

The Impact of Organisational Climate on Performance of Employees

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Abstract--- *In this paper the effect of organisational climate on job performance is studied. Performance means the accomplishment of a given task measured against preset known standards of accuracy, completeness, cost, and speed. In a contract, performance is deemed to be the fulfilment of an obligation, in a manner that releases the performer from all liabilities under the contract. Organisational climate is a set of properties of the work environment, perceived directly or indirectly by the employees, that is assumed to be a major force in influencing employee behaviour. A conceptual study on the impact of organisational climate on job performance of the employees is envisaged by the researcher.*

Organisational climate is an important predictor of organisational performance. A very good organisational climate gives employees a good atmosphere to work on. Employees are able to put in their best performance in a good climate. When the performance of the employees is better it ultimately leads to the success of organisations. This paper proposes to study the link between organisational climate and job performance. The concepts of both performance and organisational climate will be discussed. The studies linking organisational climate and job performance will be discussed. Also suggestions for better linking of organisational climate and performance will be discussed.

Keywords--- *Performance, Organisational Climate*

I. INTRODUCTION

PERFORMANCE management is one of the crucial functions of Human resource management. Performance management is a crucial function as it increases performance driven behaviour and consequently the results of the organisation (Waal & Medema, 2006). According to (Armstrong & Baron, 2004), Performance management is a process which contributes to the effective management of individuals and teams in order to achieve high levels of organisational performance. Brumbrach (1988) defines 'performance' both as behaviour and results. Coens and Jenkins (2002) believe that: 'individual performance is mostly determined 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 ensure that employee's activities and outputs contribute to organisational goals (Gomez & Mejia, 1999). Performance Management is defined as a data guided approach to managing work behaviour (Daniel & Rosen, 1984). In short Performance Management is a means of getting better results from the organisation, teams and individuals by managing performance in line with organisational strategy. In this article, the second concept described is organisational climate. Organisational climate is a set of properties of the work environment, perceived directly or indirectly by the employees, that is assumed to be a major force in influencing employee behaviour. The purpose of this article is to provide a review of literature on the concept of performance management and also to depict the linkages between performance and organisational climate. Main focal areas are evolution of performance management, definitions of performance and performance management, organisational climate and the linkages between organisational climate and performance.

II. THEORETICAL BACKGROUND ON PERFORMANCE MANAGEMENT

The ancestors of performance management were merit rating, management by objectives and performance appraisal. W D Scott 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 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. According to Beer and Ruh (1976), 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 and 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 and 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 interlinked processes. Performance management is seen as a continuous process and not as a once a year appraisal. The focus 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 next development was the recognition that Performance management had to focus on organisational as well as individual effectiveness. 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 ongoing process whereas the latter is done at discrete time intervals.'

Performance management can be regarded 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. 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 general 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 enhancing organisational capability and the achievement of sustained competitive advantage. (Armstrong, 2012). A performance management system provides various benefits to organisations. A performance management system (PMS) enables organizations to plan, measure and control their performance, so that decisions, resources and activities can be better aligned with strategies to achieve desired results (Bento and Bento, 2006). There is evidence that an effective PMS can lead to improved organizational performance (Bevan and Thompson, 1991) and contribute to other important outcomes such as improved employee involvement, commitment and motivation (Taylor and Pierce, 1999).Thus the concept of performance management system is important in today's corporate world.

III. IMPORTANCE OF PERFORMANCE

Research shows that the combination of performance-driven behaviour and regular use of the performance management process leads to improved results. (Waal, 2004) .Thus performance is very important for the success of any organisation .The basic premise of the concept of performance management is simple: great performance, whether on the stage or by an agency, whether by an individual or by a team is very unlikely to happen on its own. (Halachmi, 2005). Every organisation should strive for improving the performance of employees in the organisation. When the performance

of the employees is effective, the company will be successful. There are various factors that contribute towards performance of employees. One important factor that leads to performance is organisational climate.

IV. ORGANIZATIONAL CLIMATE

Schneider and Reichers (1983) define organizational climate as a shared or summary perception that people attach to particular features of the work setting. According to Watkin and Hubbard (2003) organizational climate is "how it feels to work in a particular environment and for a particular boss, more precisely it is a measure of employees' perception of those aspects of their environment that directly impact how well they can do their jobs"(pp. 380). Another, more elaborate, definition of organizational climate is given by Bowen and Ostroff (2004): "Organizational climate is a shared perception of what the organization is like in terms of practices, expected and rewarded and is based on shared perceptions among employees within formal organizational units."(pp.205)

Organisational climate, as suggested by West et al. (1998), refers to the "perceptions that organisation members share of fundamental elements of their organisation". Moran and Volkwein (1992) defined climate as a relatively enduring characteristic of an organisation which distinguishes it from other organisations and (a) embodies members' collective perceptions about their organisation with respect to such dimensions as autonomy, trust, cohesiveness, support, recognition, innovation and fairness; (b) produced by member interaction; (c) serves as a basis for interpreting the situation; (d) reflects the prevalent norms and attitudes of the organisation's culture; and (e) acts as a source of influence for shaping behaviour (p. 20). (Williams, 2000)

Burke and Litwin (1992) define climate in terms of perceptions that individuals have of: how their local work unit is managed and how effectively they and their day-to-day colleagues work together on the job. The level of analysis, therefore, is the group, the work unit. (Williams, 2000)The climate of an organisation consists essentially of shared perceptions. Jones and James derived six dimensions of climate :(1) leadership facilitation and support; (2) workgroup co-operation, friendliness and warmth; (3) conflict and ambiguity; (4) professional and organisational esprit; (5) job challenge, importance and variety; and (6) mutual trust (Jones and James, 1979). Climate is held to be a summary perception of how an organisation deals with its members and environments, and thus develops specifically from internal factors primarily under managerial influence (Ostroff and Schmitt, 1993). (Joseph Wallace, 1999)

Organizational climate refers to the attitudes and beliefs, the opinions and the sentiments of the employees at a certain moment. The climate is generally characterised by elements such as: the level of cooperation, of receptivity towards the opinions of the group members, positive atmosphere which could stimulate performance or, on the other hand, tense relations, lack of cooperation, indifference towards performance and other social or professional problems. Organizational climate depends on several factors that could be generally termed as the characteristics of an organization such as: structure, size, area of activity, age of members and traditions. It also depends on the characteristics of the staff: level of education, age, cultural level and the managerial style. (Popa, 2011)

V. LINKING ORGANIZATIONAL CLIMATE AND PERFORMANCE

Organizational climate is the intellectual and moral environment of a group within an organization. (Popa, 2011)The theoretical link between organisational climate and performance has been examined by several researchers; some of those most relevant to this paper being Denison (1990), West et al.n (1998) and Burke and Litwin (1992).These papers shine light into, (1) when perception by employees of climate is better there is greater involvement in decision making, (2) information sharing and management support was favourable, (3) greater corporate effectiveness, (4) suspected reciprocal influence between climate and performance. Denison (1990), using behavioural data collected between 1966 and 1981 in the USA, measured aspects of climate and structural variables such as communication flow, decision-making practices, relationships with colleagues, organisation of work, team building and supervisory support. These were correlated with a number of financial performance measures in the five years following the measurement of climate variables. Several dimensions of climate were significantly and positively correlated with subsequent financial performance. (Peter Kangis, 2000). One of the suggestions by Payne and Pugh (1976) is that climate may be viewed as a predictor of organisational performance. It was claimed that management which was "holistic" and accommodated climate dimensions had a "profound impact on overall organisational success..." (Neill and Borell, 1999, p. 30).

Research on the contribution of people management to organisational performance outcomes such as productivity and profitability has been related to a climate of satisfaction in the workplace (Patterson *et al.*, 1997; West and Patterson, 1998). The importance of the climate is that it transcends individual satisfaction and hence has a greater impact on quantifiable outcomes. (Crane, 1999)

A climate of justice within an organization positively affects the structure and strength of interpersonal relations between employees (i.e. social capital) which in turn increase firm performance. (Benson, 2013). Thus it is clearly evident from previous researches that a good organisational climate is an antecedent for performance in organisations. Employees attitude towards work is influenced by the organisational climate which in turn has an impact on organisational performance and individual performance. (Popa, 2011)

The relation between organizational climate and organizational performance can be explained using the Social Exchange Theory. This theory is based upon the assumption that social exchanges involve several actions that create obligations, and that relationships evolve over time into trusting, loyal, and mutual commitments (Cropanzano & Mitchell, 2005). These relationships can exist among two or several persons, but also among persons and organizations. Reciprocity or repayment is the most common exchange rule; the action of one party initiates a response of the other party that wants to 'repay' this action. Employers can reward employees in two different ways using economic and socio-emotional resources. Economic resources are tangible and often are financial rewards; socio-emotional resources are intangible and address the social needs of employees. Employing these resources, employers can create strong relationships with their employees, as employees have the tendency to repay these rewards with 'better' work behavior and positive employee attitudes (Cropanzano & Mitchell, 2005). Organizational climate is part of these socio-emotional and economic resources. Thus, when employers establish an organizational climate that is perceived as positive by their employees, this will result in better organizational performance and higher levels of commitment, motivation and job-satisfaction. (Putter, 2010)

VI. CONCLUSION

This paper explores the significance of linking organisational climate and performance. This paper recommends that in future managers must concentrate on building a good organisational climate, so that it leads to improving the performance of employees in the work place. If the climate is not favourable, employees will not be motivated to perform. Thus in order to improve the performance of employees, organisations must strive towards achieving a good organisational climate and pave the pathways of success.

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