

# Performance Management Practices in Listed Companies from Sri Lanka

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*In today's world of business, the role of quality among employees is imperative for companies to survive in the competitive in global market. Hence, performance management practices (PMP) have been indispensable for companies. This study intended to scrutinize whether employee capacity, years of existence and ownership of listed companies relate to PMP in Sri Lanka. The companies that have been listed in the Colombo Stock Exchange were selected as the sample for the study and, with a firm level unit of analysis, a self-administered survey was conducted covering all the companies using the five point Likert scale of 27 statements. 244 questionnaires were distributed among either human resource manager or performance managers or human resource development manager respondents on behalf of the company and 216 returned questionnaires were deemed usable for further analysis amounting to 88% response rate. In a pilot study, it was revealed that the measurement scales met the acceptable standards of validity and reliability analyses. Independent Sample T-test and One-Way ANOVA methods were used to test the objectives of the study. The results of the study concluded that there is no statistical relationship between the employee capacity, years of existence and ownership with PMP of listed companies in Sri Lanka.*

**Keywords:** Colombo Stock Exchange, Employee Capacity, Listed Companies, Ownership, Performance Management Practices, Years of Existence

**JEL Classification:** M21, G31, M50

## 1. Introduction

In general, the performance management practices are identified as crucial factors for determining the organizational performance. Hence, the organisational competitive advantage is maintained by performances of the individuals who are capable of assisting the organisation to achieve the desired strategic aims (Dessler, 2011). Armstrong (2000) proposed that performance management (PM) offers the opportunity to get better results from the whole organisation or from the teams and individuals from that particular organisation, by

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understanding and managing performance within a predefined framework of planned objectives, standards and competence requirements. As such, as the overall objective, PM is identified as an attempt to verify how the organisation and its subsystems such as processes, units and employees contribute in unity at its highest level to reach the expected outcomes of an organization (Holloway et al. 1999; Castka, et al., 2003). So, it is necessary to recognize how PMP assists to the realization of Sri Lankan listed companies' performance management.

### 1.1. Research Gap

The foregoing evaluation of literature obviously highlights that a number of authors have examined (Armstrong and Baron, 1998; Verbeeten, 2008; Roland and Verbeeten, 2009; Fiona *et al.*, 2015) PMP in different organizations in different contexts around the globe but no study has been conducted in listed companies in Sri Lanka. Because of that reason, the present study has been intended to examine the PMP followed by the listed organizations in Sri Lanka. Hence, the problem of the study is: Are employee capacity, years of existence and ownership related to the PMP being followed by the Sri Lankan listed companies?

### 1.2. Objectives of the Study

The present study has been undertaken to pursue the following broad objectives:

1. To study whether employee capacity is related to PMP being followed by the Sri Lankan listed companies.
2. To examine whether years of existence is related to PMP being followed by the Sri Lankan listed companies.
3. To analyse how ownership is related to PMP being followed by the Sri Lankan listed companies.

## 2. Theoretical Framework

Considering the existing literature, the theoretical framework that was developed for this study is depicted in Figure 1. The independent variables are suggested for employee capacity, years of existence and tenure of listed companies and the dependent variable for PMP.

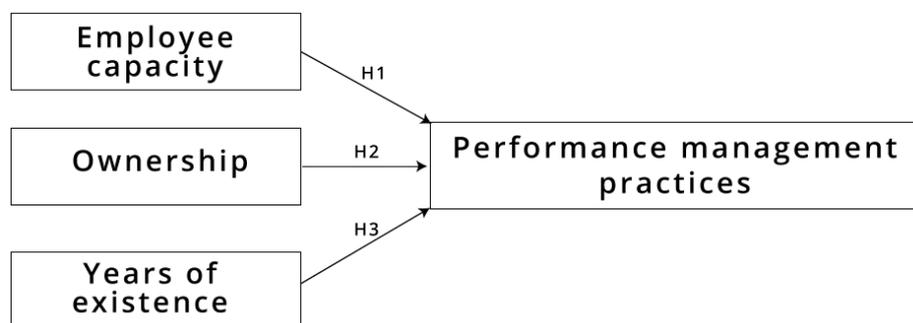


Figure 1. Theoretical framework

#### **Employee Capacity**

Employee capacity refers to the number of employees currently employed in the company. The importance of employee capacity is partly due to its role as the source of the firm's capabilities (Biron *et al.*, 2011). Previous studies (Fiona, *et al.*, 2015; Garengo and Bititci, 2005) mention that the PMP depends on employee capacity. However, Verbeeten (2008) mentions that the company PMP does not depend on employee capacity. As such, the first hypothesis is:

H1: A Performance management practice of listed company is positively related to employee capacity.

#### **Ownership**

Ownership denotes the ultimate owner of the company. It shows whether the company is Sri Lankan or foreign. Further, this study needs to identify any differences between the PMP and ownership in the Sri Lankan listed companies. Therefore, the next hypothesis of this study is as follows:

H2: A Performance management practice of listed company is positively related to ownership.

#### **Years of Existence**

Years of existence is the number of years in which the listed company had been established in Sri Lanka up to 2016. Furthermore, it emphasizes the age of the company situated in Sri Lanka. This study needs

to verify whether there is any relationship between the PMP and the years of existence in the Sri Lankan listed companies. The final hypothesis of this study is as follows:

H3: A Performance management practice of listed company is positively related to years of existence.

### **3. Research Methodology**

The study was conducted both on primary and secondary data. It means that the study depends to a great extent on primary data that have been gathered through a well-structured questionnaire and also secondary data through publications, journals, books etc.

#### **3.1. Sample and Procedure**

The study was confined to all Sri Lankan listed companies (244) registered in the stock exchange market and conducted under the universal sampling method. There was a company level unit of analysis of the respondents for the study which included the representatives from the company: the human resource manager or performance manager or human resource development manager. Then, the researchers maintained closer contact with each and every company and got the names of the above verified managers while confirming their consent and preference for sending the questionnaire; either via e-mail or mail. This was followed by the sending of a cover letter consisting of the questionnaire and personally addressing them with a request in prepaid return envelopes stating the general purpose of the study and highlighting that all the essential steps have been taken to keep the identity and the responses of managers strictly anonymous and confidential.

#### **3.2. Measurement of Variables**

The questionnaire that elicits facts under two sections took about 5 to 6 minutes for respondents to complete. Questions under the Section A were dealing with the demographic factors about the listed companies as well as Section B with PM. As the prevailing data, employee capacity grouping in this study as less than 500 employees, between 501 – 1000 employees, between 1001 - 1500 employees, between 1501- 2000 employees, More than 2000 employees. All above grouping levels were measured through 1,2,3,4 and 5 points. Further, it was observed an interval in the level of measurement of the employee capacity. The present data categorized the years of existence in this study as less than 5 years, between 6 -10 years, between 11 -15 years, between 16- 20 and more than 20 years. There was an interval in the level of measurement of the years of existence and points were allocated as 1 to 5 respectively. When the ownership measures, 1 point was given to the Sri Lankan firm and 2 to a foreign firm.

#### ***Performance Management Practices***

Performance management is a mean of developing better results and signs of improvement from the entire organisation or the groups or people inside it, by comprehension and managing performance inside a concurred structure of planned objectives, principles and competence prerequisites (Armstrong, 2009). PMP were measured by a well-established instrument developed by Dumond (1994) and dimensions include: organizational objectives and strategy, organizational performance needs, organizational performance expectations, performance management process and measuring effectiveness. The five-point Likert scale of the range from 1-5, denoting 'Strongly Disagree to Strongly Agree', was used to measure each item in the research instrument and the research were operationalised above five dimensions into different indicators created on literature.

### **4. Data Analysis**

In this process, the data was first moved to the Statistical Package (SPSS Version 21.0 for Windows) for Social Sciences. At the initial stage, the data set was subjected to a preliminary statistical analysis to check for the accuracy relating to data entering and coding prior to working out with the results of the study. A total of 244 questionnaires have been distributed and 218 were received back. After the scrutiny of these questionnaires, 2 questionnaires were rejected on account of incomplete responses. Finally, 216 completed questionnaires were used for the present study.

#### **4.1. Validity and Reliability**

For ensuring the reliability and the validity of the tools, a pre-test was carried out using 30 questionnaires. The reliability measured through a Cronbach alpha result was .966 (Scales that received an alpha score of over .7 are considered to be reliable; Hair et al., 2010), KMO value was .568. Thus, all the items

present adequate correlation in the construct (KMO value for PMP were more than .5, which is considered to be good (Hair, et al. 2010) and Bartlett's test value was .000.

**Table 1. Validity and Reliability**

Dimension	KMO Value	Bartlett's test value	Cronbach's Alpha
PMP	.568	.000	.966

## 5. Results

As shown in Table 2, the majority of the respondents are Sri Lankan (73.6%), and the rest (26.4%) are foreign ownership. The study revealed that there is an equal percentage (21.3) of existence in listed companies between 6-10 and 16-20 years: 20% of companies with more than 20 years of existence, 19% of companies with less than 5 years of existence, the rest of 18% of companies with between 11-15 years of existence; also 43% of the companies have less than 1000 employees, while 57% companies have more than 1000 employees.

**Table 2. Demographic Factors**

Variables		Frequency	Percentage
Ownership	Sri Lankan	159	73.61
	Foreign	57	26.39
Years of Existence	Less than 5	41	18.98
	Between 6 - 10	46	21.3
	Between 11 - 15	40	18.52
	Between 16- 20	46	21.3
	More than 20	43	19.91
Employee Capacity	Less than 500	38	17.59
	Between 501 - 1000	55	25.46
	Between 1001 - 1500	58	26.85
	Between 1501- 2000	30	13.89
	More than 2000	35	16.2

Cronbach's Alpha retrieved from the SPSS output for all the five PMP dimensions has been summarized in the following table.

**Table 3. Reliability Statistic for Performance Management Practices Dimensions**

Dimensions	Cronbach's Alpha	Number of items
Organizational objectives and strategy	0.877	5
Organizational Performance Needs	0.866	4
Organizational Performance Expectations	0.880	6
Performance Management Process	0.887	9
Measuring Effectiveness	0.779	3

From above Table 3, all of the five dimensions have Alpha Cronbach's values above .7, the accepted limit for the reliability test. The values indicate that there is good internal consistency among the scales. Having considered that the overall reliability of the questionnaire is above .7, it can be concluded that the questionnaire is reliable.

The following table explained the ANOVA analysis between the employee capacity and PMP.

**Table 4. Employee Capacity and Performance Management Practices**

Employee capacity	N	Mean	df1	df2	Levene Statistic P-value	F (ANOVA)	P- value
Less than 500	38	3.3705	4	211	0.076	1.838	0.123
Between 501-1000	55	3.5391					
Between 1001-1500	58	3.5526					
Between 1501-2000	30	3.652					
More than 2000	35	3.4477					
Total	216	3.5139					

According to Table 4, the p-value for Levene's test for equality of variance is .076, which is more than .05. Thus, equality of variances is assumed. The p-value of the ANOVA is .123, which is more than .05 and indicates that the employee capacity does not vary due to the average PMP.

The results of the Independent Sample T-test between ownership and PMP are shown in Table 5.

**Table 5. Ownership and Performance Management Practices**

Ownership	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	P-value	t	df	P-value (2-tailed)	Mean Difference	Std. difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variance assumed	2.04	0.155	-1.53	214	0.128	-0.11167	0.07299	-0.25555	0.0322
Equal variance not assumed					0.095	-0.11167	0.06628	-0.2429	0.01955

According to Table 5, Levene's test for equality of variance, the p value (.155) indicates that it is reasonable to assume the equal variance between two groups. The p value (.128) of the equality of mean test does not reject the null hypothesis of equality of means between the Sri Lankan and foreign companies.

The ANOVA analysis, between years of existence with PMP in the listed companies is presented in the Table 6 below. The p-value for the Levene's test for equality of variance is .071, which is more than .05. Thus, it is assumed that there is an equality of variances. The p-value of the ANOVA is .454, which is more than .05 and indicates that the average PMP does not vary due to the years of existence.

**Table 6. Years of existence and Performance Management Practices**

Years of existence	N	Mean	df1	df2	Levene Statistic P-value	F (ANOVA)	P-value
Less than 5	41	3.46	4	211	0.071	0.919	0.454
Between 6-10	46	3.58					
Between 11-15	40	3.56					
Between 16-20	46	3.53					
More than 20	43	3.42					
Total	216	3.51					

## 6. Discussion, Conclusion and Recommendations

There is no statistical evidence to prove the PMP of listed company is positively related to employee capacity. As a result, the first hypothesis of this study was rejected. It means that there is no relationship between the employee capacity and PMP in the Sri Lankan listed companies. This finding was confirmed by previous research Verbeeten (2008) conducted on PMP in public sector organizations getting the same results.

The second hypothesis of the study is also rejected, i.e. that the PMP of listed company varies along with the ownership of that company. According to the findings, there was no significant difference between the local and foreign companies PMP. Based on the results of the study, the third hypothesis is also rejected. There is no statistical proof to prove that there is a relationship between PMP of listed company and years of existence.

The outcomes of the study were key factors to ratify that no significant relationship exists between employee capacity, years of existence and ownership of listed companies related to PMP in Sri Lanka. All Sri Lankan listed companies, whether local or foreign, perform PMP in a similar manner as well as the employee capacity and the years of existence do not effect on the PMP. The result of this study is dynamic in a theoretical as well as an empirical scenario.

However, this study was limited to Sri Lankan listed companies. The instrument ought to be refined for better outcomes and a comparative study with other sectors as well as including other countries for further research.

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