RESTUCTURING THE RELATIONSHIP BETWEEN PERFORMANCE MANAGEMENT AND EMPLOYEE ENGAGEMENT

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Abstract

This is a conceptual study which proposes a new model exhibiting the relationship between performance management system (PMS) and employee engagement (EE), using social exchange theory. Although, there could be many determinants which could affect employee engagement; this particular study intends to review the impact of performance management system on increasing trend of employee engagement. Thorough literature review and synthesis has been carried out for the said theoretical study proposing a new model (Not complete range of articles in the relevant field, however, specific criteria for review has been followed). Relationship of each variable and construct has been established through strong theorizing and logical reasoning. The article covers the broad spectrum activities of performance management system, whereas, the role of HR and Supervisor/Leader has been inculcated as moderators for strengthening its relationship with the employee engagement. Literature shows a positive relationship between PMS and EE if employees receive due care and support from HR and have strong leader-member exchange relationship. Further, future researchers may test the same in different geographical location, demographic features, whereas various personality traits may also be tested since engagement is an individual decision and may vary across various traits; for instance, age race and gender etc. in different cultural settings as individual personality traits vary with the variance of cultural effects.

Keywords: Performance Management, Employee Engagement, Leader-Member Exchange, Personality Traits.

JEL Classification: M 120

Introduction

In today’s era of competition, organizations have led many of their interest and attention to explore the ways of improving employees performance. The ultimate success of employees performance is based on employees engagement because getting employees engaged with full passion is one of the major sources to meet the competitive advantage (Bhattacharjee & Sengupta, 2011). It has been widely acknowledged that employees are crucial for overcoming the challenges organizations are facing (Rich, Lepine, & Crawford, 2010; Vance, 2006) due to the fact that these employees turn to be unknown...
the essential dynamics for effectively running the organizational functions (Rich, Lepine, & Crawford, 2010; Vance, 2006). It is the human which has become capital now and organizations who have these desired human assets (knowledge workers) are at the top at the moment due to the fact that these employees turn to be organization’s asset, add value effectively and efficiently and increase organizations profitability as well as gain competitive advantage in today’s knowledge economy (Bhattacharjee & Sengupta, 2011; Memon, 2014b). Thus, it is very important for the organizations now to have such employees who could work with full passion, commitment and dedication while having clear understanding of organizational goals and mission. Moreover, they employees should have the sense of ownership, which makes them consider every single tiny matter as their own and they resolve it to their best for the maximum satisfaction of customers and building positive organizational image (Bhattacharjee and Sengupta, 2011; Jose & Mampilly, 2012; Lockwood, 2007; Memon, 2014a).

Looking at this scenario, the concept of Employee Engagement (EE) and the ways in which employees can be engaged are becoming more important for the HR managers and they are taking great interest in making employees feel at ease and satisfied (Bedarkar & Pandita, 2014; Dash, 2012). Similarly, line managers or departmental heads who are leading these knowledge workers would be keen to make them agree to work for the organization with full devotion and commitment and would try to get maximum out of these employees (Bhattacharjee & Sengupta, 2011; Lockwood, 2007).

There could be a number of ways through which Engagement can be increased, however, one of the most important tools is performance management system (PM). This particular study intends to examine the impact of performance management system on increasing trends on employee engagement. The reason is that everybody is involved in PM system, from the top management till the lower level employees including all Managers, HR, Accounts/Finance even customers and suppliers. PMS is critical for improving the organizational effectiveness because it is a key source to get employees engaged and to get their work done. The researchers, therefore, aim to review the papers in the same field to highlight and synthesize the relationship between PM and EE.

In this paper, the researchers covered all the important and relevant works accomplished by various studies in the field of performance management and employee engagement. At very first, the researchers defined and operationalized the definition of performance management and employee engagement then they logically interpreted and synthesized the work done in the same fields. Finally, the researchers proposed a model exhibiting the relationship between PM and EE through social exchange process whereas the role of HR and Supervisor/Leader inculcated as moderators. To gain a better understanding of the relationship between PM and EE, the researchers reviewed around thirty-three papers from the relevant domain. The search engine used was Google Scholar whereas, the keywords used were “performance management”, “employee/work engagement”, “leader-member exchange”, “social exchange theory/process” and “HR and employee engagement”. In total approximately 70 papers were selected matching these keywords, although not complete selection in relevant field/area, however, these were further shortlisted in second stage for the specificity criteria i.e., combination of keywords were used in the title. Further, gray literature such as non-academic research, reports and other than English were excluded. This is how finally we got 33 articles for analysis and synthesis.
**Review Work**

**Performance Management**

Generally speaking regarding the Performance Management (PM), it is a systematic way of connecting employees with the performance appraisal through some steps mainly consisting of setting goals, improvement of the employee, assessment, reward and feedback (Mone et al., 2011). The major purpose of Performance management is the configuration of organizational goals and objectives with the employees’ skills and competencies and the accomplish the long term objectives through the improvement of the organization as well as human resources and thus it’s a continuous and unending course of action rather than a single time activity (Bhattacharjee & Sengupta, 2011; Aguinis, 2011). The tasks of PM are accomplished through the manager/supervisor of the worker who is primarily responsible for leading, motivating, using the skills as well as the development of employees for the advantage of the organization etc. (Bhattacharjee & Sengupta, 2011). Taking into account the fact that Performance Management includes mentoring, coaching, feedback and training and development etc. activities. Thus, the question arises that who performs all these functions and tasks in an organization for the employees? Research shows that there is a mixed role of Employees’ Supervisor/Leader and HR to continue and perform these activities efficiently. Both have to play their role to accomplish the desired goals and objective by the engaging employees (Castellano, 2012).

Performance management has a tendency to offer a complete and clearer picture to each organizational individual that what exactly is he doing and how much he has achieved. Similarly, what kind of skills and competencies an organization does have and what areas are required to be developed and thus, enlightening the shadowy areas of the organization while informing regarding the well-built areas as well (Tung, Baird, & Schoch, 2011). By knowing the dark and bright areas, organizations propose long-term strategies, describe its measures and handling procedures for mandatory performance and keep appropriate direction hence proposing it as a continuous and on-going task which is not that straightforward, though, the requires tolerance, dedication and exertion to take organization to the accurate track and requisite standard (Tung et al., 2011).

**Employee Engagement**

Kahn (1990) was the first to make use of the terms of personal engagement and personal disengagement and described the psychological conditions for getting employees engaged and disengaged. He demarcated the term personal engagement as “the harnessing of organization members selves to their roles, in engagement, people employ and express themselves physically, cognitively and emotionally during role performances” whereas Macey and Schneider, (2008) defined disengagement as “the uncoupling of selves from work roles, in disengagement, people withdraw and defend themselves physically, cognitively or emotionally during role performances”. According to him, in personal engagement, people get involved themselves in full role through their heart, head, and hands (Rizwan, Khan, & Saboor, 2011) even exclusive of the presence of anyone else they are accessible whereas in disengagement people get uninvolved, non-cooperative, hiding ideas and matters, values and believes. Later on, the term work engagement has been defined by Schaufeli et al. (2002) as: A positive, fulfilling, work-related state of mind that is characterized by vigor, dedication, and absorp-
tion. Rather than a momentary and specific state, engagement refers to a more persistent and pervasive affective-cognitive state that is not focused on any particular object, event, individual, or behavior. (p. 74)

Vigor is illustrated as a higher degree of liveliness and mental toughness during work, the enthusiasm to spend exertion in one’s work, and determination even in the times of hurdles. Dedication means, being energetically concerned about one’s work and encountering a feeling of worth, passion, motivation, self-importance, and challenge. Absorption is differentiated by being fully determined and joyfully engaged in one’s work, whereby one finds it difficult to detach oneself from work even after passing so much time instead finds the time lesser and passing it quickly (Schaufeli et al., 2002).

Further, Saks (2006) defined the term employee engagement as “a distinct and unique construct consisting of cognitive, emotional, and behavioral components . . . associated with individual role performance” (p. 602).

**HR and Supervisor/Leader’s Positive Role**

According to Bhattacharjee and Sengupta (2011), HR works as a bridge between organization and employee and has its role from the hiring of the employee till exit interview thus the PM can be utilized as a means for company success by aligning organizational goals, through supervisors, with employees targets.

Lockwood (2007) posited that organizations are now looking towards HR for gaining competitive advantage through employees engagement and commitment. HR can make communication strategy for the development of a positive organizational culture, support and psychological well-being of employees. Additionally, company’s objectives, mission products/services can also be branded internally through HR communications (Lockwood, 2007).

Mone et al. (2011) put emphasis on the usage of the performance management as one of the most valuable tools for developing employee engagement through the supervisor/leader’s inescapable and dominant role in coaching, mentoring, creating training and development opportunities as well as building an environment of trust and confidence. Leadership manipulates and influences the thoughts, behaviors, and attitude of employees, therefore, it is considered to be the most imperative factors, resulting in employee performance and satisfaction (Memon, 2014a) ultimately leading towards employee engagement by adopting transformational leadership style (Tims, Bakker & Xanthopoulou, 2011).

**Social Exchange Process**

According to Cropanzano and Mitchell (2005), social exchange theory put in plain words a relationship that is established on certain “rules of exchange” i.e. mainly on reciprocation. This relationship is recognized with the passage of time while shaping itself into loyalty, trust and commitment. Further, the relationship works on the basis of some give and take and thus they call this as
“Reciprocity as interdependent exchanges”.

Blau (1964), describes the concept of Social Exchange Theory by comparing economic and social exchanges. According to him “only social exchange tends to engender feelings of personal obligations, gratitude, and trust; purely economic exchange as such does not” (p. 94). He also argued that “the benefits involved in social exchange do not have an exact price in terms of a single quantitative medium of exchange” (p. 94), portraying that social exchanges create lasting social patterns, resulting in one’s commitment for the other (p.101). Further Social exchange categorizes the two of these, one as having power and status whereas the other having dependence for the provision of services and goods thus normative constraints (e.g., fairness) encompass the proper exchange rates (Cook & Rice, 2003) and form the basis of motivation for forming employees attitudes and behaviors (Settoon, Bennett, & Liden, 1996). However, this power and status of one exchanging partner have created social uncertainty as well due to the fact that he can take an opportunity and deviate from his commitments. Therefore, trustworthiness and perceived support/fulfillment of commitment provide a feeling of safety, reduces the uncertainty and enhances the productivity and efficiency (Cook & Rice, 2003).

Further explaining the Social Exchange Relationship in Work Setting Cropanzano and Mitchell (2005) have explained different models focusing the “Perceived organizational support” (exchange relationship between employer and employee), “Leader-Member Exchange” (exchange relationship between employee and supervisor/leader) and the “Trust” (exchange relationship of Employee with Employer and Supervisor) provide the “Quality” social exchange relationship.

The concept of Perceived Organizational Support was developed by Eisenberger, Huntington, Hutchison, and Sowa (1986) while proposing that those organization which care about employees well-being and value their contribution are able to generate and get employee commitment. Due to this perceived organizational support, employees feel obligatory to work with zeal and zest and contribute in return. (Wayne, Shore & Liden, 1997). Further, POS would have a greater effect on those having strong exchange ideology than those having a weak exchange ideology whereas “employees develop global belief concerning organizational support, in part, to infer organization’s readiness to reward greater effort toward meeting organizational goals” (Eisenberger et al., 1986). Thus high POS leads to higher engagement of employees in Organizational Citizenship Behavior (Cropanzano & Mitchell, 2005)

According to Wayne et al. (1997), the better care and value given by the organization builds up a level of “Trust” that organization will fulfill its commitments regarding the incentives and rewards which may be informal (e.g., appreciation, mentoring) or formal (up gradation of post, salary increases) ultimately leading towards organizational citizenship behavior. Further, the perceived organizational support and leader-member exchange (LMX) are positively related to performance ratings. LMX influences the employee positively due to the support and guidance from the supervisor/leader and results in the reciprocation of the employee in the form of performance results that are beyond expectations.

From the above literature review, it is evident that there is a lot of research that has already been carried out individually on the concepts of employee engagement, HR’s role in organization or
impact of HR on organizational performance, however specifically the impact of Performance Management on Employee Engagement in relation with the moderating role of HR and Supervisor/Manager has not been tested earlier, in the light of social exchange theory.

Accordingly, we propose the following model. The analysis and synthesis of the model is also presented below in brief.

**Conceptual Model**

![Conceptual Model Diagram](image)

**Figure 1**: Proposed Model for the relationship between PM and EE

**Performance Management - Employee Engagement and HR and Leader-Member Exchange Relationship**

Performance Management and Employee Engagement

According to Social Exchange Theorists, if individuals get negative performance appraisal, they are more likely to engage in counterproductive work behaviors. Those who perceive to get unfavorable treatment, will react in reciprocity and feel angry and get dissatisfied while showing the negative behaviors of arriving late, absenteeism, taking longer breaks etc. whereas their co-workers also get affected through their misbehaving, sabotaging their work, cursing etc.

Performance management is a well thought-out process which gives the opportunity to a manager and the person to sit together and make a decision regarding the goals with mutual consent, whereas HR plays its role in this relationship by providing guidance to both, the manager and employee, towards the accomplishment of organizational and individual’s personal goals. This is a well structured process, although difficult to implement and get perfect results but it involves the whole organization while generating a cooperative and learning environment all around. All activities of PM require the profound involvement of top management, supervisor/leader, employee, and HR. Employees get engaged due to the win-win situation created by supervisor/leader and HR. Only integrated
and aligned activities working at the organizational level may lead to the condition which provides the desired outcomes (Gruman & Saks, 2011; Kondrasuk, 2011)

Performance Management, Engagement and Leader-Member Exchange

Chatman et al. (1999) discussed that Supervisor/leader is assumed to play an important role in configuring the employees’ attributes including their engagement towards work. Keeping in view, goal setting can be accomplished with the mutual consent of leader-employee exchange where, goals for organizational growth as well as individual’s growth can be planned together giving them the sense of involvement, motivation, and support. Further, employees training and development activities can be performed through the involvement of HR adding a factor, towards the motivation of employees, by investing in them. Similarly, mid-year reviews or periodical reviews may be conducted while giving employees the required feedback and support, especially in low performing areas. Similarly, if employees are performing well then Supervisor/ Leader may initiate the rewards and recognition process through HR systems and policies, prevailing in the organization. All these activities motivate employees and they truly engage towards dedicated performance as reciprocation.

According to Wright (2003), employees motivation is one of the most important tasks of a good manager, as motivation is a main force that compels an employee to perform well. So a manager can make use of a number of theoretical approaches as defined through Goal setting theory, expectancy theory, and MBO based concepts. Thus it’s the supervisor/leader of the employee who moderates and strengthens the relationship between PM and EE by making employees motivated and happy and increasing their job satisfaction leading towards engagement (Levy & Williams, 2004). In high exchange relationship between leader and employee, an employee would feel obligatory to engage in job roles especially those who directly benefit the leader and beyond his job role where the leader would support the employee reciprocate through rewards and other benefits (Wayne et al., 1997).

Performance Management, Engagement and HR

Whitener, Brodt, Korsgaard and Werner (1998) recognize that HR plays a critical role in managing the whole situation and guiding managers to handle the individuals effectively through their various interventions and positive role. HR practices, policies and programs may influence the perceptions of engagement. One of the significant elements is the Performance Management which may influence positively or negatively to the managerial trustworthy behavior. Accordingly, through the performance management activities i.e. timely feedback, opportunity to participate in goal setting, managerial open communication, evidence based-judgment and fair rewards stimulate the employees towards encouraging work engagement.

Bedarkar and Pandita (2014) emphasized that HR managers and organizations use motivational tools and adopt various strategies determined as the “drivers of employee engagement” so as to get employees motivated and offer relevant performance results leading towards organizational performance and success. The key drivers being focused in their study are communication, leadership and work-life balance whereas the impact of these drivers on employee performance and well-being have also been analyzed. It can be analyzed that leadership is one of the most important drivers where
communication being done through the leader or HR, being organizational representatives impacts significantly on getting employees engaged. The authors have quoted another research mentioning top 5 global engagement drivers in 2010 which were found to be “career opportunities, brand alignment, recognition, people/HR practices, and organization reputation”, showing that HR policies and practices are one of most important concerns of employees (Bedarkar & Pandita, 2014).

Most of these activities are due to HR policies and programs for instance, career management/opportunities is the area of HR where they design and implement the career paths of all employees specially the key positions. Similarly, Employee Recognition and Reward programs, being one of the most important factors of employee motivations, are designed and implemented through HR. The criteria of Recognition and associated rewards are planned in coordination with employee’s supervisor/leader, by the HR.

Further, all training and development activities, whether inside or outside the organization are being initiated by HR and performed in coordination with various supervisors/leaders of employees. Thus, HR can play a vital role in shaping organizations to have a positive environment and culture where employees feel at ease and relaxed so that they can share and learn anything without any fear and find themselves, a part of the organization while developing the sense of ownership leading employees to truly engage at work where they perform their goals and tasks as desired by the organization and organization give them benefits in reciprocation, which they actually deserves.

**Conclusion, Implications, and Limitations**

The study concluded and presented a unique and innovative idea of linking and utilizing performance management as a tool for showing care and concern from the top management as well from leaders, through a detailed literature review. Literature shows a positive relationship between PM and EE if employees receive due care and support from HR and have strong leader-member exchange relationship.

The study encourages practitioners to experience new methodologies of conveying the feelings of concern, care, protection through various HR interventions, supervisor/leader’s mentoring behaviors and communication system being the most affecting drives of employee engagement leading towards employee performance (Bedarkar & Pandita, 2014). Organizations can easily provide them meaningfulness, safety, and availability, as proposed by Kahn (1990). These would remove the negative feelings from employees even if their personalities have faced negative life events earlier, through the supportive role and association of supervisor/leader while giving the feeling of safety and availability resulting in boosting up of their confidence and meaningfulness of life as well as job role (Castellano, 2012). The employee in reciprocation, perform even beyond the expectations in exchange of perceived Leader-Member exchange relationship and organizational support and work for the special benefit of leader (Dirks & Ferrin, 2001; McEvily et al., 2003; Wayne et al., 1997).

In addition, future researchers may study the association of employee engagement with the individual personality traits. Personality traits may get affected due to positive LMX role and HR interventions. Such as individuals having neurotic personalities are able to mold themselves and
develop enough trust to enable them to get engaged and provide the desired outcomes. Further, personality traits can lead employees to get truly engaged through various HR interventions and mentoring role of supervisor/leader.

The limitations of this particular research is that the researchers are just proposing a model instead of testing the same empirically. However, future researchers may test the same especially in different geographical location, demographic features, for instance, age race and gender etc. in different cultural settings as individual personality traits vary with the variance of cultural effects as well (Kular et al., 2008). Further, different models may be tested apart from the Big Five Factor Model for measuring especially the relationship between PM and EE.

References


Performance is based on employees' engagement because getting employees engaged with full passion is one of the essential dynamics for effectively running the organizational functions (Rich, Lepine, & Crawford, 2010). Thus, it is very important for the organizations now to have employees turn to be the organization's asset, add value effectively and efficiently, and increase organizational citizenship behavior. Further, the perceived organizational support, employees feel obligatory to work with zeal and zest, and thus, enlightening the shadowy areas of the organization while informing regarding the well-built employee engagement by adopting transformational leadership style (Tims, Bakker & Xanthopoulou, 2007).

Accordingly, we propose the following model. The analysis and synthesis of the model is also presented in this paper. The conceptual model is based on the understanding of the literature review. It includes the exchange relationship between leader and employee, an employee would feel obligatory to engage in the exchange relationship. It is consistent with the exchange relationship. It is consistent with the exchange relationship between the manager and the person to sit together and make a decision regarding the goals with mutual consent, which is also feasible and can be completed with the mutual consent of the leader-employee exchange where, goals can be configured the employees' attributes including their engagement towards work. Keeping in view, performance management, engagement, and leader-member exchange and aligned activities working at the organizational level may lead to the condition which provides the development of a positive organizational culture, support and psychological exchange relationship.

In addition, future researchers may study the association of employee engagement with the exchange relationship.


