ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

THE EFFECT OF PERFORMANCE MANAGEMENT SYSTEM ON EMPLOYEE PERFORMANCE: THE CASE OF DEBUB GLOBAL BANK S.C

BY: BIRHAN TEWABE

JUNE, 2022

ADDIS ABABA, ETHIOPIA

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ST. MARY'S UNIVERSITY COLLEGE SCHOOL OF GRADUATE STUDIES FACULITY OF BUSINESS

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DECLARATION

I, the undersigned declare that this thesis is my original work, prepared under the guidance of **Taye Amogne (PhD)**. All sources of materials used for the thesis have been duly acknowledge. I further confirm that the thesis has not been submitted either part or in full to any other higher learning institutions for the purpose of earing any degree.

Birhan Tewabe Debay

        Name

Signature

St. Mary's University, Addis Ababa
June, 2021

STATEMENT OF CERTIFICATION

This is to certify that this study paper titled ″ **THE EFFECT OF PERFORMANCE MANAGEMENT SYSTEM ON EMPLOYEES PERFORMANCE: THE CASE OF DEBUB GLOBAL BANK S.C ″**, undertaken by **Birhan Tewabe** for the partial fulfillment of Master of Business Administration from St. Mary's University is an original work and fit for partial fulfillment for Masters of Business Administration Degree.

<u>Taye Amogne (PhD)</u>   _____   _____

 Research advisor   Signature   Date

St. Mary's University College, Addis Ababa June, 2022

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Acronyms

PMS: Performance Management System

PA: Performance Appraisal

DGB: Debub Global Bank

BSC: Balance Score Card

SPSS: Statistical Package for Social Science

HR: Human Resource

Abstract

The main objective of the study is to analyze the effect of performance management system on employee performance of Debub Global Bank S.C. The study is guided by 4 research questions which seek to answer weather the existing performance management system of DGB affects the performance of employees. From the total employees of the bank the researcher took employees work in head quarter in 10 departments population to take sample. The study adopted Descriptive research methods. The population of interest consisted of 96 employees of DGB. Out of which 69% are male and 31% are female respondents. Data was collected using structured questionnaire and the data was analyzed using the Statistical Package for Social Science (SPSS) and Excel which are Performance pre- requisition, performance planning, employee's awareness of performance, performance implementation and performance improvement and the data presented using tables. The study findings indicated that employees have knowledge on strategic objectives of the bank and PMS has significant effect on their performance. The study revealed that there is no participative environment and their performance this make them low efficiency. The study shows also that the system helps them to avoid problems with transparency in their work. There is good practice of renewing PMS when new service occurs but current performance management does not create participative environment, it does not improve the existing team work. In conclusion on the findings the study recommended that the bank should give training to those who didn't know about PMS and for managers to develop their evaluation system in order to decrease employee's dissatisfaction on evaluation. The other one is that the bank must attach PMS with reward and recognition. Managers also should develop their skill to give immediate feedbacks to the employee. Generally, the bank should focus on performance renewal, performance planning and performance assessment.

Key Words: *Performance Management, Performance Planning, Employee awareness, performance implementation and performance improvement.*

CHAPTER ONE

1. Introduction

1.1.   Background of the study

In a broader sense, the practice of appraisal is ancient; it starts in the early 20th century by Taylor. In the scale of things historical, it might well lay claim to being the world's second oldest profession. The human inclination to judge can create serious motivational, ethical and legal problems in the workplace. Without a structured management system, there is little chance of ensuring that the judgments made will be lawful, fair, defensible and accurate. Performance management systems began as simple methods of income justification. That is, appraisal was used to decide whether or not the salary or wage of an individual employee was justified. As a result, the traditional emphasis on reward outcomes was progressively rejected (Clardy, 2013).

Performance Management System (PMS) is defined as, strategic and integrated approach of conveying continued success to institutions by developing the people in a way that improves group and personal performance (Armstrong & Baron, 1998). Being the most important aspect performance management system is failing to deliver the expected result. An increasing number of profit and non-profit organization are turning towards PMS for their organizations in order to achieve better results and better psychosomatic outputs (Gupta & Upadhyay, 2012).

Today's organizations implement recognition programs to bring out cultural change. They create budgets for employee incentives in the attempt to win their loyalty. Performance management is a strategic approach to delivering successful results in organizations. This is done through improving performance and developing talents as well as building capacity of staff. Performance Management is supposed to be a continuous process between supervisors and employees (Bruce, 2014).

Performance management is a systematic and integrated process for improving organizational performance by developing the performance of individuals and teams working in them. It is a means of getting better result from the organizations, teams and individuals by understanding and managing performance within agreed framework of planned goals, standards, and competence requirement (Armstrong, 2009). Performance management systems are key tools that can be used to transform people's talent and motivation into a strategic business advantage (Aguinis, 2009).

Employees performance management system is a complete process which is based on the work force performance and the fulfillment of organizational objectives at all levels. The basic philosophy behind the performance management system is to developing the alignment between the organizational objectives, with the employees' skills and capabilities, moreover it emphasizes on the development and improvement of overall system. People mostly misperceive the performance management to the performance appraisal; in actual performance appraisal is judging the past performance while performance management system is an ongoing process to measuring the fulfillment of objectives. (Alan N., 2004)

For a management system to be effective, employees must believe that they have an opportunity for meaningful input into the appraisal process (Berry, 2004). They should have the freedom to challenge the evaluation they get especially when it's contrary to how the appraise themselves. It is important to allow employees to share their opinion in order to encourage fairness in the appraisal procedure. When this is adhered to, staff members will agree with the management system that has been put in place as a legitimate and productive way of accessing their performance. As noted by (Cooper, 2005) without the perception of fairness, "a system that is designed to appraise, reward, motivate, and develop can actually the opposite effect and create frustration and resentment".

Therefore, Debub Global Bank S.C. has implemented performance management system for measuring its employee's performance and rewarding them based on their performance. This study tried to add a significant amount of information and insight on the effect of the PMS on employee performance working for the Banks.

This study aims to assess the effect of PMS on employee performance in Debub Global Bank S.C. and Debub Global Banks is selected as the target bank for the intended study.

1.2. Profile of Debub Global Bank S.C.

Debub Global Bank S.C. is one of the private banks established in August, 2012 with subscribed capital of Birr 266.9 Million and with a paid-up capital of Birr 138.9 million. The company has a legal entity registered with the licensing and supervisory body of the National Bank of Ethiopia in accordance with proclamation No-592/2000.

Paid-up capital of the bank has reached Birr 1.2 billion in the past few years due to the confidence of its shareholders and its focus on capital growth. The bank still offers its shares for

sale. The paid-up capital of the bank grew from Birr 138.9 million to Birr 1.2 billion and the subscribed capital is Birr 1.5 billion.

The bank's branch expansion rocketed from 30 to 110 both in the capital and regional cities and the bank has more than 351,903 customers across the country. The total asset of the company has reached more than Birr 8 billion. DGB combines a wide capital base with more than 2,000 talented and committed employees. The bank provides a wide range of both domestic and international banking services with superior customer service standards.

Vision: To be the first rated bank through operational excellence

Mission: Debub Global Bank S.C (DGB) enhances stakeholders' value by providing excellent banking services to its customers using modern technology, providing competent leadership and employing capable, disciplined and satisfied employees through effective recruitment, training and development.

1.3.   Statement of the problem

Employee's performance system is an absolute tool for employee performance. The essence of performance appraisal is to checkmate the contribution made by every employee and to know how well they are going on with their task. Evaluation of employee's performance system help to identify the skilled and performing employee of an organization to increase their salary and other benefits that can make them satisfied on their job (Lawler & McDermott, 2013). Performance Management is used to ensure that employees' activities and outcomes are congruent with the organization's objectives and entails specifying those activities and out comes that will result in the firm successfully implementing the strategy (Ruth,2012).

The reason for the presence of employee performance management system in an organization is to improve organizational result, deploy a culture that will attract and develop employees, create a good relationship between managers and employees, generate an opportunity for growth and development and to make clear on an understanding of work objectives. Effective employee's performance management system has a well – articulated process for accomplishing evaluation activities, with defined roles and timelines for both managers and employees. Especially in organization's that use EPM as a basis for pay and other HR decisions, it is important to ensure that all employees are treated in a fair and equitable manner. (Pulakos,2004)

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Several studies conducted in the past have identified the need to have a good PMS in place. According to Cook (2003) supervisors and employees are falling short in meeting the expectation of the organization. There are gaps on how to execute the PMS to benefit both the organization and the employees.

My observation on implementation of performance management system in Debub Global Bank Employee's claiming that they are not participating in performance planning process. In addition, the bank did not have created awareness about the concept and purpose of PMS before it had implemented it which has brought gap in employee's level of understanding on it.

If performance management is used for decision-making, numerical ratings are essential. This is because a numerical score is needed to order employees to guide decision-making. Currently Employees of DGB are complaining on the system, the current performance management system of DGB does not play the essential role for their promotion and there is high turnover rate at this year from Debub Global Bank to another private banks. With this and some head office employee suggestion in mind the researcher try to assess the effect of performance management system on employee productivity in Debub Global Banks S.C.

Hence, since the adoption of the performance management systems, what result is achieved and how the employees attitude towards the system. The capacity of the system to align its functions to help achieve banks strategic goals was also examined.

1.4. Research Questions

The research questions intended to addressee the following major questions:
1. What are the effects of performance planning on employee's performance?
2. Do employees have an awareness about the performance management system implemented?
3. How performance Management system implementation does affects employee performance?
4. What is the perception of employees toward improvement of performance management system?

1.5. Objective of the study
1.5.1. General objective
The main objective of the study to assess the effect of performance management system on employee efficiency in Debub Global Banks S.C.

1.5.2. Specific objective

1. To identify the effects of performance planning on employee's performance in DGB.

2. To investigate employee awareness about the performance of management system implemented by DGB.

3. To investigate how performance management implementation affects employee performance in DGB.

4. To investigate the perception of employees toward improvement of DGB performance management system.

1.6.   Significance of the study

This study will help the bank to identify gaps and to provide recommendation on the effects of performance management system, relationship of planning, employee awareness, implementation and performance improvement. Employees will be made to understand the role they will play in order to achieve organizations objectives.

The finding of this study help banks to understand the role of good performance management system in employee performance and it provides solution for bank industry PMS problems and it may give them an idea of where they are currently in terms of their PMS planning, implementation & improvement and what they should do in the future. Furthermore, it initiates other interested researcher to undertake detailed study in this area.

1.7. Scope of the study

Currently there are 18 private and 2 government banks in the country and which calls also others to join the sector due to profitability of the business. Among these, the study only focusses on Debub Global Banks S.C. The core emphasis of the study is identifying the effect of performance management on employee performance working at Debub Global Bank S.C.

The respondents of this study are staff members of Deebub Global Bank S.C working at Head Quarter. The total number of employees in Addis Ababa regional branches are more than 2,000 so sampling is made to target only 133 employees. The scope the research is deliiteed geographically as the study is only to consider head office staffs in Addis Ababa. It also delimiting with respect of the objective, it is specifically assessed the effect performance management system on employee performance.

1.8. Limitation of the study

The problem that encountered while conducting this study was lack of some respondent commitment to complete filling the questionnaires. Additionally, better reliable finding could be obtained if some branches were involved in the study.

1.9. Organization of the study

This thesis is classified into five main chapters. The first chapter refers introduction of the study which includes the background, the problem statement, the research objectives, significance, scope of the study and limitation of the study.

The second chapter provides an overview of both theoretical and empirical reviews of literature pertinent to the research and outlines the theoretical and conceptual framework adopted for the research project.

The third chapter describe the research methodology adopted for the research including sources of data, data collection instrument, sampling procedure, data analysis techniques, data source triangulation techniques and ethical considerations.

The fourth chapter presented the major research results and discussion of the study and the last chapter summarizes the major findings of the study, outlines the major conclusions and recommendation.

CHAPTER TWO

2. Literature Review

In this part of the study, the researcher has reviewed related literatures. This chapter includes the theoretical review, empirical review from previous related works and conceptual framework.

This literature review has three important aims. It purposes to gain a full insight of the existing literature on the research area. First, it will identify the key research areas on the perception and experiences that employees have concerning performance management, second, to fully understand the challenges of performance management system and to identify the types of performance management system.

2.1. Theoretical Literature Review

2.1.1. Definition of productivity and Performance

Productivity is an average measure of the efficiency of production. Productivity is a ratio of production output to what is required to produce it (inputs of capital, labor, land, energy, materials, etc.). The measure of productivity is defined as a total output per one unit of a total input. Although it looks simple from the face of it, productivity management is a big challenge to organizations especially when the product is in the form of a service. The characteristics of service industry make productivity management in such industries more difficult and challenging. (Gujarathi, 2005)

Performance is understood as achievement of the organization in relation with its set goals. It includes outcomes achieved, or accomplished through contribution of individuals or teams to the organization strategic goals (www.pondiui. Edu.). Performance is the fulfillment of an organization in a manner that releases the performer from all liabilities under the contract (Cambridge.org/ dictionary). Performance means both behaviors and results. Behaviors emanate from the performer and transform performance from abstraction to action. Not just the instruments for results, behaviors are also outcomes in their own right the product of mental and physical effort applied to tasks and can be judged apart from results (Armstrong, 2006).

2.1.2. Performance Management

Performance management is a process of improving the performance of an organization by helping individuals and team to develop their capacity to reach the intended destination (Armstrong 2006). Performance management is an integrated and systematic process of sustaining the success of organization by improving the performance of the people who work in them and also it is developing the capacity of individuals and team who contribute to the

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organization. It is also a strategic process in a sense that it deals with the broader issue of the organization efficiency to meet the market demands and long-term goal. (Armstrong 2000).

According to (Lawler, 2003) Performance management involves managing employee effort, based on measure performance outcomes. Therefore, determining what constitute good performance and how the different aspect of high performance can be measured is critical to the design of an effective performance management process. And performance management effectiveness increases when there is ongoing feedback, behavior-based measures are used and preset goals and trained raters are employed.

The performance management system is an important tool to help organization to achieve its goal. Both Individual skills and contributions and organizational objective measurement is needed to develop the important element of the organization, which is human capital. Staffs are the critical factor in performance management system, where well designed model of system will result strong management commitment and better employees' performance which lead to organization's success (Zulystiawati, 2014).

A performance management system rewards excellence. It helps to align employee achievements with the organization's objectives. Others maintain that to encourage knowledge sharing, organizations should design reward and recognition systems that stimulate sharing of all kinds: goals, tasks, vision as well as knowledge. This will help to bring cohesiveness between team members. One factor that contributes to an effective performance management system entails ensuring that the system focuses on performance variables as opposed to personal traits (Lawrie, 2004)

According to (Grote,2002), performance management system has so many purposes like, providing feedback to employees about their performance, determining who gets promoted, facilitating layoff or downsizing decisions, encouraging performance improvement, motivating superior performance, setting and measuring goals, counseling poor performers, determining compensation changes, encouraging coaching and mentoring, supporting manpower planning or succession planning, determining individual training and development needs, determining organizational training and development needs, confirming that good hiring decisions are being made, providing legal defensibility for personnel decisions and improving overall organizational performance.

2.1.3. Employees perception performance management system

According to Makori, (2014) on a study that he carried out on employee perceptions of performance management, the employees in the hotel industry believed that they performed better in their daily tasks but there was no significant relationship between their individual performance and the perception they had of the initiatives that the hotel had put in place for performance appraisal. The study therefore concluded that employee perception on performance management was not necessarily influencing individual performance in the hotel industry.

- **Clarity in task and duties**

Perceptions principally relate to social contacts rather than to procedures. In order to develop positive perceptions organizations should ensure that their processes are clear in relation to the key performance indicators and rewards, consistent feedback and clear explanations about performance management processes by Managers (Palethorpe, 2011). Recognition and rewards are one of the primary objectives that need to be aligned with the overall organizational strategy. In order for a performance management to be successful, there need to be a collaborative process between supervisors and employees. A performance management cycle should begin with a discussion of employee and supervisor to discuss results, the expected behaviors and developmental aspects for better future performance (Aguinis, 2009). This collaborative aspect of performance management process lets supervisors understand the story from a subordinate's perspective (Robbins, 2007). This will therefore provide a forum to elaborate the expectations for employees. It also provides information for future decisions about promotion or rewards as well as providing a platform to attain the desired employee behaviors for better performance. Human Resource tasks such as performance management impact and include employees as well as supervisors. This inclusion will influence the quality of the relationship and also improve on perceptions as pointed out by (Manville & Greatbanks, 2013). The organization perceptions that are possessed by an employee are largely contributed by supervisors as researched by (Greenberg & Haviland, 2008). This can be a key factor in transmitting an organization's perceptions to outsiders as well as stakeholders (Reynolds, 2009).

- **Lack of proper performance management systems**

Performance management system as referred to by (Cook, 2003) is the process of achieving organizational objectives by making productive use of people. Other scholars say that performance management includes the process of designing formal systems that ensure the

efficient and effective use of human talent to achieve organizational objectives (Burgess et al., 2007). One of the key functions in Human Resource Management is performance evaluation. According to Baker, (2013) performance evaluation is the key difference between organizations just managing to survive and high performing organizations. Performance evaluation aligns itself to the organization strategies and also provides a lively link to general and specific human resource functions (Vukotich, 2014). However, performance evaluation is casually done in organizations where the business strategies are not properly aligned. Tobin & Pettingell, (2008) emphasize that HR as a function should not impose the idea of performance evaluation because it is everyone's responsibility in an organization.

- **Evaluation of previous performance management and organization objectives**

The concept of management emphasizes the need for getting things done right through people efficiently and effectively (Robbins & Judge, 2007). This also raises the question of what systems the businesses use to evaluate whether things are heading in the right direction or not. In order to solve this puzzle, organizations are highly encouraged to evaluate their previous performance and align it to their future objectives. The process of this evaluation does not end with the good performance of an organization. The process needs to trickle down to individual levels. According to the findings by Van Soelen, (2013). Organizations use performance management systems for all business drivers from individual to functional, shareholders and customers. However, Aguinis (2009) believes that there is a substantial gap that lies between practical orientation of performance management and the literature. This gap exists because researchers target other researchers as their audience rather than organizations (Wong & Shi, 2014).

Performance Management, as defined by Armstrong (2009) is a process designed to improve organizational, team and individual performance and this is owned and driven by the line manager. While Aunis (2009) views performance management as a continuous process of identifying, measuring and developing performance of individuals and teams and aligning performance with the strategic goals of the organization. It also evaluates the improvement being made towards the achievement of organizational strategic business objectives (Bridger, 2014). Performance Management will not provide the desired outcomes if an individual's performance and objectives are not aligned with the strategic objectives of the organizations. In addition, in cases where the individual or functional objectives are aligned and not rewarded properly, the end result is a disconnect syndrome, swaying an organization away from its

objectives. In order to avoid the disconnect syndrome, synchronization in objectives should be ascertained.

▪ Integration between organization objective and individual objectives

A good and functional performance management system should be able to exhibit integration between organizational, functional and individual evaluation systems. The views of Cooper, (2005) are that integration can be achieved in an organization through agreement on performance objectives and performance definitions at all functional levels in the organization. Moreover, performance management system should facilitate an individual in an organization to visualize how their individual objectives and evaluation measures lock into organizational perspective. Manville & Greatbanks, (2013) emphasizes that if the measurement systems in an organization are unable to meet conclusions and facilitate decision making it becomes a futile exercise and a redundant process of no value. In the ideal state, performance management should be able to deliver an overall performance evaluation being based on individual or functional numbers contribution in the organization. This will also enable an organization in future decision making and planning. Well executed and setup performance measurement frameworks facilitate an organization to enjoy vertical and horizontal functional collaboration to achieve organizational excellence (Longo & Cristofoli, 2007).

Performance Management System provides feedback to an organization about its functional and individual achievements. These qualitative or quantitative substitute measures further provide a roadmap for how future organizational objectives can be attained. Van Soelen, (2013) argues that past performances do not ensure better or similar future outcomes.

▪ Performance management for career growth

According to changing nature of career and unstable employment, there is an increasing idea that individuals' career progression is the responsibility of themselves, not the organization's responsibility (Greiner & Sakdapolrak, 2013). Predominantly, highly educated people are capable and able to manage their own career (Abston & Kupritz, 2011). Individual employees who are graduates can encourage themselves to remain employable and marketable, not only for developing a career in a particular organization, but also for developing lifelong transferable skills in job market (Boyatzis, 2008). Based on the concept of individual career management employees are the central actors in managing their own careers (Cooper, 2005). They determine which career direction they will take. ICM enhances individuals' perceptions of control over

their careers, which in turn leads to career satisfaction (Garber, 2011) Career satisfaction has been regarded as a key factor for individual and organizational success (Lee, 2006).

A study that was carried out by Abston & Kuritz, (2011) shows that proactive personality and self-control are the predictors of a successful career. Studies conducted by Bridger, (2014) and Clardy, (2013) found that individual's proactive personality can promote their career success. Employees who are proactive are more likely to engage in improvement opportunities and innovative behaviors that are significantly related to career success (Greiner, 2013).

- **Employee engagement**

Employee engagement in Performance Management is vital. Promotion of employee engagement can be used as a means to increase the performance (Byrd, 2013). The engagement management model has three arms. These are Performance agreement, engagement facilitation and performance management and feedback to the employee which will lead to improved performance (Cook, 2008). However, since this model has not been tested empirically, there is a lack of conceptual and empirical work on how Performance management systems can enhance performance by fostering employee engagement.

- **Evaluation on pre-determined parameters**

Evaluating employee's performance on pre-defined parameters as stipulated by (Armstrong, 2009) has been highlighted as a differentiating factor among the market leaders and survivors (Lawler & Garber, 2007). This difference emanates from evaluation processes and their results as these influence employee satisfaction and talent retention in an organization. The evaluation process needs to be in sync with organizational objectives and reward systems along with strategic direction (Hirsh, 2004) Synchronization feedback mechanisms will address developmental gaps so as to improve future performance according to (Aguinis, 2009).

Today, the business environment is dynamic and very volatile. Organizations have become contented with their performance management practices leading to failure. Consequently, strategies need to be revamped as the changes in the environment are quite dynamic.

- **Challenges of performance management system**

Performance appraisals have always been carried out in a retrospective manner. The traditional appraisal in many organizations occurs once a year with a few conducting it semiannually or annually. There is usually a gap in months between establishing goals and reviewing them and

also the objectives that have been set when the year begins are usually referred to at the appraisal time. According to Lee, (2006), performance appraisal gives a chance to both the employee and the supervisor to review the goals and targets that they set together and also to confirm whether the employee is on course, how far they are from accomplishing their goals and also to identify any possible challenges that the employee may face. According to Bridger, (2014) the appraisal process may be open to biased ratings.

- **Feedback system**

Employee's engagement behavior should be included in the performance management (Armstrong, 2012) the behaviors of the employee include persistence, the ability to be proactive, role expansion and adaptability. The main activities of this component are performance appraisals and feedback from supervisor. However, in order to enhance feedback, Julnes, (2008) argues that it is important that the employee feels that there is trust and justice in the system.

Competence based performance appraisal system was designed for higher education institutions by (Gilmore & Williams, 2009). He found out that there were three competencies, namely core competency, managerial competency, and technical competency. According to Parker, (2013) appraisal is "the process of periodically reviewing one's performance against the various elements of one's job". His study described the purpose and developmental criteria of a performance management program that assessed the performance of hospital employees on a regular basis. Slavin, (2014), examined the effect of performance appraisal politics on job satisfaction. The results confirmed that performance appraisal politics acted as important predictors of job satisfaction in the studied organization. Martin, (2009) examined the effect of performance appraisal on individual as well as on the organizations. The findings of the research showed that there was a noticeable effect of the performance appraisal on the organizations as well as on the individuals.

The emphasis by (Trakoli, 2011) shows the need for maximum prosperity of employees ultimately resulting in maximum prosperity of the organization. Taylor believes that proper remuneration keep workers motivated and lead to better job performance.

- **Leadership Commitment**

Top management should strive for servant leadership. This is virtuous, highly ethical and based on the premise that service to followers is at the heart of leadership (Greiner, 2013) Servant

leaders exhibit the qualities of vision, caring for other people, selflessness, integrity, humility, trustworthiness and interpersonal acceptance (Clardy, 2013). It can be realized from different conceptualisations of servant leadership that service to followers and valuing followers are the basic principles of a servant leader. When members of a team perceive that their leader is concerned about their welfare, they will become more committed to the organization. Organizations have a need for leadership styles that create favourable environments for teams to function optimally. According to the findings of Palethorpe, (2011), team leadership is a fundamental process, focusing around the satisfaction of critical needs of a team with the goal of enhancing team effectiveness. Clear performance by increasing resilience and productive time reduce the negative factors such as exhaustion and absenteeism**.**

In the context of performance contracting, commitment is at two levels; top management and the level of employees. Top management commitment may be viewed from willingness to be loyal and focus all the energies to implementation process. Expectancy theory by Victor Vroom tells us that employee commitment to organizational goals depends on the strength of expectation that doing so will be followed by favorable outcome and the value that the individual attach to the reward. According to Muthaura, (2010) in a presentation on the role of Kenya's public service in a changing environment argued that people will oppose change if they do not see clear and reliable gains. They look at what is in it for me? This means that the commitment of the employees is dependent on their perceived gains from implementing the system. Trakoli, (2011) argues that unless performance management system gain acceptance through encouraging people to collaborate because they want to not because they have to, performance management system may actually lead to suboptimal performance by making figures look appealing only on paper.

- **Bias in performance appraisal**

One of the most difficult requirements of an effective performance management system is that it should be as free as possible from bias. People cannot deny the involvement of bias in their decision making on performance of theaters. The only thing that the raters can do is to minimize the level of unfairness as much as possible. Work professionalism plays an important role for the reliability of the assessment process. There are many types of bias that creep into performance management system according to (Tobin, 2008) and the most reported are recently effect, halo effect, central tendency and prejudice. The main issue in the practice of performance appraisal activity is the fairness of the evaluation decision by supervisors. Raters have problems

evaluating the performance appraisal in a proper way. Performance of individual employees that is not measured accurately can lead to dissatisfaction with the system.

One of the factors that contribute to employee's dissatisfaction is that raters do not have the required skills to appraise staff. This will affect the process of evaluation because bias, unfairness and unreliability may happen. As much as there is a formal evaluation form and a set of rules and standards to be followed, employees often do not trust the tools of evaluation. Subjectivity in the performance evaluation in the public and private sector is quite common. Managers are encouraged to be as objective as possible but during the implementation of performance appraisal, the evaluation becomes subjective. The subjectivity of the evaluation discourages employees on supporting the measurement of performance management system and this reduces the objectivity of the performance appraisal (Sparrow, 2012). The quota system that is practiced in some organizations creates dissatisfaction among employees. A small fraction of the employees get salary increment either vertically or diagonally. Therefore, although the employees may perform well, they might not be rewarded because salary increment depends on the quota system. This will therefore lead to decrease in work performance, self-esteem and loyalty. The appraisal decision is confronted with a great deal of criticisms and comments from the employees. There are several issues that have been brought forward such as the rater's ability to conduct performance appraisal, accuracy of the system, fairness, discrimination and quota system.

Performance management should suit the organization's culture. Research findings strongly suggest that multinational company's manager should carefully design the appropriate performance management system for foreign operation based on the different cultural factors of the country.

- **Objective and fair standard of evaluation**

Performance standard is the measuring tool for determining the outcomes of employee's performance. All necessary standard needs to be followed and spelt out to the staff. Stipulation of standards is important because it helps the organization to achieve its goals; to motivate individuals, teams and groups to a higher level of personal work behavior. Standards reinforce behavior, promotes the consistency of employee's performance and it can also be used to weigh and measure the impact of employee's performance (Greiner, 2013)

For employees to be productive optimally there must be knowledge and training to carry out a particular job. Training and development enable employees to provide optimum output and also

reduce the chances of their being infected by soldiering and deliberately working slow to avoid working full hours as highlighted by (Julnes, 2008)

▪ User friendliness of performance appraisal

Previous studies have indicated that performance appraisal needs to be user friendly to both the supervisors and employees. Gold, (2010) there are several factors to be considered to ensure that the performance appraisal instrument is user friendly. The content should be properly rated on the usability of the system, easy to answer questions, consistent document layout and free from unnecessary questions. It should be time rated on the amount of time required to answer all the questions, less questions means less time is needed to complete the form. It should be clear and not ambiguous; the questions should be direct and be straightforward. The layout or format of the form should be economical. The usage of ICT tools and devices may help to replace the traditional format of the forms. There are systems that can be used to assist supervisors and managers with situation assessment and long-range planning as argued by Bridger, (2014).

▪ Regular review of performance management

Lack of constant review of performance management system to align with changes in the organization is a common phenomenon in many organizations. The performance management system can be a good mechanism for quality assurance if implemented in the right manner and enabling environment. According to Newstrom, (2011) study, though limited in scope, clearly showed that performance management systems need to be reviewed on a regular basis to make them compatible with international trends of making businesses more responsive to the needs of the clients. Most performance management systems, while well-intentioned, are fraught with numerous challenges that impact on its implementation. This range from lack of regular system review, lack of training on performance management, shortage of resources in organizations, abuse of the system as well as lack of reward. These impediments need to be addressed with a sense of urgency if at all the performance management system is to remain credible in the eyes of the stakeholders (Robbins, 2007).

- **Top management commitment**

Commitment or leadership has been one of the challenges that have been found to be critical for successful implementation of performance metrics. Top management involvement would help to promote the restructuring of the business organization and to accelerate the management of change and employee buy in (Martin, 2009).

- **Training and awareness**

Another element of challenges in performance metrics implementation has been training and awareness, because not all employees accept the changes that have occurred in their workplace. Therefore, communication between supervisors and subordinates must be good in order to enable the organization to realize the desired mission of the organization. Training and awareness have been found to play an important role in ensuring the success in the performance management implementation (Tobin, 2008)

- **Cultural change aspects**

The cultural change aspect is also a major element that has requires the attention from the management of the organization. Most literature reviews have stated that cultural changes could have major impact on any implementation of performance metrics as argued by (Vukotich, 2014). The organizational understanding of the work processes is an important characteristic in the Balance Score Card (BSC) implementation as well as the ultimately customer satisfaction that has been the main priority for most organizations. Therefore, the PMS used should be capable of tracking the customer needs and wants according to (Bogetoft, 2012). In addition, Berry, (2004) stated that organizations should attach the success of any performance metrics implementation to the financial benefits accrued. This is because it has been one of the four critical perspectives in the BSC framework. However, Clardy, (2013) proposed that clear performance metrics is an equally important characteristic because quite often, the difficulty and problems in identifying what to measure has created problems in the implementation of the performance metrics.

- **Agreement on performance metrics**

Management and employees depend heavily on the agreement of the performance metrics to be used. Therefore, it has been found to be quite paramount for the employees especially at the managerial level in organizations to understand the metrics before involving themselves in the implementation processes. According to Aguinis, (2009), one

of the critical success factors in the performance metrics implementation has to be the satisfaction of the customers and the quality characteristics have been found to be emphasized upon. Therefore, organizations should give priority to the clients by way of increasing the level of service quality and improving work related attitude among the employees. According to Sparrow, (2012), there are a number of reasons for the failure of Performance management systems. More often than not, systems are used and supported by top management. Supervisors view the system as an administrative burden and do not see the benefits of energy invested in making the system work. Performance objectives are written so subjectively that measurement is not possible. Performance objectives set at the beginning of the year appear to be less important by end of the year if linked to certain projects that were not deemed to be critical success factors. Managers are unable to give feedback and deal effectively and constructively with the conflict generated by the assessment of employees' performance. During the last two decades, an increasing number of organizations have implemented Performance Management Systems that are based on Critical Success Factors and Balanced Scorecards. Hetty, (2008) describe the results of a study that confirms organizations that balance financial and non-financial measurements, but also link strategic measures to operational ones, they update their strategic scorecard regularly and also communicate measures and progress to all employees, are better performers. Armstrong, (2003) stated that, 'Performance management is not static. It will change as performance issues vary, as marketing strategy changes, technologies and the means to measure and record performance change over time.' Thus, the statement asserts that the knowledge of BSC needs to be disseminated to top management because they are responsible for planning and organizing the company's strategy. Hence, once the top management is familiar with the BSC concept, only then are they able to utilize the company's financial and operational information to link its mission, vision, objectives and goals to develop the organization's KPIs (Drewitt, 2013). This is one of the practical problems that have been raised in this research.

2.1.4. Types of Performance Management System

- **360-degree feedback appraisals**

360-degree feedback appraisal is a powerful developmental method and is quite different compared to the traditional manager-subordinate appraisals. This method does not replace the traditional one-to-one process and can be used as a stand-alone developmental method. This method involves the appraise receiving feedback from people whose views are considered helpful and relevant. The feedback is typically provided on a form showing job and skills criteria and

scoring or value judgment system. The appraisal should also assess him or her using the same feedback instrument or form (Gold, 2010).

- **Balance Score Card**

Balanced scorecard is increasingly being used as a strategic performance management tool in both public and private sectors. This adoption has encouraged evolution of the balanced scorecard methodology over the last two decades. Although, the available generations of this methodology are readily adoptable for private sector organizations, public sector organizations present diverse challenges for balanced scorecard. This is further complicated by the fact that scholarly works on strategic performance management have predominantly focused on private sector organizations (Foss, 2007)

The model for performance evaluation and control known as Balance Score Card came to collaborate with SI and continuous improvement of processes, enabling organizations to establish actions aligned to their strategy aiming to create value. BSC contributed to meet shareholder, employee and customer expectations, to the achievement of strategies and, still, to improvement in services, internal processes, learning and innovation. Such model can help to disseminate the strategic plans of an organization at all levels, aiming to guide people's actions towards improvement of present and future performance (Julnes, 2008).

- **Management by objectives**

Management by Objectives, or MBO, is a management strategy that uses the S.M.A.R.T. goals method--setting objectives that are specific, measurable, achievable, realistic, and time-based. This article discusses the first steps toward implementing this management method in your department (Tobin, 2008)

As a practical implication, this study supports MBO at team level. It shows that, if group members are committed to their goals, both group productivity and job satisfaction of team members can be improved. Group effort and collective planning seem partially to mediate this effect on job satisfaction. These results show that MBO can be an effective tool for leading self-regulating teams (Sparrow, 2012).

- **Self-Appraisal**

As (Raatma, 2003) Employs should consider their strengths and weaknesses when conducting self-appraisal. They should brainstorm a list of strengths and the tasks or skills they enjoy the most. They should then take an honest look at areas where you could improve. Improvement areas might include time management skills, speaking in front of groups, leading projects or

even improving processes. Consider feedback you've received from others during the year and think about any areas where you've struggled or felt you could have done better.

- **The critical incidents method**

It is a performance appraisal method in which a manager keeps a written record of positive and negative performance of employees throughout the performance period. There is no standard form used, so it is a method. According to the findings of (Piskurich, 2006), many managers don't keep a record of critical incidents, which leads to problems of accurate measures during the formal review meeting. We use critical incidents to do a good assessment of the entire review period, and we coach when needed during the entire review period for developmental decisions. We need to continually conduct informal coaching and disciplining when needed as we make notes of critical incidents to use during the formal review. With clear standards and coaching, you can minimize disagreements over performance during the formal performance appraisal because there are no surprises, because employees know what is coming.

Peers in an organization are involved in the appraisal of their colleagues. Peer evaluation can be used when the supervisors are frequently absent or as an additional review to confirm the findings of the supervisors (Reynolds, 2009). Employees also interact with other members of the staff frequently. At times, peers may have a better and clear understanding of what their colleagues are doing since they interact on a daily basis. They are also more directly affected by the employees' actions either in a positive manner or negative manner. In addition, peers can also evaluate the ability of their colleagues since they interact individually or in groups.

1.1.1. The Importance of Performance Management System

Performance management arrived in the later 1980s partly as a reaction to the negative aspects of merit rating and management by objective referred to earlier. Its strength is that it is essentially an integrated approach to managing performance on a continuous basis the appeal of performance management in its fully realized from it that it is holistic it pervades every aspect of running the business and helps to give purpose and meaning to those involved in achieving organizational success (Armstrong 2009)

According to (Aguinis, 2009), a performance management system has the following importance in the organization.

1. **Motivation to perform is increased:** Receiving feedback about one's performance increases the motivation for future performance. Knowledge about how one is doing and recognition of one's past successes provide the fuel for future accomplishments.

2. **Self-esteem is increased:** Receiving feedback about one's performance fulfills a basic need to be appreciated and valued at work. This, in turn, is likely to increase employees' self-esteem.

3. **Managers gain insight about subordinates:** Direct supervisors and other managers in charge of the appraisal gain new insights into the person being appraised

4. **The job definition and criteria are clarified:** The job of the person being appraised may be clarified and defined more clearly. In other words, employees gain a better understanding of the behaviors and results required of their specific position. Employees also gain a better understanding of what it takes to be a successful performer (i.e., which criteria define job success).

5. **Self-insight and development are enhanced:** The participants in the system are likely to develop a better understanding of themselves and of the kind of development activities of value to them as they progress through the organization. Participants in the system also gain a better understanding of their strengths and weaknesses, which can help them better define future career paths.

6. **Personnel actions are fairer and more appropriate:** Performance management systems provide valid information about performance, which can be used for personnel actions such as merit increases, promotions and transfers, as well as terminations. In general, a performance management system helps ensure that rewards are distributed on a fair and credible basis. In turn, such decisions based on a sound performance management system lead to improved interpersonal relationships and enhanced supervisor–subordinate trust.

7. **Organizational goals are made clear:** The goals of the unit and the organization are made clear, and the employee understands the link between what he or she does and organizational success. This is a contribution to the communication of what the unit and the organization are all about and how organizational goals cascade down to the unit and the individual employee. Performance management systems can help improve employee acceptance of these wider goals (i.e., organizational and unit level).

8. **Employees become more competent:** An obvious contribution is that the performance of employees is improved. In addition, there is a solid foundation for developing and improving employees by establishing developmental plans.

9. **There is better protection from lawsuits:** Data collected through performance management systems can help document compliance with regulations. When performance management systems are not in place, arbitrary performance evaluations are more likely, resulting in an increased exposure to litigation.

10. **There is better and timelier differentiation between good and poor performers:** Performance management systems allow for a quicker identification of good and poor performers. Also, they force supervisors to face up to and address performance problems on a timely basis (i.e., before the problem is too costly and cannot be remedied).

11. **Supervisors' views of performance are communicated more clearly:** Performance management systems allow managers to communicate to their subordinates their judgments regarding performance. Thus, there is greater accountability in how managers discuss performance expectations and provide feedback.

12. **Organizational change is facilitated:** Performance management systems can be a useful tool to drive organizational change. Employees are provided with training in the necessary skills and are also rewarded for improved performance so that they have both the knowledge and the motivation to improve product quality and customer service.

1.1.2. Processes of Performance Management System

Even though there are different processes of performance management system indicated by different authors, the most common and concrete one is a process which encompasses four phases which are performance planning, performance execution, performance assessment and performance review. Each phase will be discussed briefly as follows.

I. Performance Planning

The performance planning cycle of performance management system is the first stage where employees will be enabled to have a clear knowledge about the system. It is the first cycle where supervisor and employee meet to discuss and agree on what is to be done and how it is to be done by combining the result, behavior and development plan. (Smither and London 2009)

By results we mean the outcomes that an employee must perform quality products and services with time in accordance to personal accountabilities. On the other hand, behavior is an important

measure of results on how employees do their job by discussing on competencies, which are measurable clusters of knowledge, skills, and attitudes (KSAs) that are critical in determining how results will be achieved. The third component of a planning phase is development plan. It is identifying areas of improvement and setting goals to be achieved in each area. It usually includes both results and behaviors. Such plans highlight an employee's strengths and the areas in need of development, and they provide an action plan to improve in areas of weaknesses and further develop areas of strength. And it helps employees to identify how continually learn and grow, to see the possibility of being better in the future and helps them to avoid performance problems faced in the past (Smither and London, 2009).

> **Components of Performance Planning**

Performance planning is the process of setting goals in relation to the key accountabilities associated with your role. Commonly, setting performance goals involves having an understanding of your key accountabilities, setting goals in relation to these accountabilities, and deciding how you will measure the achievement of your goals (L. Kirkpatrick, 2006).

In general, according to Armstrong (2009) performance planning among others includes: agreement on goals/objectives, performance standards, performance measures, key result areas, and agreement on personal development needs.

1. Goals/ objectives

According to Grote (2002) goal setting is one of the key elements of performance planning. In addition to identifying the key responsibilities of the individual's job and the competencies or behaviors that the organization expects everyone to display, another critical element is setting appropriate goals for the upcoming year.

2. Performance standards

Performance standards are management approved expressions of the performance threshold(s), requirement(s), or expectation(s) that employees must meet to be appraised at particular levels of performance (United States Office of Personnel Management, January 2001). Standards of performance are different from objectives. Objectives should be set for an individual, rather than for a job. Therefore, a manager who has several employees who do the same job will have one set of standards for the job but may have different objectives for each person (for mediocre or outstanding), based on that person's experience, skills, and past performance

3. Performance measures

In identifying what the key responsibilities of a position are; the manager and the individual need to discuss how the person's performance will be measured and evaluated. There is a

difference between output measures and outcome measures. An output is a result that can be measured quantifiably, while an outcome is a visible effect that is the result of effort but cannot necessarily be measured in quantified terms. According to Grote (2002) there are four general measures of output: Quality, Cost, and Timeliness. Armstrong (2009) suggested that measures of outcome include: changes in behavior; completion of work/project; acquisition and effective use of additional knowledge and skills etc.

4. **Key performance indicators**

KPIs define the results or outcomes that are identified as being crucial to the achievement of high performance.

II.   Performance Execution

Once the performance-planning phase has been completed, it's time to get the job done to execute the plan. Performance execution is the second phase of an effective performance management process. For the individual, the critical responsibility in phase two is getting the job done achieving the objectives. Even if the line share of this phase will be taken by the employee, but the appraiser has also two major responsibilities: creating the conditions that motivate, and confronting and correcting any performance problems. In an effective performance management system, performance execution also includes a midterm review to ensure that performance is on track (Dick Grote 2002).

III.   Performance Assessment

In the assessment phase, both the employee and the manager are responsible for evaluating the extent to which the desired behaviors have been displayed, and whether the desired results have been achieved. Although many sources can be used to collect performance information (for example, peers or subordinates), in most cases the direct supervisor provides the information. This also includes an evaluation of the extent to which the goals stated in the development plan have been achieved. It is important that both the employee and the manager take ownership of the assessment process. The manager fills out his or her appraisal form, and the employee should also fill out his or her form. The fact that both parties are involved in the assessment process provides better information to be used during the review phase (Smither and London, 2009).

When both the employee and the supervisor are active participants in the evaluation process, there is a greater likelihood that the information will be used productively in the future. Specifically, the inclusion of self - ratings helps emphasize possible discrepancies between self-views and the views that important others (that is, supervisors) have. It is the discrepancy

between these two views that is most likely to trigger development efforts, particularly when feedback from the supervisor is more negative than are employee self - evaluations. The benefit of self-appraisal is to reduce an employee's defensiveness during the assessment meeting and also in increase employee's satisfaction and trust in the performance management system. The time for the formal performance appraisal nears, the manager reflects on how well the subordinate has performed over the course of the year, assembles the various forms and paperwork that the organization provides to make this assessment, and fills them out. The manager may also recommend a change in the individual's compensation based on the quality of the individual's work (Grote, 2002).

IV. Performance Review

The performance review stage involves the meeting between the employee and the manager to review their assessments. This meeting is usually called the appraisal meeting or discussion. The appraisal meeting is important because it provides a formal setting in which the employee receives feedback on his or her performance. In spite of its importance in performance management, the appraisal meeting is often regarded as the most difficult of the entire process because many managers are uncomfortable providing performance feedback, particularly when performance is deficient. This high level of discomfort, which often translates into anxiety and the avoidance of the appraisal interview, can be mitigated through training those responsible for providing feedback (Smither and London 2009).

Providing feedback in an effective manner is extremely important because it leads not only to performance improvement but also to employee satisfaction with the system. At this point, however, let's emphasize that people are apprehensive about both receiving and giving performance information, and this apprehension reinforces the importance of a formal performance review as part of any performance management system. The performance review meeting is the basis for assessing the three key elements of performance (the three Cs), namely contribution, capability and continuous development. Such meetings are also the means through which the five primary performance management elements measurement, feedback, positive reinforcement, exchange of views, and agreement can be put to good use. A performance review should be rooted in the reality of the employee's performance. The latter is concrete, not abstract, and it allows managers and individuals to take a positive look together at how performance can become even better in the future and how any problems in meeting performance standards and achieving objectives can be resolved. Individuals should be

encouraged to assess their own performance and become active agents for change in improving their results. Managers should be encouraged to adopt their proper enabling role (Armstrong 2000).

There should be no surprises in a formal review if performance issues have been dealt with as they should have been, namely as they arise during the year. In one sense the review is a stocktaking exercise, but this is no more than an analysis of where those involved are now, and where they have come from. This static and historical process is not what performance management is about. The true role of performance management is to look forward to what needs to be done by people to achieve the overall purpose of the job, to meet new challenges, to make even better use of their knowledge, skills and abilities, and to help them to develop their capabilities and improve their performance. This process also helps managers to improve their ability to lead, guide and develop both individuals and teams for whom they are responsible (Armstrong, 2000).

> **Objectives of performance review**

Among different objective of performance review the followings are some of them which can be mentioned as the most important one Smither and London, (2009).

- It gives motivation to provide positive feedback, recognition, praise and opportunities for growth; to clarify expectations; to empower people by encouraging them to take control over their own performance and development.

- It encourages development by providing a basis for developing and broadening capabilities relevant both to the current role and any future role that the employee may have the potential to carry out. Note that development can be focused on the current role, enabling people to enlarge and enrich the range of their responsibilities and the skills they require, and to be rewarded accordingly. This aspect of role development is even more important in flatter organizations, where career ladders have shortened and where lateral progression is likely to be the best route forward.

- It gives a chance for communication to serve as a two-way channel for talking about roles, expectations (objectives and capability requirements), relationships, work, problems and aspirations.

1.2. Empirical Review

Many researchers did a research on the effect of performance management system on employee's performance.

In the study, the researcher considered dependent variables including performance planning, employee awareness, performance implementation and improvement implications on employee productivity as the independent variable. This study used the descriptive research design. The study adopted a quantitative approach on the effects of performance management practices on employee performance. Descriptive statistics was used as a data analysis tool.

According to (Prakash & Thembinkosi, 2015) effectively implemented PMS would provide critical information that would allow an organization to make sound decisions regarding their people resources. Hence, there should be no room to compromise to compromise the use of well–developed PMS to achieve the strategic plans of any organization.

According to (Mughal and Akram, 2014) their study has explored the issues (weakness) related with Performance management system in banking sector. This research shows that the performance management system Alfalah bank lacks motivation and proper reward system. Performance management system is properly implemented in Alfalah but employees should be involved in setting standards of performance management to evaluate the performance of each employee. Also, the appraisal form and other evaluating tools must be according to employee job and responsibilities.

According to (Munzhedzi, 2011), performance management system in the organization has a valuable impact if the system is well established and common understanding is created between employees and managers and if objective of the organization cascaded accordingly. He has tried to find out that, performance management has a great role on organizational productivity even if it was on government offices other than banks.

According to (Amber & Mubashir, 2013) conducted on the impact of performance management on the organizational performance: An analytical investigation of the business model of Mc Donald's. The researcher concluded that performance appraisal has positive relationship with employee performance because it is very important to recommend appropriate training and development session for the below average workers. This help the below average workers to improve their productivity in the long run.

As (Gupta & Upadhyay,2012) conducted a research on the effect of effectiveness of performance management system on employee satisfaction and commitment. In their findings, they indicate that there is significant correlation between performance management system and satisfaction and moderate correlation between employee job satisfaction and commitment. The researchers concluded that effective performance management system is only mantra to build the loyalty index of the employee to keep them happy as happy mind work best.

(Chioma, O. 2015) studied to investigate the effect of appraisal system in Niger Delta University on employee productivity. The methodology employed was a survey study design. The findings revealed that there was a significant relationship between performance appraisal and employee productivity and that effective appraisal system could boost the morale of workers especially when they are rated adequately. The findings also revealed that performance criteria also affect the relationship between performance appraisal and employee productivity.

(Ayandele, 2013) studied on the effect performance management system on employee's job commitment, an empirical study of selected companies in Nigeria. Primary data was gathered using a Likert scale questionnaire format. Data analysis was carried out using simple linear Regression. Findings revealed that performance management system effects on employee's commitment to the organizational set goals. The study concluded there is a positive relationship between employee's participation in the designing of an organization's performance management system and employee's commitment to the organizational set goals. The study recommended among others that employees should be carried along in designing the performance management system and the organizations. Performance management system should be clear, objective and easy to understand.

According to (Judy muthoni maina, 2015) a good and functional performance management system should be able to exhibit integration between organizational, functional and individual evaluation systems. Integration can be achieved in an organization through agreement on performance objectives and performance definitions at all functional levels in the organization. Moreover, performance management system should facilitate an individual in an organization to visualize how their individual objectives and evaluation measures lock into organizational perspective. Where the measurement systems in an organization are unable to meet conclusions and facilitate decision making it becomes a futile exercise and a redundant process of no value.

1.3. Summary

In summary, the studies reviewed above emphasized the importance of performance management. Implementation of performance management system is still a problem in almost all organizations. It is therefore easy to understand how the correct implementation of the performance management system facilitates growth and health in the organization. It is imperative that the managers implementing the system have the right perception and attitude towards it and understand the benefits entrenched in it. Continuous training of both supervisors and employees is important so that quality of service is provided. Policy review on performance management is also required.

In this research, Employee performance is the dependent variable and the independent variables are performance planning, employee awareness, performance implementation and performance improvement. This project intended to examine the effect of PMS on employee performance. The four factors considered to have effect on employee performance are performance planning, employee awareness, performance implementation and performance improvement.

Figure 1 Performance Management system and employee performance

Independent Variables   Dependent Variable

Performance Planning

Employee awareness

Performance implementation

Performance Improvement

Employee performance
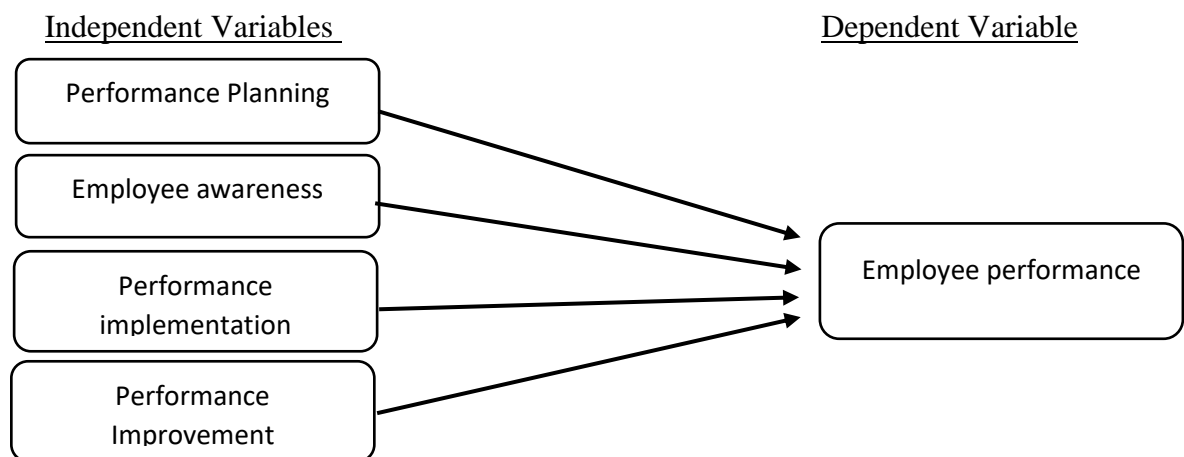
Source: Owen source

CHAPTER THREE

2. Research Methodology

2.1. Introduction

This chapter outlines the research design and process adopted to conduct the research project. It specifically presents the sources of data for the research, data collection instrument, the sampling technique and procedure, the data analysis methods used in the study together with the rationale for selecting the methods in relation to the conceptual framework adapted to the research project and finally the ethical considerations of the study.

2.2. Design of the study

According to (Geoffrey et al, 2005) descriptive research is a research type which describes phenomena as they exist and it is used to identify and obtain information on the characteristics of a particular problem or issues.

Based on the above definition, descriptive type of research design is best to achieve the aim of this research since the study is focus on assessing of performance management practice in Debub global Bank S.C. It is an approach that is used when researchers want to know regarding events, who were involved, what happened, and where did things take place.

This research approach was chosen because of its relevance to this project study, more particularly it could answer research questions in this study which described behavior/attitudes and as well as answer the "what", "who", "when" and "where" questions (Michell & Jolley, 2007). Because the descriptive methods cannot help researchers answer the "whys" i.e. test of "cause-effect" hypothesis, there is always a need to apply scientific data from descriptive research to establish the degree of relationships/correlation among different variables so that inferential conclusions can be made on the population (Cooper & Schindler, 2008).

1.1. Source of data for the study

The researcher used both primary and secondary data. Primary data collected by using questionnaire from employee, because questionnaires are more advantageous to collect data from large number of populations easily. Secondary data collected from previous researches related to the title, company report and Bank's HR manual.

1.2. Sampling Procedure

1.2.1. Sample Size

The total population of the study (employee of Debub Global Bank in Head Office) 200. In order to select the appropriate sample size, the researcher used 133 employees randomly selected from each department due to time, resource and proper organization of data.

$$n = \frac{N}{1+N(e)^2}$$

Where:

n = Sample size

N = the population of size

e = Level of significance (0.05)

Using this formula, the sample size of the study was determined as

n = 200/1+200 (0.05)^2

n = <u>133</u>

Therefore, the total sample for this study is 133 employees

Table 1 Sample size distribution

S.No.	Department	Sample Frame	Sample Size
1	Human Resource Management	20	12
2	Finance & Accounts	31	28
3	International Banking	20	8
4	Internal Audit	10	5
5	Information Technology	22	15
6	Credit	21	15
7	Legal Service	6	3
8	Marketing & Resource Mobilization	10	6
9	Property & Facility Administration	52	35
10	Risk Management	8	6
	Total	**200**	**133**

Source: DGB HR report

1.3. Sampling Method

The study used stratified sampling method. Under stratified sampling the population is divided into several sub-populations that are individually more homogeneous than the total population

(the different sub populations are called 'strata') and then we select items from each stratum to constitute a sample. Since each stratum is more homogeneous than the total population, we are able to get more precise estimates for each stratum and by estimating more accurately each of the component parts; we get a better estimate of the whole. In brief, stratified sampling results more reliable and detailed information (KOTHARI, 2004). Sampling have four strata which are homogeneous. The researcher used 10 departments which are Human Resource Management, Finance & Accounts, International Banking, Internal Audit, Information Technology, Credit, Legal Service, Marketing & Resource Mobilization, Property & Facility Administration and Risk Management as a sample for the research.

1.4. Method of data collection

Primary data collected through the self-administered questionnaire. To this end a structured questionnaire that prepared for the survey in consultation with experts and based on extensive literature review in the area. Participants asked to indicate their level of agreement by five-point LIKERT SCALE 1. Agree, 2. strongly agree, 3. disagree, 4. strongly disagree. The advantage of close-ended choices ensures that the respondent simply places a tick in a box by the selected answer(s) and reduces the potential for respondent variability and thus facilitating the processing of collected data (bryan, 2012).

A pilot-test of the questionnaire also carried out prior to the actual field survey to check whether the questionnaire suffers from problems of ambiguity, instruction, wording, sensitivity and to ensure that the questionnaire was credible and understandable.

1.5. Method of data analysis

Descriptive statistics was used to run the basic statistical measures such as the mean, median, and standard deviation. The mean is a measure of central tendency which provides an arithmetic average for the distribution of scores (Coolican, 1999). Descriptive statistics namely measures of central tendency and measures of dispersion are used to organize the data through closed ended questions with the help of SPPS version 26.0 analysis has been done according to the objective of the study. Summary of statistics has organized in the form of qualitative and quantitative measures by using frequencies and percentage.

1.6. Ethical Consideration

Accordingly, all the research participants included in this study were appropriately informed about their right to participate in this study or not and the purpose of the research. Additionally, their willingness as well as consent was secured before the commencement of distributing

questionnaire. Regarding the right to privacy of the respondents, the study maintained the confidentiality of the identify of each participant. In all cases, names were kept confidential thus collective names like respondent used. The researcher acknowledged the work or other authors.

1.7. Reliability

Reliability is an assessment of the degree of consistency between measurements of variables. Thus the reliability of a measuring instrument indicates the extent to which a measuring instrument indicated the extent to which a measure contains variable errors.

According to Cronbach (1951), a Cronbach Alpha value of 0.70 and higher values implies that that there is internal consistency and is acceptable. All the items considered for this study have greater than the cutoff point value.

Table 2 Cronbche`s Alpha for reliability of PMS questionnaires delivered to the respondents.

	Cronbach's Alpha	No. of Items
Pre-requisite	0.727	3
Planning	0.866	4
Awareness	0.825	4
Implementation	0.789	6
Improvement	0.920	7

Source: Own Survey SPSS

1.8. Validity

Validity is concerned with the meaningfulness of research components. (Ellen.D, 2014). Validity is the strength of our conclusion, inferences or prepositions; it improves the degree to which you are measuring what you are supposed to. It explains how well the collected data covers the actual area of investigation (Ghauri and Ggronhaug,2005).

In specific to this thesis, the questioners are evaluated and commented by respondents were easy to understand implying that the instruments fulfill content of validity. Questionnaire had adequate sample size to make inference about the population based on sample.

CHAPTER FOUR
Summary of Findings
4.1.   Introduction

This chapter presents the findings of the research and discussion on each objective questions. On the first part we analyze demographic and response rate of questionnaires. Then explanation on the results according to the nature of the questionnaires has done, PMS with regard to performance management system related with mission, vision & objective of the Bank, planning, implementation, the effect of PMS and employees perception. On the second part there is a discussion on the findings of the study with respective of one another and aligning with employee suggestion for improvements.

4.2.   Response Rate

Data was collected by use of structured questionnaires, and analysis done using SPSS and excel. Questionnaires were sent to all the 133 staff members of Head Quarter and 96 responded accordingly, excluding non-returned and improperly filled questionnaires. This translated to 72% response rate. According to Babbie (2002), any response rate of 50% and above is adequate for analysis and therefore, the response rate of 72% is more than satisfactory and the total numbers of questionnaires are also above the minimum required to assure a controlled error rate of 28%.

Table 3 General Response Data

S.No.	Department	Targeted Population	Number Of Questionnaire Distributed	Returned Questionnaires	Rejected or non-returned Questionnaires
1	Human Resource Management	12	12	8	4
2	Finance & Accounts	28	28	21	7
3	International Banking	8	8	5	3
4	Internal Audit	5	5	5	0
5	Information Technology	15	15	11	4
6	Credit	15	15	9	6
7	Legal Service	3	3	2	1
8	Marketing & Resource Mobilization	6	6	5	1
9	Property & Facility Administration	35	35	27	8
10	Risk Management	6	6	3	3
	Total	**133**	**133**	**96**	**37**

Source; own survey

4.3.   Demographical Data of Respondents

The target population of the study includes 133 people, all of them were approached by questionnaire. From 133 questionnaires distributed, 96 were returned. Accordingly, the questionnaires (72%) results are summarized in tables below. Demographically, the respondents were dominated by male (69%) and the remaining 31% were female with a majority (65%) of them having an educational background of BA Degree. These show

employees with first degree are large in number in DGB. This means the bank has well educated and qualified employee that can achieve the bank mission with high understanding.

Table 4 Demographic Characteristics analysis of the Respondent

Characteristics	Frequency	Percentage
Gender		
Male	66	69%
Female	30	31%
Total	**96**	**100%**
Educational Level		
Diploma	0	0
Degree	64	65%
Masters	32	35%
Total	**96**	**100**

Source; own survey

Table 5 Bank's PMS related with objectives, mission & vision

	Statement	1	2	3	4	5
1	Employees know the strategic objectives of the bank	4%	13%	31%	42%	10%
2	Performance Management system measurement related to mission and strategic objective of the bank	8%	6%	27%	50%	8%
3	Performance management system is a tool to accomplish vision that stated by the bank	2%	13%	17%	48%	21%

Source; own survey

Form the above table, we can clearly see that 42% of the respondent confirmed that they know the strategic objectives of the bank. On the other hand, 50% the result reveals that PMS related to mission and strategic objective of the bank and 48% of the respondent affirms that PMS is a tool to accomplish vision. Respondent believes the existing performance management system of the bank is directly related with banks objective.

Table 6 Effects of PMS planning on employee's performance

	Statement	1	2	3	4	5
4	know the standards that used to evaluate my work.	6%	2%	19%	42%	31%
5	Employees know what performance management system is	4%	13%	25%	44%	15%
6	Performance management system has created role clarity among the employees in our department.	8%	17%	23%	48%	4%
7	There is a fair and proper distribution among all staffs according to their task and responsibility.	8%	23%	23%	33%	13%

Source; own survey

As summarize in the table 5 the first question tries to ask whether they know the standards that used to measure their work, the majority from 96 respondent 42% agreed that know the standard which evaluation them. The second question, that employees have knowledge about PMS most of the respondents (44%) agreed and this shows that large numbers of employees know what performance management is.

On the other hand among the respondent 48% agree that PMS create clear role among the employee in their department, this shows that majority of headquarter employees agreed that PMS of the bank creates role clarity among the employees. Regarding to fairness among staff according to their task the majority 33% are agree, this shows that respondent believes that the there is a fair and proper distribution among all staffs according to their task and responsibility.

Table 7 Employees awareness about performance management system.

	Statements	1	2	3	4	5
8	There is a meeting with my supervisor after evaluation is made to review results	10%	31%	15%	23%	21%
9	The performance management system was developed with inputs from the staff throughout the department and branch	10%	31%	23%	23%	13%
10	My supervisor evaluates my work based on recorded evidence only.	17%	29%	23%	21%	10%
11	Employees perform their activity based on the actual PMS target	8%	27%	25%	31%	8%

Source; own survey

Form the above table, we can clearly see that 31% of the respondent confirmed that there no a meeting with supervisors after evaluation is made to review results, however 23% of them

agreed this shows in some departments there is a meeting to review the result. On the other side 31% of the respondent confirmed that when the banks PMS developed without inputs from the staff. Regarding the third question 29% respondents disagree and 23% neutral this shows that when evaluators evaluate their workers not only based on recorded evidence.

The final question is to know if employees perform their activities based on the actual PMS target. Accordingly, 31% of the respondent affirms that employees perform their activity based on the actual PMS target.

Table 8 Effects of PMS implementation on employee's performance

	Statements	1	2	3	4	5
12	Performance management system encourage me to accomplish my task effectively.	8%	15%	15%	56%	6%
13	Performance management system makes me better understand what I should be doing.	4%	15%	23%	40%	19%
14	The mere presence of performance management targets limited my ability to work flexibly	8%	17%	35%	27%	13%
15	Performance evaluation is attached with reward and recognition schemes	13%	19%	15%	40%	15%
16	There is self-appraisal in addition to supervisor evaluation.	17%	23%	19%	21%	21%
17	The result of the evaluation matches with my actual performance	2%	19%	25%	40%	15%

The other pillar the research objective is to verify and answer Effect of PMS on Employee Performance. Accordingly, 56% of the respondent are agree that PMS encourage them to accomplish their task effectively. Moreover 40% of the respondent confirmed that PMS makes them better understand what they should be doing. On the other side 40% of respondents are confirmed that performance evaluation of the bank is attached with a kind of reward and recognition schemes and 40% of respondents agree that the result of the evaluation matches with their actual performance.

Table 9 Perception of employees on improvement of performance management System

	Statement	1	2	3	4	5
18	The supervisors are renewing the current performance measurement after assessing and evaluate the existing one	13%	25%	27%	31%	4%
19	Performance Management system measurement after reconstructing leads to employees more productive	15%	19%	23%	35%	8%
20	Performance management system may change when the current Performance management system are not fit with customers performance	4%	25%	23%	25%	23%
21	Performance of employees improves due to current Performance Management System.	6%	23%	33%	29%	8%
22	The performance management system is effective in promoting quality work	4%	27%	17%	38%	15%
23	Performance management system improve the existing team work between colleagues that leads to improve their future productivity	4%	31%	19%	31%	15%
24	Employees become more competent because of Performance management system	6%	29%	19%	40%	6%

Source; own survey

From the above table 31% of respondents are agree with statement supervisors are renew current performance measurement after assessing and evaluate the existing one this indicate that the bank renews the performance measurement after assessing the existing one. Moreover 35% of respondents agree with the idea PMS measurement after renewal leads more productive but 23% is neutral with this. This implies the renewal effect on employee's employee productivity is not similar in all departments. 25% of respondents agree with PMS change when the existing PMS is not fit with customer preference but 25% is disagree with this idea so the bank tries to fit PMS with the customer preference. Additionally, 33% of respondents are neutral with the idea of employees performance improves due to current PMS. 38% of respondents are agree that the PMS is effective inn promoting quality work. On the other hand, 31% of respondents are agree and the other 31% is disagree with the idea of PMS improve the existing team work between colleagues that leads to improve their future productivity. This shows that the impact of PMS on team work is not the same in all departments and 40% of respondents confirmed that employees become more competent because of PMS.

4.4. Discussion on findings

The first part of the research objective is to analyze the existing performance management system of the bank relationship with banks strategic objective. Accordingly, respondent affirms that PMS is a tool to accomplish vision and the existing performance management system of the bank is directly related with banks objective, mission and vision.

The second part of objective is the effect of PMS planning on employee performance. Majority of headquarter employees agreed that PMS of the bank creates role clarity among the employees. Regarding to fairness among staff according to their task the majority respondent believes that there is a fair and proper distribution among all staffs according to their task and responsibility.

The third object question is designed to answer employee awareness about the performance management system implemented by Debub Global Bank. Accordingly, respondent confirmed that there no a meeting with supervisors after evaluation is made to review results and when the banks PMS developed without any inputs of staff. However, employees perform their activity based on the actual PMS target but all department employee doesn't work their activities based on the actual PMS target.

The findings on how the employees interpret their experiences with the Performance Management System are that there was openness of expression. As for the attitude of the participants towards the system, all of the sectors felt that a performance management system was needed, but should include the components of staff involvement, fair monitoring, rewarding high performers and correcting low performers. High performers get a big reward in form of bonus or salary increment whereas the middle performers get some reward, but the low performers are often laid off or given a clear signal that their job is on the line (Lawrie, 2004).

The fourth pillar of the research objective is to verify and answer the effect of PMS implementation. Accordingly, PMS encourage them to accomplish their task effectively and PMS gives them better understand what they should do but PMS targets limited their ability to work flexibly and the result of evaluation matches with their actual performance. This means the evaluation result will support to get promotion and annual bonus according to their performance.

The major challenge lies in the implementation of performance management processes (Clake, 2011). Lack of knowledge and skills to implement successful performance management systems remain a major constraint. Performance management requires commitment from top management and leadership. It requires the development of an organizational culture characterized by trust, a sense of belonging to the organization, commitment to a higher cause, a strong work ethic and courage to follow the truth.

The final objective question to be accessed perception of employees on improvement of performance management System of DGB. Accordingly, supervisors are renewing current performance measurement after assessing and evaluate the existing one, this indicate that the bank renews the performance measurement after assessing the existing one. Moreover, PMS measurement after renewal leads more productive but some respondents are neutral with this. This implies the renewal effect on employee productivity is not similar in all departments. On the other hand, employee's performance improves due to current PMS. This implies the banks performance management system has some limitation to motivate employees. According to the investigation done by (Newel, 2000) concerning the perception that employees have of performance management system. There is very little employee involvement in formulating criteria, agreeing performance standards and objectives when designing performance systems.

CHAPTER FIVE
Conclusion and Recommendation

5.1. Summary of Finding

According to the analysis made in the previous chapter the following finding are identify: -

➢ The majority of respondent know about performance management system and the standard that evaluates them knowing this will help most employees fulfill their responsibilities according to the PMS.

➢ Based on the responses given by sample employees performance management of the bank creates role clarity among the employees. This shows that the system helps them to avoid problems with transparency in their work. Additionally, respondent believes that there is a fair and proper distribution among all staffs according to their task and responsibility. This means that employees are made aware of what they need to do and what is expected of them.

➢ Based on the sample participant response there is no a meeting with supervisors after evaluation is made to review results and, in some department, there is a meeting to review the result. Consistently, the results of the evaluation will not be reviewed in all work units.

➢ According to data collected from respondents when the banks PMS developed made without involvement of employees. According to the staff, the Bank's performance management system does not include a representative body of employees.

➢ Based on the responses given by respondent's performance assessment is not only based on the written evidence. This means that the assessment can be made without written confirmation because of this employee are not satisfied with their final performance result. This kind of dissatisfaction makes them low effective and careless on their target achievement for the next time.

➢ According to the respondent's performance management system measurements are attached with reward and recognitions schemes. This will help the bank for the future because the evaluation with recognizing and rewarding has significant effect to employee's performance.

➢ Based on the responses supervisors renew current performance measurement after assessing and evaluate the existing one, this indicate that the bank renews the performance measurement within a certain time base.

➢ Based on the responses given by sample employees performance management does not create participative environment, it does not improve the existing team work based on the data collect from respondents employees are concerning on their own target given by supervisors and they don't think about team work this thing has negative influence on their performance leads to low efficiency because team work has a great role in employee productivity for group also individually.

5.2.   Conclusion

As a result, based on the above-mentioned findings the researcher has reach on the following conclusions.

Employees are aware about strategic objective of the bank also has knowledge about PMS. However, performance management system has the above benefits it has its own problems also. The performance evaluation result attached with reward and recognition schemes. when PMS develop the contribution of staffs and departments is low. Also, it does not create participative environment, employees are not more competent because of the system.

Performance management system improves the productivity of employees and it has significant effect on promoting quality of work. The meeting between employees and supervisors to review the result of evaluation is good trend for the bank even though it is not applicable in all units. On the other side managers renew current performance measurement after assessing and evaluate the existing one this indicate that the bank renews the performance measurement within a certain time base.

Additionally, the finding reveals that performance management system has strong impact on individual performance instead of team work positively. Considering the respondent feedback there will be low work performance due to short understanding of the PMS. Endorsing performance management system enhances employee performance. It involves setting individual objectives that are derived from overall banks goals and allocating time frame for completion.

The finding further reveals that the management of Debub Global Bank should do to improve the performance management system, majority mentioned management tight on merit basis and give incentives to the best staff. Finally, it was suggested that the management of Debub Global Bank should give promotions and have staff representatives in discussions that affect them enormously and the performance management system should not be used only for resource mobilization. Besides, it should bring harmony, team work and quality of products which entails additional customer as well as maintaining the existing one.

5.3. Recommendation

On the basis of finding and conclusion of the study researcher forward the following recommendations: -

☞ The result of the study shows there are some employees that are not clearly know the strategic objective of the bank so the bank should let to know its employees about strategic objective of the bank though formal communication.

☞ The bank should attach the performance management system with reward and recognition to increase employees' motivation which leads to become more productive. Employees are motivated to give rewards based on their performance. It makes them better off than they are now.

☞ In order to make employees satisfied by the evaluation the bank should participate its employee on the development of performance management system for the future. When the Bank's performance management system is improved or redesigned, it is advisable to select a representative from each department who can represent the staff.

☞ The bank should strongly focus on performance renewal, performance planning and performance assessment because they have strong relationship with employee productivity. The Bank should focus on performance planning, implementation of the plan, and revised as needed and it needs to be studied and the performance adjusted by outsourcing professional organizations.

☞ The bank should give training for the managers and supervisors that help them to specialize on their evaluation to decrease employee dissatisfaction on their evaluation result which leads them for dissatisfaction and low productive.

☞ In general, a transparent system should be encouraged, performance management to be carried out regularly, perform job design in order to match staff qualifications to the right job, boost staff morale by giving them longer contracts, create job growth path for staff and orient new staff on performance management and engrave it to the organization policy.

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Appendix
ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

THE EFFECT OF PERFORMANCE MANAGEMENT SYSTEM ON EMPLOYEE PERFORMANCE: THE CASE OF DEBUB GLOBAL BANK S.C

Dear Sir/Madam,

I am a Post Graduate student in **St. Mary's University School of Graduate Studies** Masters of Business Administration. This is a questionnaire designed to collect data on the "The effect of performance management system on employee performance" which will be used as an input for a thesis in partial fulfillment of Master of Business Administration. Your genuine response is solely used for academic purpose. Therefore, your kind cooperation is appreciated in advance. If you have any questions about this survey, please feel free to contact me at +251- 912301756 or via my email address: birhan.tewabe19@gmail.com

With regards,

Birhan Tewabe
MA Student, St. Mary's University School of Graduate Studies

Questioners

Section I: General Information

1. What is your Gender?   Male ☐   Female ☐

2. What is your age bracket? 20-30 ☐   31- 45 ☐   46-60 ☐

3. Number of years worked a Debub Global Bank S.C?
   Less than one year ☐   2-5 years ☐   6-10 years ☐   Above 11 ☐

4. Education Level?
   Diploma ☐   Degree ☐   Master ☐   Above Master ☐

Please indicate the extent to which you agree with the following statements by using a scale of 1 to 5
Where

1. Strongly disagree; **2. Disagree**; **3. Neutral; 4. Agree; 5. Strongly agree**

Section II: Pre-requisite	1	2	3	4	5
1	Employees know the strategic objectives of the bank					
2	PMS measurement related to mission and strategic objective of the bank					
3	PMS is a tool to accomplish vision that stated by the bank					
Section III: Effects of PMS planning on employee's performance						
Statement	1	2	3	4	5
4	I know the standards that used to evaluate my work.					
5	Employees know what performance management system is.					
6	PMS has created role clarity among the employees in our department.					
7	There is a fair and proper distribution among all staffs according to their task and responsibility.					
Section IV: Employees awareness about PMS						
Statements	1	2	3	4	5
10	There is a meeting with my supervisor after evaluation is made to review results					
11	The PMS was developed with inputs from the staff throughout the department and branch					
12	My supervisor evaluates my work based on recorded evidence only.					
13	Employees perform their activity based on the actual PMS target					
Section V: Effects of PMS implementation on employee's performance						
Statements	1	2	3	4	5
14	Performance management system encourage me to accomplish my task effectively.					

	Performance management system makes me better understand what I should be doing.					
	The mere presence of performance management targets limited my ability to work flexibly					
15	Performance evaluation is attached with reward and recognition schemes					
16	There is self-appraisal in addition to supervisor evaluation.					
17	The result of the evaluation matches with my actual performance					

Section VII: Perception of employees on improvement of PMS

	Statement	1	2	3	4	5
22	The supervisors are renewing the current performance measurement after assessing and evaluate the existing one					
23	PMS measurement after reconstructing leads to employees more productive					
24	PMS may change when the current PMS are not fit with customers performance					
26	Productivity of employees improves due to current Performance Management System.					
27	The performance management system is effective in promoting quality work					
28	PMS improve the existing team work between colleagues that leads to improve their future productivity					
30	Employees become more competent because of PMS					