011) which prescribed that the work related attitude or employees’ attitude could positively influence the work outcome or organisational performance.

References


