

Is Herzberg's Two Factor Theory Valid in the Context of Performance Management System? A Study of Private Banks of Pakistan

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Abstract

This paper attempts to examine various elements of performance management system in connection with the Herzberg's two factor theory of job satisfaction. Data were collected from three private banks of Pakistan using electronic version of two available instruments (performance management system accuracy; and job satisfaction). A sample of 292 respondents was selected and structural equation modelling (SEM) technique was used for analyses of the data in SPSS V-19 and AMOS V-21. The results indicated positive and significant effect of all the three factors of PMS—performance planning, feedback/coaching, and performance review/rewards—on motivation and hygiene factors. The study combines four HRM theories—goal setting, expectancy, control, and two-factor—proposing that success of one theory relies on the other. The research is novel in a way as the elements of performance management system have been studied for the first time from the perspective of its employee related outcomes (Motivation and hygiene factors) in Pakistani context. Practical and research implications of these findings are also discussed.

Keywords: Performance Management System, Herzberg's Two Factor Theory, Motivation, Hygiene, Feedback

Introduction

Performance Management System (PMS) has emerged as an effective management process in contemporary organizations (Thursfield and Grayley, 2016). It is a system of managing the ends and means to achieve performance goals for individuals and organizations together (den Hartog, Boselie, and Paauwe, 2004; Aguinis and Pierce, 2008; Lawler and McDermott, 2003; Pulakos, 2009). PMS is a comprehensive package (Kolic, 2009), which helps align employees' goals and outcomes to overall organizational objectives (Armstrong, 2015). Previous research (e.g., Lee, 2005; Shield, 2007; Pulakos, 2009) has defined PMS as a continuous, futuristic and participative process of

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defining, controlling, reviewing and rewarding the performance of employees truly in line with the broad organizational objectives.

Exhaustive research has been carried out on organizational benefits and outcomes of PMS in near past. The contemporary research focuses more on employee aspect of PMS and stresses upon exploring its linkages to employees' related outcomes like motivation, empowerment, performance etc. (Mishra, 2014; Sharma, Sharma and Agarwal, 2016). Although Sharma et.al (2016) studied the relationship between PMS and job satisfaction, however they did not consider motivation or hygiene factors as determinant of satisfaction or dissatisfaction at work. Moreover their study was conducted in Indian context and as indicated by Broadbent and Laughlin (2009), the contextual variation brings design implications and set specialized challenges for the organization. The success or failure of the process is purely dependent on the context that varies on the basis of multiple internal, external, social and societal factors. Therefore the current paper attempted to establish and verify the required relationship between various activities of PMS and employee motivation as well as hygiene factors (employees' related outcomes) in Pakistani context (Ahmad and Allen, 2015), which is a missing link in the existing literature.

The two-factor theory also known as motivator-hygiene theory was proposed by Herzberg, Bernard and Snyderman (1959). It presented two totally different continuum (from satisfaction to no-satisfaction and from no-dissatisfaction to dissatisfaction) to segregate the elements responsible for satisfaction and dissatisfaction of employees at work. The theory postulated that presence of certain job attributes (Motives) lead to satisfaction and their absence to no-satisfaction at work. On the other hand a completely different set of job elements (Hygiene) lead to dissatisfaction or no dissatisfaction at work (Sanjeev and Surya, 2016). This theory of job satisfaction has not been studied in the context of performance management system previously as done in the current research conducted in private banking sector of Pakistan.

Banking Sector in Pakistan

The existing two tier banking system of Pakistan includes State Bank of Pakistan, commercial banks, specialized banks, development finance institutions (DFIs), microfinance banks and Islamic banks. Currently 26 banks are operating in Pakistan including three national, three nationalized, five specialized and fifteen private banks (www.sbp.org). The private banking sector of Pakistan has adopted multiple HR policies and is well ahead of the public sector organizations in both implementation and outcomes in this regard. However, still research and development is a missing link that enables the organizations

to make better informed decisions especially from HR perspective (Bowra et al. 2012). Therefore the researcher selected the private banks for study, perceiving a well-established and effective PMS and dynamic HR in place.

Literature Review

Contemporary organizations are adopting PMS as a tool to achieve organizational effectiveness (den Hartog et al. 2004; Aguinis and Pierce, 2008). Lawler and McDermott (2003) find a strong correlation between PMS based on strategy driven and jointly established performance goals, performance based pay/compensation system, development planning and organizational effectiveness. However, as advocated by DeNisi and Pritchard (2006), the system success is dependent on rigor and seriousness of implementation effort. PMS acts as a source of motivation for people to develop and optimally utilize their skills to achieve their capability and participate ambitiously in growth process of the organization (Thite, 2004). Claus and Briscoe (2009) highlight the significance of design and implementation of such a system and its expected outcomes. They are of the opinion that in order to reduce the ambiguity, the managers should be able to describe their expectations in specific, measurable, attainable, relevant, and time-bound statements.

PMS has been viewed as a management technique comprising planning, executing, assessing, reviewing and measuring the HR performance (Cmolik, 2002). Hence, PMS provides a good theoretical reflection where goal setting theory (Locke, Shaw, Saari and Latham, 1981) control theory (Klein, 1989), expectancy theory (Vroom, 1964) and two-factor theory (Herzberg, 1968) combine to provide a useful framework for comprehension and effectiveness of such a system (DeNisi and Pritchard, 2006; Buchner, 2007; Dewettinck and Dijk, 2013).

Goal setting theory (GST) explains the criteria for effective goal setting that leads to employee motivation and better performance. According to this theory the extent of difficulty and specificity of a goal lay the foundation of the effectiveness of goal setting process (Locke et al., 1981; Donovan, 2001). Goal specificity enables people to prioritize and focus on expected performance. Similarly, difficult goals help people to utilize their knowledge and abilities and achieve the targets (Buchner, 2007). The first activity of PMS focuses on effective planning and goal setting, which is embedded in GST.

Control theory (Klien, 1989) explains self-monitoring behaviour of people who keep comparing their actions and desired targets. It is also known as the feedback control and reduces the difference between the

result standards and observed consequences of actual action (Buchner, 2007). Monitoring, feedback and review are the key elements of an effective PMS and extend the validity of control theory.

Expectancy theory (Vroom, 1964) postulates that people are motivated to the extent of their comprehension and expectations (expectancy) that their effort (instrumentality) shall produce desired results and will be positively rewarded (valence) accordingly. The theory is associated with important elements of PMS that encompasses participative planning process where employees are encouraged to set their goals and expectations and are provided with requisite resources and guidance to accomplish these. Employees are well cognizant of the fact that their efforts shall produce desired outcomes and rewards accordingly; therefore, they strive to achieve the targets (Armstrong, 2015).

Two-factor theory of job satisfaction was given by Herzberg et al. (1959) where he had identified several factors affecting job satisfaction. According to him achievement, recognition, work itself, responsibility, advancement and growth are the factors that motivate employees to perform better at work. On the other hand elements like salary, status, company policies, supervision, relationships (with peers, supervisors), and working conditions can lead to their dissatisfaction, if negative. The theory provides strong grounds for success and failure of an effective PMS, therefore the same has been selected for current study, which attempts establishing a relationship between the four aforesaid theories and revalidating these in Pakistani context.

Conceptual framework and research hypotheses

This study was conducted to develop understanding of PMS effectiveness from employees' perspective where it is assumed that positive relationships exist among various elements of PMS (Performance planning (PP), Feedback/coaching (FBC), Performance review/ Rewards (PR)) and job satisfaction (motivation and hygiene factors). As indicated in the study model (Fig.1) six hypotheses were developed on the basis of previous literature and tested for proposed relationships in the current study.

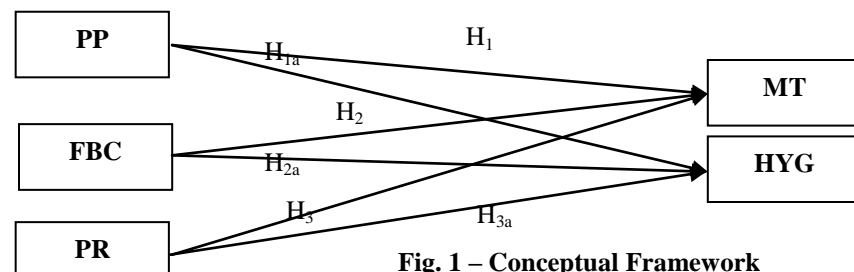


Fig. 1 – Conceptual Framework

Previous research (Armstrong, 2006) has reported positive links between participative planning (goal-setting) and employee motivation. Bronkhorst, Steijn and Vermeeren (2015) have indicated that goal setting (comprised of goal difficulty ($b = 0.623$) and goal specificity ($b = 0.184$)) has a significantly positive impact on employee work motivation. The goal setting theory (Locke, 1977) has also presented the same phenomenon that effective goal setting leads to enhance employee work motivation. On the bases of these studies, the current study hypothesizes that:

H1: Performance planning has a significantly positive impact on employee motivation.

H1a: Performance planning has a significantly positive impact on hygiene factors.

Anseel and Lievens (2007) find a significantly positive impact ($b = 0.31$, $p = 0.00$) of feedback environment on job satisfaction. In another study by Sommer and Kulkarni (2012), feedback indicated even better impact on Job satisfaction ($b = 0.50$, $p = 0.00$). Some other studies (Burgers, Eden, Engelenburg and Buningh, 2015) also report similar results and provide the bases for following two hypotheses.

H2: Feedback/coaching have significantly positive impact on employee motivation.

H2a: Feedback/coaching have significantly positive impact on hygiene factors.

Blau (1999) reports a significant impact of performance appraisal satisfaction on employee job satisfaction ($b = 0.16$, $p < 0.01$). Similarly, Kuvaas (2006) finds a significant impact ($b = 0.28$, $p = 0.000$) of performance appraisal on employees' intrinsic motivation. Linda (2011) considers performance reviews as helpful in empowering and encouraging employees to take control of their own performance. Kalleberg (1977) also finds a significantly positive impact of various types of rewards on employee job satisfaction (Intrinsic rewards, $b = 0.493$; Convenience rewards, $b = 0.339$; financial rewards, $b = 0.369$; career rewards, $b = 0.364$; co-worker rewards, $b = 0.323$; resource adequacy rewards, $b = 0.405$). To and Tam (2013) also indicate similar results, however the value of job satisfaction (against rewards) is found different for different groups ($b = 0.08, 0.31, 0.33$), which indicates the subjectivity of the concept. Therefore, the current research also hypothesizes the positive impact of performance review and rewards on elements of job satisfaction, for which following hypotheses were developed:

H3: Performance review/rewards have a significantly positive impact on employee motivation.

H3a: Performance review/rewards have a significantly positive impact on hygiene factors.

To test the aforementioned hypotheses, the study adopts the following methodology.

Methodology

The data were collected from different branches of private banks located in three main cities of Pakistan namely, Islamabad, Rawalpindi and Lahore. The PMS accuracy scale, developed by Sharma et al. (2016), comprising twelve items was used for data collection for the independent variable. The tool was separated into three sub sections namely performance planning (PP), Feedback/coaching (FBC) and performance review/rewards (PR). There were three items measuring performance planning which is the first and the most important phase of an effective PMS. The items indicated important characteristics of good goals/plans as already mentioned in goal setting theory and many other studies. These are goal clarity or specificity, role/behavioural requirements to achieve the goals, and a basic need of altering the strategies/plans in accordance with changing circumstances while ensuring mutual collaboration between the manager and employees. The scale also focused on necessity of linking the individual and the organizational goals, which is a basic and the most important part of effective goal setting process. The second important element of PM–feedback/coaching (FBC)–was measured by four items. These items show the importance of ongoing and continuous feedback and coaching during the year and indicate its importance from employees’ perspective. The third constituent of PMS–Performance review/rewards (PR)–was measured by five items, which include requirement of objective annual assessment and accuracy of PR in accordance with the preset goals and objectives. Moreover the consequent part of this element comprised two items. These items indicate importance of decision making in performance review process, performance rating and how it is linked to the monetary and non-monetary rewards.

On the other hand the dependent variables motivation and hygiene factors were measured through the scale developed by Herzberg et al. (1959). The tool comprised fourteen items, where five items–achievements, advancement, growth, responsibility, work itself pertain to employee motivation, and nine items–interpersonal relations with peers, interpersonal relations with superiors, job security, organizational policy and administration, recognition, salary, status, supervision and working conditions–are hygiene factors.

Data were collected on a five point Likert scale ranging from strong disagreement (1) to strong agreement (5) and a neutral point (3)

for the ease of indecisive response. Electronic version of the tool was developed and floated amongst the employees. A total of 350 employees were approached, out of which 297 replies were received over a time span of five months. Five responses were incomplete, hence discarded and remaining 292 were used for CFA and structural equation modelling conducted in AMOS version 21 and SPSS version 19. The instruments were checked for their internal consistency through Cronbach's alpha, and found in the range of 0.733 for FBC to 0.885 for Hyg, which were fairly acceptable and within the desired limits (George and Mallery, 2003). Data also confirmed the absence of multicollinearity (Table 1). The correlation matrix indicated values within the range of 0.263 for FBC-Hyg to 0.785 for Mot-Hyg. Moreover the values of tolerance ($0.887 < 1$) and VIF ($1.512 < 10$) were also found satisfactory for further analyses (Graham, 2003; Sastry, 1970).

Analysis and Results

The two scales used in this study were borrowed, which had gone through validity and reliability processes by previous researchers. However, as these were used in different contexts and combinations, confirmatory factor analyses (CFA) were conducted for revalidation of the survey items. CFA confirmed the specificity of relationship/free inter-correlation between measures and their underlying constructs (Anderson and Gerbing, 1988). As suggested by the researchers (Byrne, 2013; Pugesek, Tomer and Eye, 2003; Byrne, 2013), fitness of the CFA model was assessed on the basis of multiple criteria (χ^2 , CMIN/DF, comparative fit index (CFI), root-mean-square error of approximation (RMSEA), goodness-of-fit index, (GFI) and adjusted goodness-of-fit index (AGFI) (Byrne, 2013) . Results are shown in Table 2.

Table 1: Internal consistency, Multicollinearity and Correlation analyses

Variables (No. of items)	Mean (S.D)	Cronbach's α	Multicollinearity		Correlation					
			Tolerance	VIF	1	2	3	4	5	
1. PP (3)	4.04 (.442)	.803	.628	1.593	1					
2. FBC(4)	4.08 (.434)	.733	.655	1.527	.564**	1				
3. PRC (5)	3.81 (.521)	.737	.808	1.237	.302**	.293**	1			
4. Mot (5)	4.08 (.425)	.822	.739	1.353	.407**	.356**	.398**	1		
5. Hyg (8)	4.06 (.402)	.885	.809	1.275	.365**	.290**	.331**	.788**	1	

VIF = Variance Inflation Factor

***.* Correlation is significant at the 0.01 level (2-tailed).

Table 2: CFA results before and after removing one item

CFA	χ^2	P	CMIN/Df	CFI	GFI	AGFI	RMSEA
Before	432.758	0.000	1.891	0.837	0.887	0.863	0.048
After	406.548	0.000	1.588	0.947	0.906	0.892	0.044

Initially the values were not satisfactory and GFI was a little below (GFI = 0.887) than the threshold value (0.90). CFI (0.84) and AGFI (0.86) were also below the threshold value of 0.90. However the chi square value (432.7) was found significant ($p = 0.00 > 0.01$) that confirmed the model fitness. One item with lower factor loadings (working conditions: 0.20) was removed and certain indices of covariance between error factors were applied to improve the model fitness (Wismeijer, 2012). The new GFI reached to the threshold value of 0.90. RMSEA went down to 0.044 (< 0.05) and CFI improved to 0.947. CMIN/DF value was also satisfactory ($1.558 < 5$). Figure-1 indicates the standardized estimates of each item against CFA, which are well above the threshold value of 0.5 and confirm the validity of items and fitness of the CFA model.

To check the impact of IVs on DVs, a composite model was tested as shown in Fig 2. The results indicate significant and positive impact of all the three IVs on DVs and re-confirm the validity of two factor theory in a different study setting and context. Performance planning (PP) indicated an impact of 0.23 on hygiene factors and 0.44 on motivation. Similarly feedback/coaching was found having beta value of 0.24 and 0.40 against hygiene and motivation respectively. However, the last variable performance review/rewards (PR) depicted interesting results with 0.26 and 0.13 beta values for two DVs (Hygiene and Motivation) correspondingly. Once again it was in line with the findings of two-factor theory that rewards and consequences were hygiene factors and not the motivators.

Discussion

The study was conducted to examine the relationship among the various constituents of PMS and job satisfaction (JS), which provided grounds for a positive link between goal setting, control, expectancy and two factor theories. Hence the study builds a bridge among four repeatedly tested theories and extended their validation in the Pakistani context.

Performance planning showed an impact of 0.23 on hygiene and 0.44 on motivation. The results were in line with the goal setting theory (Bryan and Locke, 1967) that specific and challenging goals along with appropriate feedback lead to motivation and better task performance. Locke (1977) in another study explained the importance of goal setting

as a more useful motivational tool. He asserted that goals are the most immediate regulators of human action and are more easily modified than values of sub-conscious premises. Bronkhorst, Steijn and Vermeeren (2015) had also found a positive and significant impact of goal setting (goal specificity $b = 0.18$, goal difficulty $b = 0.623$) on motivation.

The current study has also included FBC as an element of PMS and examined its impact on both employee motivation and hygiene factors. Similar to PP, the results indicated that FBC have more impact ($b = 0.40$) on motivation than on hygiene factors ($b = 0.24$). Previously researchers (Baron, 1993; Chory and Kingsley-Westerman, 2009; Moorman, 1991; Loi, Yang and Diefendorff, 2009; Nurse, 2005; Erhel and Jamet, 2013) had also established a significant and positive relationship between feedback and job satisfaction. Anseel and Lievens (2007) indicated a positive impact ($b = 0.31$, $t = 4.07$, $p = 0.00$) of feedback environment on job satisfaction ($b = 0.28$). Sommer and Kulkarni (2012) endorsed the same opinion and found 0.50 impact of feedback on employee job satisfaction. Similar results were reported by Guo, Liao, Liao, and Zhang (2014) where they found an impact of 0.288 on motivation, however they studied motivation as a mediator between feedback and employee performance. Burgers, Eden, Engelenburg and Buningh (2015) signified 0.16 impact of feedback on employee motivation, while they further suggested that the results vary with the type of feedback.

Fig. 2: Confirmatory Factor Analyses (CFA)

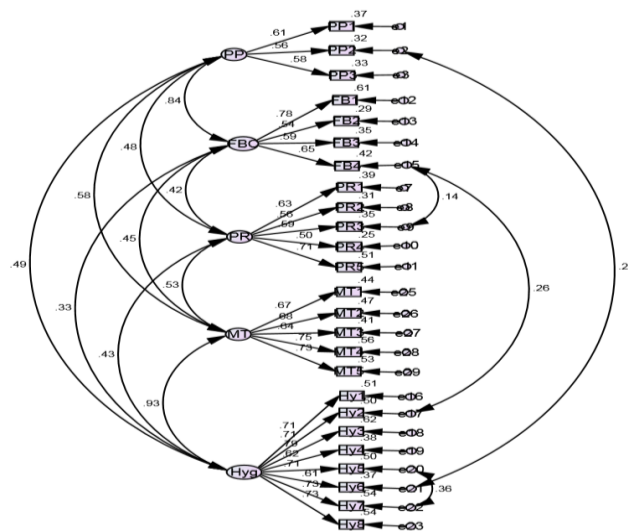
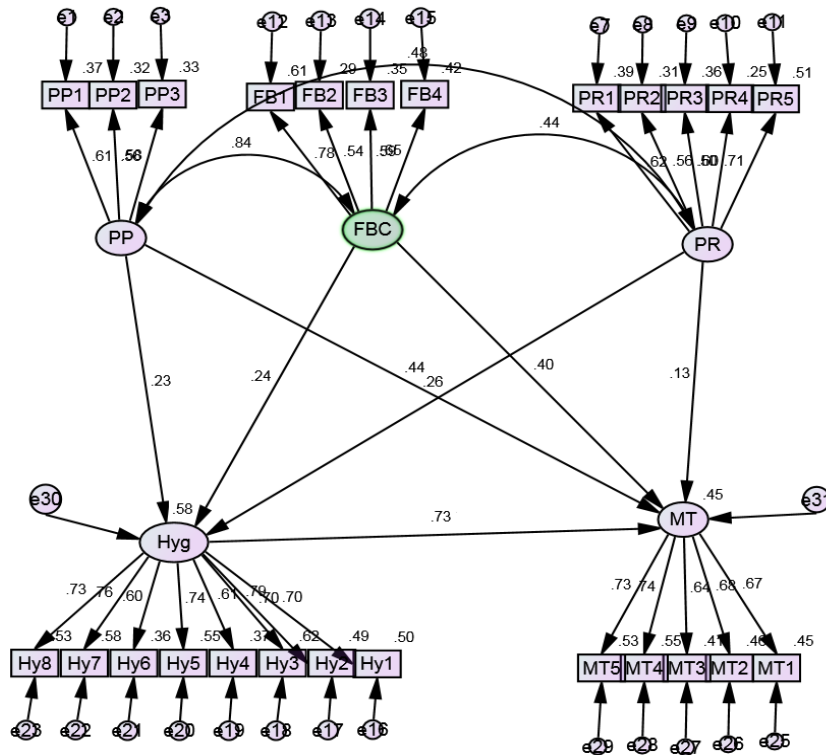


Fig. 3: Structural Equation Modelling (SEM)



Performance review/Rewards (PR) was also found as having a significant impact on motivation and hygiene factors with beta as 0.13 and 0.26 respectively. The results revalidate the two factor theory and confirm that rewards are linked to the hygiene factors and bear a relatively lesser impact on employee motivation. However, their lack can lead to dissatisfaction of employees at work. Previous research used different words (performance measurement, evaluation and appraisal) for performance review and mostly the link between these factors and motivation or job satisfaction was established in the presence of fairness perception in the process. Blau (1999) found a significant and positive impact ($b = 0.16$, $t = 6.78$, $p = 0.000$) of performance appraisal satisfaction and job satisfaction, in a longitudinal study at Philadelphia. Zhang, Hu and Qiu (2014) studied the relationship between performance appraisal and voice behavior while keeping job satisfaction as a mediator. According to their study, performance appraisal had an impact of 0.445 on job satisfaction. In a recent study by Kampkotter (2016),

performance appraisal was found to have a significant impact on employee job satisfaction ($b = 0.661$, $p = 0.000 < 0.05$). Rompho and Siengthai, (2012) had found similar results for relationship between effective performance measurement system (PMS using valid individual performance measures, a comprehensive set of measures and coherence of the PMS with its environment) and employee satisfaction. He had indicated 0.18 impacts of valid individual performance measures on employee satisfaction. Although the results of current study are partially in line with the findings of Rompho and Siengthai, (2012), however a comprehensive model of PMS has not been tested for a complete set of items relating to job satisfaction previously. Sell and Cleal (2011) conducted a detailed longitudinal study on the impact of various motivational factors including rewards on job satisfaction. They also endorsed the opinion that rewards were among those factors which may lead to employees' dissatisfaction if not properly catered for, however, these have a lesser impact on intrinsic motivation of employees. Gungor (2011) also finds a positive impact ($b = 0.417$, $p = 0.00$) of rewards on extrinsic motivation of employees, which according to him leads to enhanced employee performance. Similarly, Lyons and Akroyd (2014) conducted a study to find out the impact of some factors including rewards on job satisfaction of college faculty members and found a strong positive relationship ($b = 0.56$, $p = 0.00$) between the two variables. They justified the results as they perceived the teaching work was tough, time consuming and required more acknowledgement, where issues like compensation might lead to their dissatisfaction. The findings of this study support their notion and extend that an effective PR can lead to enhanced employee job satisfaction.

All the six hypotheses of this study were accepted as true and PP, FBC and PR were found to have a significant impact on both employee motivation and hygiene factors.

Implications

Theoretical implications

This study was an attempt to discover the link between goal setting theory, control theory, expectancy theory and two factor theory in the Pakistani context and extended their validity and generalizeability. Hence, the current study provides the bases for connecting the management with the motivational theories. The future research can develop some new propositions on these findings in different study settings and contexts.

Research implications

The current study focused on employee related outcomes of a comprehensive and accurate PMS as suggested by Sharma et al. (2016),

however, previous research (Tatum, Bardberry, Eberlin and Kottraba, 2002; Eberlin and Tatum, 2005; Shim, Skwon, Park and Hwang, 2012) had also included perception of organizational fairness as a strong predictor of success for performance appraisal and reward policy, therefore, the future research may include the same as moderator to enhance employee motivation. The study can also be extended by taking job satisfaction or only motivation as a mediator in the relationship between PMS and employee performance.

Managerial implications

This research provides some strong grounds for the managers of private banks of Pakistan to establish and implement a comprehensive PMS in their organizations, which may comprise participative goal setting, feedback/coaching, performance review/ appraisal and performance based rewards. It has been found that such a system leads to employee job satisfaction and enhanced performance at work (Siengthai and Pila-Ngarm, 2016). The study also provides employee perception towards the existing PMS activities in the private banks of Pakistan and helps them to make better informed decisions and incorporate their suggestions while designing the future PMS models.

Conclusion

The research conducted in the private banks of Pakistan provides the evidence of a positive link among various elements of PMS, motivation and hygiene factors, which are the employee related outcomes of PMS. It has been found that PP, FBC and PR have a significantly positive impact on both motivation and hygiene factors. However, PP and FBC show a stronger impact on motivation ($b=0.44$ and 0.40 respectively) than hygiene factors ($b = 0.23$ and 0.24). On the other hand, the same was found opposite in terms of PR where the impact was better on hygiene factors ($b = 0.26$) than motivation (0.13). These results revalidated the postulates of goal setting, control and two factor theories in the Pakistani context and established a dependency relationship among these theories. This relationship has been studied for the first time in this context in the current study which is the researchers' genuine contribution in PMS literature.

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