

Assessing the Effect of Performance Management System on Employees' Motivation: A Case of Ethiopian Airlines

By: Temesgen Bahre



*A Thesis Submitted to Addis Ababa University School of Commerce in
Partial Fulfilment of the Requirements for Master of Arts
Degree in Human Resource Management*

Advisor: Wubeshet Bekalu (PhD)

June, 2018

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This is to certify that the thesis prepared by Temesgen Bahre Abadi, entitled “**Assessing the effect of performance management system on employees’ motivation: A case of Ethiopian Airlines**”, which is submitted in partial fulfillment of the requirements for the Degree of Masters of Art in Human Resource Management, complies with the regulations of the University and meets the accepted standards with respect to standards to originality and quality.

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DECLARATION

I declare that the project entitled “**Assessing the effect of performance management system on employees' motivation: A case of Ethiopian Airlines**” is my original work and has not been presented in Addis Ababa University or any other University, and that all sources of material used for the project have been duly acknowledged.

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Table of Contents

Acronyms/Abbreviations.....	i
List of Figures.....	ii
List of tables.....	iii
Abstract.....	iv
CHAPTER ONE: INTRODUCTION	1
1.1. Background of the Study	1
1.2. Background of the Organization	2
1.3. Statement of the Problem	3
1.4. Research Questions	5
1.5 Research Objectives.....	6
1.6 Significance of the Study	6
1.7 Scope of the Study	7
1.8 Limitation of the Study.....	7
1.9 Organization of the Study	8
CHAPTER TWO : LITERATURE REVIEW	9
2.1. Introduction.....	9
2.2. Performance Management System.....	11
2.2.1. Definition of Performance Management System.....	11
2.2.2. Purpose of Performance Management System.....	11
2.2.3. Process of Performance Management System.....	12
2.2.4. Determinant Factors of Performance Management System’s Effectiveness	17
2.3 Motivation.....	25
2.3.1. Definition of Motivation	25
2.3.2. Theories of Motivation.....	26
2.3.3. Relationship of Motivation and Performance Management System.....	32
2.4. Empirical Studies	33
2.5. Conceptual Framework.....	35
CHAPTER THREE: METHODOLOGY.....	36
3.1. Description of the Study Area.....	36
3.2. Research Design and Approach.....	36

3.3. Population and Sample	36
3.3.1. Sample Frame	36
3.3.2. Sampling Technique	37
3.3.3. Sample Size	38
3.4. Data Sources and Types	40
3.5. Data Collection Instrument	40
3.6 Methods of Data Analysis	41
CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION	43
4.1 Response Rate	43
4.2. Composition of Respondents	43
4.3. Analysis of the Independent Variables	46
4.4 Analysis of the Dependent Variable	53
4.5 Relationship between the Independent and Dependent Variables	54
4.6 Effect of Performance Management System on Motivation	55
4.7. Effect of Demographic Factors on the Study Variables.	60
CHAPTER FIVE: CONCLUSION AND RECOMMENDATION	62
5.1. Conclusion	62
5.2. Recommendations	64
REFERENCE	65
Appendix I - Questionnaire	i
Appendix II: Compared means of demographic data	iv

Acronyms/Abbreviations

ERP: Enterprise Resource Planning

ERG: Existence, Relatedness, Growth

ET: Ethiopian Airlines

HRM: Human Resource Management

MRO: Maintenance, Repair and Overhaul

PMS: Performance Management System

SAP: Systems, Applications and Products in Data Processing

Sig: Significance

SPSS: Statistical Package for Social Sciences

Std. Deviation: Standard Deviation

List of Figures

- Figure 2.1 Flow of the performance Management Process.
- Figure 2.2: The performance management process.
- Figure 2.3 The Performance Management System process.
- Figure 2.4. Determinant Factors of Performance Management System's Effectiveness.
- Figure 2.5. Conceptual Model of the Study

List of tables

- *Table 3.1. Ethiopian Airlines employees' roster*
- *Table 3.2. Reliability test result.*
- *Table 3.3. Range of agreeableness.*
- *Table 3.4: Strength of the correlation reference.*
- *Table-4.1: Demographic information*
- *Table 4.2: Mean and standard deviations of the independent variables*
- *Table 4.3: Summary of response to questions on clarity.*
- *Table 4.4: Summary of response to questions on inclusiveness.*
- *Table 4.5: Summary of response to questions on communication.*
- *Table 4.6: Summary of response to questions on Acceptability and Fairness.*
- *Table 4.7: Summary of response to questions on rewarding performance.*
- *Table 4.8: Summary of response to questions on continuous feedback.*
- *Table 4.9: Summary of responses for the questions on motivation.*
- *Table 4.10: Correlation of independent variables and the dependent variable.*
- *Table 4.11: Regression analysis of individual independent variables against motivation.*
- *Table 4.12: Regression Model Summary of the relationship.*
- *Table 4.13: ANOVA test of the relationship.*
- *Table 4.14: Regression coefficient analysis of the dependent and independent variables*

Abstract

The study was designed with a general objective of assessing the impact of performance management systems' effectiveness on employees' motivation. It was conducted in Ethiopian Airlines, a government owned international carrier, based in Addis Ababa, Ethiopia – with more than 11,000 permanent employees. The research approach was explanatory with a quantitative design. Quantitative type of data was collected as a primary and related literature and documents as a secondary source. Closed-ended questionnaires were distributed to a stratified sample of employees from different departments. A total of 371 questionnaires were collected and processed for analysis using descriptive and inferential statistics with the help of SPSS. Mean scores and standard deviation were used to assess the level agreeableness of the respondents. Relationship of the independent and dependent variables were analyzed using the correlation and regression methods. The results were then presented in the form of tables followed by discussions for further interpretation on the findings. The major findings of the research indicated that the clarity and continuous feedback variables of the PMS to have been perceived as less effective. Whereas, the other four variables in communication, inclusiveness, rewarding performance and acceptability and fairness factors were considered to be relatively satisfactory by the employees. While the view of the employees towards the determinant factors varies, the overall perception of the employees towards the PMS was positive, as 51.8% have agreed to the questions on the system. Similarly, the employees' level of motivation has a score of 57% of the employees who felt that they are motivated. The study has found out that there was a positive but weak relationship between the independent variables (the PMS) and motivation. The study has also shown that employees at different division view the PMS differently, despite their level of motivation being unaffected. Therefore, it was concluded that, the PMS requires improvement to make it more effective. In addition, it was concluded that the impact of the PMS on the level of employees' motivation was minimal. Finally, the researcher has recommended that the company strives to improve the system to make it effective in all its aspects. In addition, it was recommended that the features of the PMS to be revised so that it becomes strong in influencing the employees' level of motivation. The researcher has also recommended that the system needed to be implemented systematically in order to be equally understood by all employees regardless of their demographic background.

Key words: Performance, PMS, Motivation, Effectiveness.

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Firms achieve strategic competitiveness and earn above-average returns when their unique core competencies are effectively acquired, bundled, and leveraged to take advantage of opportunities in the external environment in ways that create value for customers (Hitt, Ireland and Hoskisson, 2007). According to Dessler (2013, p.78), “the best competitive advantage is often human capital - knowledgeable, skilled and engaged employees working hard and with self-discipline.”

Organizations with motivated and capable employees offering outstanding service to customers are likely to pull ahead of the competition, even if the products offered are similar to those offered by the competitors. Customers want to get the right answer at the right time and they want to receive their products and services promptly and accurately. Only people can make these things happen and produce a sustainable competitive advantage. Performance management systems are key tools that can be used to transform people's talent and motivation into a strategic business advantage (Aguinis, 2009).

It is widely believed that the success or failure of an organization in a market heavily depends on their effectiveness in utilizing their competitive advantages that they have (stated in their strategy). While most of such organizations state that their employees are their ‘valuable’ assets, they often fail to exploit their human resources as one of their competitive advantages in the market. This is largely attributed to the lack of converting the capabilities of their human resource into a core competitive advantage. Among the several reasons for such failure, the implementation and management of the employees' performance plays the critical role.

According to Aguinis (2009), modern organizations depend on the competitiveness and performance of their employees. He defined performance management system as a continuous process of identifying, measuring, and developing the performance of individuals and teams and aligning performance with the strategic goals of the organization (Aguinis, 2009). It is obvious that the performance management system would become dysfunctional should the system lacks

continuity, fails to identify key indicators, measure the anticipated performance and could not develop the performance to be in line with the strategic goals of the organization. The administration of performance management system has therefore, been the core discussion topic of every major organization that needs to cope-up with the ever changing global competition.

Various scholars have studied performance management system with respect to reward and affecting employees' performance and have drawn the following conclusions, among others. Meaza Asfaw (2017) has mentioned that for an effective implementation of the performance appraisal, it requires a thorough communication about the system, the process, the expectations and the like. Similarly, Tekeba Bekele (2016, p.41) has concluded that "the majority of (Ethiopian Airlines) employees are moderately satisfied with clarity of performance expectations in performance appraisal process, level of communication between employees and supervisors, fairness of performance appraisal process and trust in supervisors."

Tippins and Coverdale (2009, p.561) have mentioned that "organizations report that performance reviews are required and managers often report that they conducted them, yet many employees in these same organizations report that they never received a review." performance management systems must guide the behavior of employees. Since the inception of formal performance management systems, a fundamental criterion of effective systems has been an explanation of what good performance looks like. Unless the employer can communicate expectations clearly, employees are unlikely to achieve the goals set for them. Although such systems are currently in place in many organizations, these programs may need to be adapted in the future to ensure these expectations continue to be effectively communicated to the target employees. (Tippins and Coverdale, 2009)

1.2. Background of the Organization

Ethiopian Airlines was established in December 1946. It is Africa's largest airline by fleet size, annual number of passengers carried and destinations covered. The company has more than 94 ultra-modern fleet with an average age of 5 years and serve more than 90 international and 20 domestic destinations. As of November 2017, Ethiopian Airlines has more than 11 thousand

permanent employees and almost 3 thousand more - hired on contractual basis, working under its 7 business units around the clock.

In 2009, Ethiopian Airlines has scaled up its 'vision 2010' – growth strategy – to 'vision 2025' strategic road map, established on a diversified aviation business model. Based on this strategy, the Airline envisions to become the most competitive and leading aviation group in Africa by providing safe, market driven and customer focused passenger and cargo transport, aviation training, flight catering, MRO and ground services by 2025.

In line with the above mentioned business strategy, the company has drafted the 'Human Capital Strategy' as its HRM functional strategy. Among other practices planned in this strategy, the performance management system that heavily relies on the Balanced Scorecard (BSC) method, is clearly stated and being implemented ever since. However, the implementation and administration of the performance management system has always been challenged.

1.3. Statement of the Problem

For a given performance management system to be effective, all involved parties have to have clear understanding about the purposes of the system as well as the strategic objectives of the organization.

It has been observed that performance related discussions and arguments are amongst the largest time consuming topics for immediate and first level supervisors in Ethiopian Airlines. The discussions range from the competence of the evaluator to the extent of the significance of the system. Most managers are often heard of their difficulty in convincing their fellow employees with respect to how their performance is being managed and its importance in their development. In contrast, employees have often argued that the purpose of the performance management system only for the purpose of promotion and end-of-year bonus.

To enhance the effectiveness of the performance management system and ensure its continuity, the company has associated the annual bonus scheme to be related to the employees' performance scores. In addition, software packages were implemented for evaluators to be able to continuously record accomplishments of key performance indicators in the form a diary. Ethiopian Airlines also

intends to facilitate the performance management system by attaching it with its core ERP tool – the SAP.

Regardless of the above mentioned efforts, however, the performance management system has been studied in a varying perspectives and was found to have been unsatisfactory; among which, Asfaw Hailekiros (2013, p.61) has concluded that “50% percent of the employees are not comfortable with the performance management system, which might make attraction and retention of competent employees very challenging.” However, this study was merely performed to test if there existed a relationship between performance management and promotion, salary and bonus.

In the same way, Tekeba Bekele (2016) has concluded that, around 40% of employees of the airline had agreed that the appraisal system is not effective in encouraging employees to work hard. Unfortunately, this researcher has preferred to consider the views of the employees working in the departments of ‘Corporate HRM’ and ‘Customer services.’ While his choice for this sample group based on their reputation of a ‘higher response rate’ is understandable, the assumption that these sample group represents the remaining business units is disputable. The majority of the Airlines’ core business units such as ET-MRO, Flight Operations, Catering and ET Cargo are composed of employees with a little or no background knowledge of business management in general and the human resource management in particular. According to Saunders, Lewis and Thornhill (2016, p.275), the sample selected should be “related to the population that is highlighted in the research question and objectives.” In a similar way, Sekaran (2003, p.286) has affirmed that “A reliable and valid sample should enable us to generalize the findings from the sample to the population under investigation.” Therefore, it is the opinion of the researcher that conclusions, drawn by Tekeba Bekele (2016) from such sample group, lack clarity and reliability as it fails to represent the majority of employees’ opinion towards the performance management system in the entire company.

While such scholars have attempted to analyze the effect of the performance system in such a varying manner, the researcher has not come across with an inclusive literature that evaluates the opinions of Ethiopian Airlines’ employees on the effectiveness of the performance management system and its impact on their motivation. Hence, an effort was is made in this study to include a

sample of employees from the major business units that are believed to have limited access to the processes and concepts of the performance management system. In addition, there is a doubt if the system is really influencing the employees to be motivated. This study is, therefore intended to assess the effectiveness of the performance management system employees' motivation.

1.4. Research Questions

Based on the above mentioned problem, the below research questions will be addressed:

- 1) How clear is the practice of performance management system in Ethiopian Airlines, to the employees?
- 2) How inclusive are the processes of the performance management system in Ethiopian Airlines?
- 3) How effectively does the performance management system help in communicating key performance indicators between the employees and the management?
- 4) To what extent is the practice of performance management system in Ethiopian Airlines perceived as fair and acceptable?
- 5) To what extent does the processes of the performance management system in Ethiopian Airlines provide feedback to the employees?
- 6) To what extent does the performance management system reward performance?
- 7) What is the level of motivation in Ethiopian Airlines?
- 8) What is the relationship between the performance management system and employees' motivation in Ethiopian Airlines?

1.5 Research Objectives

General Objective: The general objective of the study is to assess the opinions of Ethiopian Airlines' employees on the performance management system's effectiveness and its influence on their motivation.

Specific objective: The specific objectives of the study are indicated below.

- To study the level of clarity that the performance management system practice has in Ethiopian Airlines.
- To analyze the level of employees' involvement in the processes of the performance management system in the Airline.
- To study if the performance management system is useful in communicating the key performance indicators between the employees and the management.
- To examine the extent of fairness and acceptability of the performance management system in Ethiopian Airlines.
- To study the transparency level of the processes used in the performance management system of Ethiopian Airlines.
- To study if the performance management system rewards good performance.
- To study the level of employees' motivation in Ethiopian Airlines.
- To analyze the relationship between the performance management system and employees' motivation in the Airline.

1.6 Significance of the Study

It has been debated that several employees' do not consider the performance management system in Ethiopian Airlines to be effective Asfaw (2013). His study, however, was only conducted in relation to promotion and salary. Similarly, the study of Tekeba (2016) have shown us that half of the employees of the airline do not believe that the system is. The researcher, has only considered a sample of employees of few divisions. There has not been a study, however, that attempts to assess the effect of the performance management system and its impact on employees' motivation.

By assessing the effect of the performance management system on employees' management on employees' motivation, this study is intends to contribute in analyzing the employees' perception towards the effectiveness of the performance management system. In addition, the study will help examine the impact of the performance management system on the employees' motivation. Inclusion of all division of the airline in the collection and analysis of the primary data should also make the findings of the study to be 'all rounded.'

The results of the study may be used as an input for the company's human capital strategy which is aimed at improving its valued resource – the human resource. The author also believes that the results of the study would help the company to analyze and take measures in correcting any flaws identified. Finally, the study may also be used by future researchers who want to base their studies on the findings and or conclusions made.

1.7 Scope of the Study

The scope of the study is bounded only by the effect of the performance management system practice in Ethiopian Airlines and its relation with employees' motivation. The study is bound by the activities of the performance management system in the airline during the period of this study in 2018. In addition, it is bounded by the perception of Ethiopian employees that are currently working in Addis Ababa, as it is expensive and difficult to reach those employees assigned out of Ethiopia, in a short period of time. Finally, the study is bounded by the quantitative type of the research methodology chosen, which limits the respondents to choose only from the alternatives given to them in the form of a questionnaire.

1.8 Limitation of the Study

The researcher acknowledges that the study is limited due to different points listed below, taking into consideration the limited time, budget and manageability of the study.

It is limited to the perception of the employees in Ethiopian Airlines towards the actual performance system that is in effect in the company. Thus, the generalizability of the findings would be difficult as there will be different levels of understanding towards their respective performance practices in different divisional settings which may have varying level of impact on employees' motivation. However, apart from time, budget and manageability, the researcher

believes that the number of employees in this organization being over 11,313, at the time of study, can make the findings presentable.

Primary data was collected from individual sample of employees and the findings are only based on the employees' perception towards the ongoing performance management system practice rather than the intended performance management system, as set by the management. As a result, the generalizability of the findings are solely limited to the organization under study.

1.9 Organization of the Study

The study is organized in five chapters. The first chapter introduces the topic and explains the need to assess effectiveness of the performance management system along with its impact on their motivation. The research objective, research questions, the significance to conduct the study, the scope, limitation and definition of key terms used in the study are also outlined. Next, in chapter two, literature review of the study is presented. An overview of literature on performance management system along with its purpose and the processes are discussed. Topics on motivation are presented as applied to the human resource management in general and performance management system in particular. In addition, scholarly discussions that have attempted to relate these topics are assessed as applicable to the intended study.

Chapter three presents the research methodology and provides the population and sampling, selected research instrument, data collection techniques as well as data analysis procedures. In the fourth part, chapter four, the analysis procedures of the collected data are presented. Based on the data, further discussion on the findings are also made. Finally, chapter five presents the general conclusions obtained from the study along with recommendations provided based on the conclusions.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

Kaplan and Norton (2001, p.2) have analyzed that “in an economy dominated by tangible assets, financial measurements were adequate to record investments in inventory, property, plant, and equipment on companies’ balance sheets. Income statements could also capture the expenses associated with the use of these tangible assets to produce revenues and profits. But today’s economy, where intangible assets have become the major sources of competitive advantage, calls for tools that describe knowledge-based assets and the value-creating strategies that these assets make possible. Lacking such tools, companies encountered difficulties managing what they could not describe or measure.”

Likewise, Wheelen and Hunger (2012) argued that the days when simple financial measures such as return on investment (ROI) were used alone to assess overall corporate performance are coming to an end. This hints that one of the important corporate performance measures that are at stake today is the employees’ performance management system that attempts to measure the level of the core intangible assets of organizations – the human resource.

While measuring the performance of employees is very important as mentioned above, the attitude of employees towards it is important as well. To support this point, Dessler (2013, p.287) has noted that performance management means “different things to different people. Some use performance management as just a new way of saying performance appraisal. Others say performance appraisal represents just the appraisal step of a three-step goal-setting /appraisal / feedback performance management process.”

Similarly, Werner and DeSimone (2012, p.325) have quoted the work of Butchner (2007) as saying that “Performance management is also more likely to emphasize employee values, participation, and engagement, rather than the top down approach common with many performance appraisal systems.”

The level of understanding by employees about the applicable performance management system should have a certain level of influence in their reaction towards their motivation. Armstrong (2006a) has discussed that performance management system must examine how results are attained because this provides the information necessary to consider what needs to be done to improve those results. Armstrong (2006a, p.495), has used the works of Brumbrach (1988) about the concept of performance, and discussed that “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.”

Noe et al. (2016) argue that an effective performance management can help to inform that top performers they are valued, encourage communication between managers and their employees, establish consistent standards for evaluating employees, and help the organization identify its strongest and weakest employees.

In a similar fashion, Barlow (1989) believed that of all the activities in HRM, performance management system is arguably the most contentious and least popular among those who are involved. However he has noted that managers do not seem to like doing it, employees see no point in it, and personnel and human resource managers, as guardians of an organization's appraisal policy and procedures, have to stand by and watch their work fall into disrepute. Remarkably, despite the poor record of appraisal within organizations, it is an accepted part of management orthodoxy that there should be some means by which performance can be measured, monitored and controlled (Barlow, 1989)

Bratton and Gold (1999) indicated that employees can learn to appraise themselves and will treat it as part of their own motivation and development, if they can see the value of it for themselves rather than as a manipulative management tool. Such point suggest that employees' view towards the performance management system is worth noting.

2.2. Performance Management System

Performance management system is a shared process, based on communication between managers (appraisers) and those being managed (appraisees). The most basic objective of a performance management system, according to Moorhead and Griffin (1995, p.183), is to “provide information about work behaviors that can be used for feedback, reward allocation, training and development and succession planning.”

Armstrong (2006a) states that performance management is based on the agreement of objectives and the joint and continuing review of an individual's performance against these objectives together with agreement on further development plans. Performance Management is a system and process that link the organization's goals and strategies to individual and team performance so as to increase organizational effectiveness.

2.2.1. Definition of Performance Management System

Aguinis has defined performance management as a “continuous process of identifying, measuring, and developing the performance of individuals and teams and aligning performance with the strategic goals of the organization” (2009, p.3). It is worth noting here, that the core components of this definition, are the major building blocks of the concept of performance management system. Hence:

- Performance management system is a continuous process meaning that the process starts with planning and goes all the way to the appraisal and feedback stages.
- The core concept behind the system is to identify, measure and develop performance of employees and teams in an organizational setting.
- Aligning performance with the strategic goals wholly depends on how the organization conducts its performance system.

2.2.2. Purpose of Performance Management System

Performance management systems can be used for different purposes. Aguinis (2009, p.6) has used the works of Cleveland & Murphy (1989) and summarized the basic purposes in to six, listed as follows:

Strategic: It links the organization's goals with individual goals, thereby reinforcing behaviors consistent with the attainment of organizational goals.

Administrative: It is a source of valid and useful information for making decisions about employees, including salary adjustments, promotions, employee retention or termination, recognition of superior performance, identification of poor performers, layoffs, and merit increases.

Communication: It allows employees to be informed about how well they are doing, to receive information on specific areas that may need improvement, and to learn about the organization's and the supervisor's expectations and what aspects of work the supervisor believes are most important.

Developmental: It includes feedback, which allows managers to coach employees and help them improve performance on an ongoing basis.

Organizational maintenance: It yields information about skills, abilities, promotional potential, and assignment histories of current employees to be used in workforce planning as well as assessing future training needs, evaluating performance achievements at the organizational level, and evaluating the effectiveness of human resource interventions (for example, whether employees perform at higher levels after participating in a training program).

Documentation purpose: performance management systems allow organizations to collect useful information that can be used for several documentation purposes. This information can be especially useful in the case of proceedings.

2.2.3. Process of Performance Management System

Several authors have drafted different models of the performance management system. According to Aguinis (2009), the process undergoes through six stages, namely: 1, pre-requisites 2, performance planning 3, performance execution 4, performance assessment 5, performance review and 6, performance renewal and re-contracting. The flow of the performance management process is depicted graphically in the figure, below.

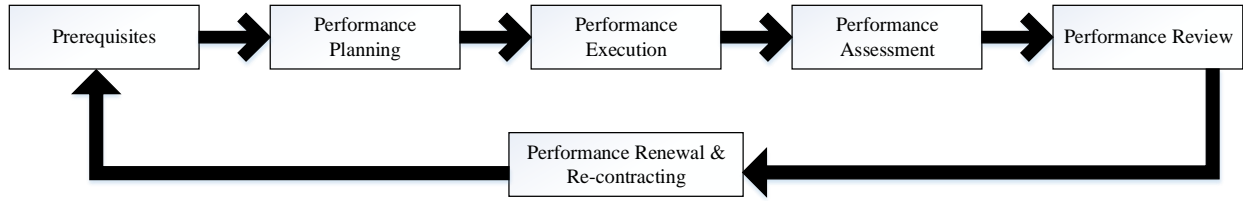


Figure 2.1 Flow of the performance Management Process. Source: Aguinis (2009, p.12)

Armstrong (2006a), on the other side, has described the PMS practice as a continuous and self-renewing cycle. In describing the processes of performance management system, Armstrong (2006a, p.17-18) has argued that it is a “process cycle consisting of four interrelated steps namely: plan, act, monitor and review.”

In another approach, Pulakos (2009) has developed a performance management process model with eight stages. The contents and relationship of the model are illustrated in figure 2.1, below.

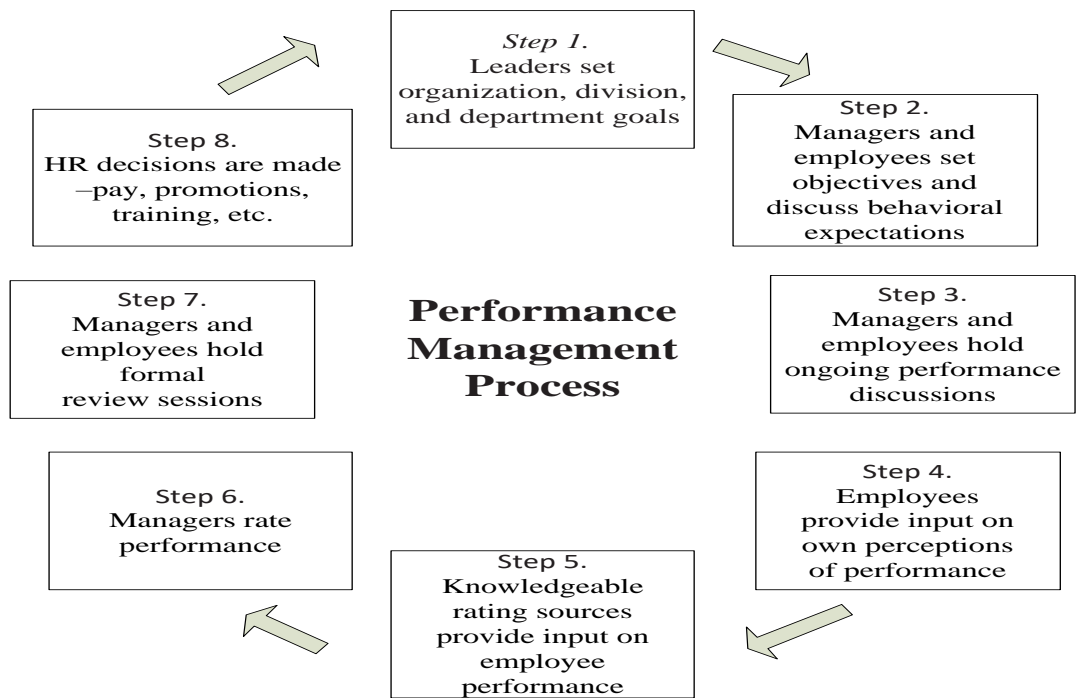


Figure 2.2: The performance management process. Source: Pulakos (2009, p.38)

Noe et al. (2016) came up with yet another performance management process in the form of a cycle. The process cycle was used as a basis for the following discussion on the performance management system process that attempts to describe the importance of the determinant factors of an effective system. The determinant factors for an effective performance management system are discussed in the next subtopic.

1. *Define Outcomes of Performance:* Aguinis (2009, p.12) believes that “There are two important prerequisites that are needed before a performance management system is implemented: (1) knowledge of the organization’s mission and strategic goals and (2) knowledge of the job in question. If there is a lack of clarity regarding where the organization wants to go, or the relationship between the organization’s mission and strategies and each of its unit’s mission and strategies is not clear, there will be a lack of clarity regarding what each employee needs to do and achieve to help the organization get there.” In addition to clear goal setting, Pulakos (2009) argues that employee involvement is important during this phase of the process. In her study, Pulakos (2009, p.42) added that “implementation of cascading goals requires time, effort, and considerable hand-holding, at least initially, to ensure that the cascading is done well.” DeCenzo and Robbins (2010, p.236) have added the importance of communication at this stage, by stating that “once performance standards are established, it is necessary to communicate these expectations; employees should not have to guess what is expected of them. Too many jobs have vague performance standards, and the problem is compounded when these standards are set in isolation and without employee input.”

Setting goals during a performance discussion leads to positive outcomes, such as satisfaction with the discussion, increased participation, perceived fairness and accuracy of feedback, and perceived utility of feedback. (Werner, 2012)

2. *Plan to Assist Performance:* According to Noe et al. (2016, p.299), “the performance management process should involve providing employees with training, necessary resources and tools, and ongoing feedback between the employee and manager, which focuses on accomplishments as well as issues and challenges that influence performance.” For effective performance management, both the manager and the employee have to value feedback and exchange it on a regular basis. It would also be beneficiary if employees are

included in the discussions that consist of their performance. Werner (2012, p.346) has cited that “subordinates see the performance discussion as fairer when they are given a chance for two-way communication, especially when they are given the opportunity to challenge or rebut their evaluation,” among other factors.

3. *Accomplishment of Performance*: During the execution stage employees strive to achieve the goals set forth. It is important to note that regular feedback between managers and employees is particularly important concerning the performance objectives. Unforeseen circumstances that are outside an employee's control can interfere with attaining objectives. As a result, it may be necessary to alter or completely revise an employee's objectives during the rating period. Like setting the initial objectives, this needs to be done collaboratively between managers and employees and requires ongoing communication to determine if additional changes are needed. (Pulakos, 2009)
4. *Assessment of Performance*: Scholars believe that this stage should include continuous process of providing feedback on performance, conducting informal progress reviews, updated objectives and, where necessary, dealing with performance problems. 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. (Aguinis, 2006, Mondy, 2005 & Pulakos, 2009). During this stage, DeCenzo and Robbins (2010, p.236) warn that “Selecting the wrong criteria can produce serious, dysfunctional consequences. And what we measure determines, to a great extent, what people in the organization will attempt to excel at. The criteria we measure must represent performance as it was mutually set in the first two steps of the appraisal process.” This is believed to insure the consistency of the measures taken out by the system with the agreed goals during the preliminary stages.
5. *Review the Performance*: This is considered as the most critical stage of the process as it involves the meeting between the employee and the manager to review their assessments. Aguinis (2006) believes that this meeting is important because it provides a formal setting in which the employee receives feedback on his or her performance. While evaluation of performance takes place every day, individual performance is summarized at least annually during the performance review discussion (Armstrong, 2006b). In addition to the improved

communication and feedback that this stage provides, it also offers a place to plan training and development activities that are consistent with improving performance and supporting career development plans.

Pulakos (2009) insisted that best practice in performance management should consider both job behavior and results, using defined performance standards as a basis for making ratings. Pulakos (2004, p.62) has also cited the works of Gilliland & Langdon (1998) as well as Borman (1991) in arguing that “performance standards help employees understand what is expected of them and provide common standards for managers to use in evaluating employees, thereby increasing consistency, transparency, and fairness. Perceptions of fairness are important and can avoid negative outcomes that might otherwise result from unfavorable ratings, such as employees challenging their evaluations. Thus, the inclusion of performance standards to guide ratings is essential for an effective performance management system.”

6. *Provide Values For Performance Results*: The improvement of performance is a fundamental part of the continuous process of performance management. (Armstrong, 2006a). It is the belief of Noe et al. (2016) that this step of the performance management process should involve both the employee and manager in identifying what the employee can do to capitalize on performance strengths and address weaknesses and providing consequences for achieving (or failing to achieve) performance outcomes (such as pay increases, bonuses, or action plans step. This includes identifying training needs; adjusting the type or frequency of feedback the manager provides to the employee; clarifying, adjusting, or modifying performance outcomes; and discussing behaviors or activities that need improvement.

In conclusion, scholars (Armstrong, 2006a, Noe et al, 2016 and Pulakos, 2004) suggest that the performance management system process should be reviewed each year to ensure that what is being measured at the employee level aligns strategically with company, division, and departmental goals and objectives to make it more effective.

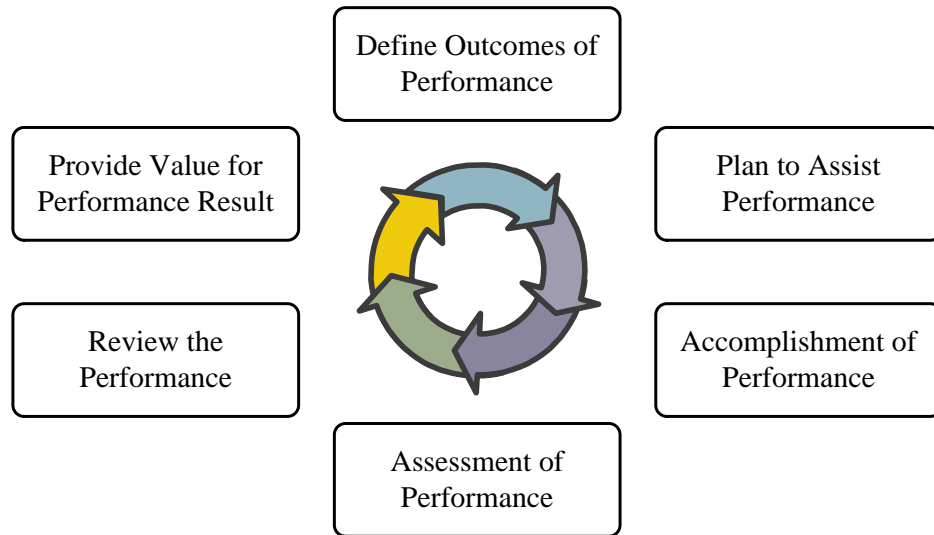


Figure 2.3 The Performance Management System Process. Source: Process models illustrated by Noe et.al (2016, p.300) Pulakos (2004, p.4) and Aguinis (2009, p.12)

2.2.4. Determinant Factors of Performance Management System's Effectiveness

Armstrong (2006a, p.137) has underlined “that it is the processes of performance management as practiced by line managers that are important, not the content of the system and how it is administered.” Line managers are, therefore, both entitled and obliged to create conducive ground to make the performance management system effective based on the goals set forth and to the best benefit of the company and their fellow subordinates. Pulakos (2009) agrees that having a well-designed performance management process and supplemental tools is a necessary, but cannot make the system effective. What really matters with any performance management system is how seriously it is taken and how thoroughly it is used by managers and employees.

In an attempt to make the performance management system fruitful to the individuals' and organizational performance, Aguinis (2009, p.29-34) discussed 14 ideal ways that would likely produce good results. These are:

- ✓ *Strategic congruence*: The system should be congruent with the unit and organization's strategy. In other words, individual goals must be aligned with unit and organizational goals.

- ✓ *Thoroughness*: The system should be thorough regarding four dimensions. First, all employees should be evaluated (including managers). Second, all major job responsibilities should be evaluated (including behaviors and results). Third, the evaluation should include performance spanning the entire review period, not just the few weeks or months before the review. Finally, feedback should be given on positive performance aspects as well as those that are in need of improvement.
- ✓ *Practicality*: Systems that are too expensive, time-consuming, and convoluted will obviously not be effective. Good, easy-to-use systems (for example, performance data are entered via user-friendly software) are available for managers to help them make decisions. Finally, the benefits of using the system (for example, increased performance and job satisfaction) must be seen as outweighing the costs (for example, time, effort, expense).
- ✓ *Meaningfulness*: The system must be meaningful in several ways. First, the standards and evaluations conducted for each job function must be considered important and relevant. Second, performance assessment must emphasize only those functions that are under the direct control of the employee. Third, evaluations must take place at regular intervals and at appropriate moments. Because one formal evaluation per year is usually not sufficient, informal quarterly reviews are recommended. Fourth, the system should provide for the continuing skill development of evaluators. Finally, the results should be used for important administrative decisions. People will not pay attention to a system that has no consequences in terms of outcomes that they value.
- ✓ *Specificity*: A good system should be specific: it should provide detailed and concrete guidance to employees about what is expected of them and how they can meet these expectations.
- ✓ *Identification of effective and ineffective performance*: The performance management system should provide information that allows for the identification of effective and ineffective performance. That is, the system should allow for distinguishing between effective and ineffective behaviors and results, thereby also allowing for the identification of employees displaying various levels of performance effectiveness. In terms of decision making, a system that classifies or ranks all levels of performance, and all employees, similarly is useless.

- ✓ *Reliability*: A good system should include measures of performance that are consistent and free of error. For example, if two supervisors provided ratings of the same employee and performance dimensions, ratings should be similar.
- ✓ *Validity*: The measures of performance should also be valid. In this context, validity refers to the fact that the measures include all relevant performance facets and do not include irrelevant performance facets. In other words, measures are relevant (include all critical performance facets), not deficient (do not leave any important aspects out), and are not contaminated (do not include factors outside of the control of the employee or factors unrelated to performance).
- ✓ *Acceptability and fairness*. A good system is acceptable and is perceived as fair by all participants. Perceptions of fairness are subjective, and the only way to know whether a system is seen as fair is to ask the participants. We can ask about distributive justice, which includes perceptions of the performance evaluation received relative to the work performed, and perceptions of the rewards received relative to the evaluation received, particularly when the system is implemented across countries. If a discrepancy is perceived between work and evaluation or between evaluation and rewards, then the system is likely to be seen as unfair. In addition, we can ask about procedural justice, which includes perceptions of the procedures used to determine the ratings as well as the procedures used to link ratings with rewards. Because a good system is inherently discriminatory, some employees will receive ratings that are lower than those received by other employees. However, we should strive to develop systems that are regarded as fair from both distributive and procedural perspectives because each type of justice perception leads to different outcomes. For example, a perception that the system is not fair from a distributive point of and increased intentions to leave. One way to improve both distributive and procedural justice is to set clear rules that are applied consistently by all supervisors.
- ✓ *Inclusiveness*: Good systems include input from multiple sources on an ongoing basis. First, the evaluation process must represent the concerns of all the people who will be affected by the outcome. Consequently, employees must participate in the process of creating the system by providing input regarding what behaviors or results will be measured and how. Second, input about employee performance should be gathered from

the employees themselves before the appraisal meeting. In short, all participants must be given a voice in the process of designing and implementing the system. Such inclusive systems are likely to lead to more successful systems, including less employee resistance, improved performance, and fewer legal challenges.

- ✓ *Openness*: Good systems have no secrets. First, performance is evaluated frequently and performance feedback is provided on an ongoing basis. Therefore, employees are continually informed of the quality of their performance. Second, the appraisal meeting consists of a two-way communication process during which information is exchanged, not delivered from the supervisor to the employee without his or her input. Third, standards should be clear and communicated on an ongoing basis. Finally, communications are factual, open, and honest.
- ✓ *Correctability*: The process of assigning ratings should minimize subjective aspects; however, it is virtually impossible to create a system that is completely objective because human judgment is an important component of the evaluation process. When employees perceive an error has been made, there should be a mechanism through which this error can be corrected. Establishing an appeals process, through which employees can challenge what may be unjust decisions, is an important aspect of a good performance management system.
- ✓ *Standardization*: Good systems are standardized. This means that performance is evaluated consistently across people and time. To achieve this goal, the ongoing training of the individuals in charge of appraisals, usually managers, is a must.
- ✓ *Ethicality*: Good systems comply with ethical standards. Operationally, this means that the supervisor suppresses his or her personal self-interest in providing evaluations. In addition, the supervisor evaluates only performance dimensions for which she has sufficient information, and the privacy of the employee is respected.

Pulakos (2004) has discussed three major factors that would impact the effectiveness of a performance management system, among others. These three factors are; first, the system needs to be aligned with and support the organization's direction and critical success factors. Second, well-developed, efficiently administered tools and processes are needed to make the system user

friendly and well received by organizational members. Third, and most important, is that both managers and employees must use the system in a manner that brings visible, value-added benefits in the areas of performance planning, performance development, feedback and achieving results. By implementing the above discussed factors in the performance management system of an organization, Pulakos (2004, p.1) believes that it is possible the following outcomes will be achieved, by implementing an effective performance management system.

- Clarifying job responsibilities and expectations.
- Enhancing individual and group productivity.
- Developing employee capabilities to their fullest extent through effective feedback and coaching.
- Driving behavior to align with the organization's core values, goals and strategy.
- Providing a basis for making operational human capital decisions (e.g., pay).
- Improving communication between employees and managers.

In summary, Pulakos (2004) seems to underline the importance of the core elements in continuous feedback, communication, clarity and rewarding performance to be the major ones to impact a performance management system' effectiveness.

A number of elements from the ideal performance management practice listed by Aguinis (2009) and the major factors that were considered to impact a performance management system discussed by Pulakos (2004), have been drawn out to be the most determinant factors. The common determinant factors selected out are: Clarity, Inclusiveness, Communication, Fairness and acceptability, Continuous feedback and Rewarding performance. These determinant factors have been considered important in defining one or more stages of the performance management processes discussed above. The effect each of these determinant factors in influencing a performance management system's effectiveness is discussed below. In addition to their direct influence in the performance management system's effectiveness, they are also deemed to be important in their impact on the motivation of employees – as discussed below.

1. Clarity:

For a performance management system to be effective, employees need to have a clear understanding about the system. Aguinis (2009) suggests that at the start of each performance period, employees and their supervisors should meet to discuss and agree upon what needs to be done and how it should be done. In addition, the performance targets should be set clearly, so that the employees understand for which action their performance will be evaluated upon. Clear definition of the roles for performing a given job within the organizational framework which emanates from the departmental and the organizational objectives. The system should also be able to explain the linkages of a role with other roles.

In a similar way, the performance management system needs to be consistent throughout all the processes. Once clear goals are set and agreed upon, both the employees and the supervisors must adhere to it. Niven (2002) believes that the objectives set for employees – in the performance management system - have to be in congruence with the organizational vision, mission and values, if the system is to be considered as effective. Similarly, Pulakos (2004) believes that setting of clear goals is necessary in order to ensure that they are sufficiently specific and achievable to have positive motivating effects.

2. Inclusiveness

Employee involvement in the processes of the performance management system is a mandatory aspect in order for it to become effective. Armstrong (2006a) doubts that the personal development target of a certain performance management system would succeed without the active involvement of the employees at stake.

Pulakos (2009) believes that employees' involvement in the system should not be limited to the preliminary stages of goal and objective setting, but also throughout the performance Execution period. She emphasized that the “key concern in implementing a performance management system is ensuring that employees understand their expectations and are provided with sufficient time to achieve them.” (Pulakos, 2009, p.147). Similarly, Niven (2002, p.229) underlined that “no Scorecard can be effectively built in isolation. It is only through the involvement of all those with

a stake in the outcomes that valuable Balanced Scorecards emerge.” Aguinis (2009) also assures that there is greater likelihood that the information used in the performance evaluation process will be used productively in the future, when both the employee and the supervisor are active participants in it. Finally, it is the belief of Pulakos (2004) that it is important for employees participate in the goal setting process and accept their goals as it ensures they are motivated to work towards those goals.

3. Communication

Communication plays a major role for an organization to enhance its internal and external processes. To be effective, communication needs to be clear, easily understood and concise. (Armstrong, 2012) Information should be presented systematically on a regular basis and needs to be as relevant, local and timely as possible. According to Aguinis (2013, p.62), “Many organizations spend too much time and effort crafting their mission and vision statements without undertaking any concrete follow-up actions. The process then ends up being a huge waste of time and a source of frustration and long-lasting cynicism.” Continuous communication also plays a central role in supporting the other determinant factors bring in the performance management system become effective. To support this point, scholars have advised that a two-way communication is important for a feedback procedure to become practical. After all a mere information transfer from supervisor to employee is not successful communication (Pulakos, 2009 and DeCenzo & Robbins, 2010).

4. Acceptability and Fairness

According to Aguinis (2009, p.280), “A basic principle that guides the design of a fair performance management system is the application of standardized procedures to all employees. In other words, when the rules and procedures are known by everyone, and they are applied in the same way to everyone, the system is likely to be regarded as a fair one.” Noe et al. (2016) have also argued that a performance management system must meet the practical standard of being acceptable to the people who use it, whether or not its measure is valid and reliable and if it is to be considered as an effective one.

Pulakos (2009, p.62) insist that “Performance standards help employees understand what is expected of them and provide common standards for managers to use in evaluating employees, thereby increasing consistency, transparency, and fairness. Perceptions of fairness are important and can avoid negative outcomes that might otherwise result from unfavorable ratings, such as employees challenging their evaluations.”

5. Continuous Feedback

Scholars believe that feedback is most likely to bring-in positive changes in behavior when it is presented in a supportive manner and is specific about the behavioral and performance improvements needed. An effective performance management system should be able to align itself with the organization’s strategic goals and the provision of continuous feedback helps employees to improve their performance in line with the organizational goals (Noe et al, 2016, DeCenzo and Robbins, 2010). Through the provision of continuous feedback, a performance management system can be effective in helping people understand (Armstrong, 2006b). While the importance of providing feedback on a regular basis for performance improvement is unanimously agreed, Pulakos (2009, p.46) has insisted that “for feedback to have value, it needs to be given in close proximity to the event. It does not help employees to receive feedback nine months after something has happened. And an employee’s performance will not likely improve by itself while the manager waits for the end-of-year review to say something. Research has shown that in organizations where employees report higher levels of ongoing, informal feedback, performance levels are higher.”

6. Rewarding Performance

Several scholars feel that performance management systems generally try to link rewards to performance (Smither & London, 2009, Mondy, 2005 and Pulakos, 2009). A basic principle of effective performance management system is that employees’ behavior is controlled by its consequences. Those consequences can and should be both formal and informal and both positive and negative. According to Aguinis (2009), one of the main purposes of an effective performance management system is to assist administrative decision. Such administrative decisions include employee rewarding – in the form bonuses and raise - and salary adjustment.

In addition to the financial rewards that most performance management systems provide, Armstrong (2006a) believes that non-financial rewards that are provided through recognition, provision of opportunities to succeed, skills development and career planning, and enhancing job engagement and commitment are equally valuable in making the system effective.

In conclusion, it has been discussed that several factors would impact the effectiveness of the performance management system. Out of such factors, the six determinant factors, namely: feedback, continuous communication, clarity and consistency, inclusiveness, rewarding performance and acceptability and fairness have been thought as the most determinant ones for this study. These determinant factors are illustrated in the diagram below.

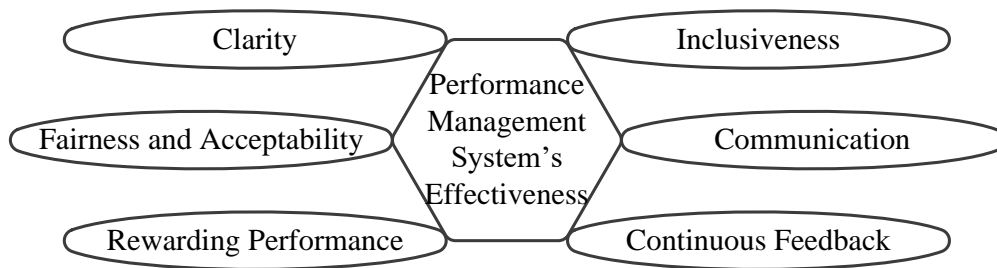


Figure 2.4. Determinant Factors of Performance Management System's Effectiveness. Source: Based on the literature discussed.

2.3. Motivation

2.3.1. Definition of Motivation

George and Jones (2012, p.157) define motivation as the psychological forces that determine the direction of a person's behavior in an organization, a person's level of effort, and a person's level of persistence.

Motivation is the desire within a person causing that person to act. People usually act for one reason: to reach a goal. Thus, motivation is a goal-directed drive, and it seldom occurs in a void.

Motivation is one of the most basic elements of human behavior. Motivational theories attempt to explain how effort is generated and channeled. (Werner and DeSimone, 2012). Similarly, Mullins (2010, p.253) has stated that “the study of motivation is concerned, basically, with why people behave in a certain way. The basic underlying question is ‘Why do people do what they do?’ In general terms, motivation can be described as the direction and persistence of action. It is concerned with why people choose a particular course of action in preference to others, and why they continue with a chosen action, often over a long period and in the face of difficulties and problems.”

2.3.2. Theories of Motivation

According to Dolan and Lingham (2012), motivation is very important, particularly in the world of work, that many theories have been put forward. They can be divided into two groups: content theories and process theories.

Content theories address the question of what need triggers motivation, whereas process theories tackle the question of why a person behaves in a certain way. Process theories are concerned with explaining the behavioral and thought processes through which individuals attempt to satisfy their needs.

2.3.2.1. ‘Content’ Theories of Motivation

Content theories were the first to be developed, and they stem from the understanding of motivation as behavior that is based on attempts to satisfy unfulfilled needs. Consequently, these theories attempt to identify universal human needs and, in some cases, to organize these needs in terms of their importance. Think about this group of theories as being concerned with identifying the content of motivation.

- A. ***Maslow’s hierarchy of needs theory***: Abraham Maslow’s hierarchy of needs theory, identifies five levels of individual needs. They range from self-actualization and esteem needs at the top, to social, safety, and physiological needs at the bottom. The concept of a needs’ “hierarchy” assumes that some needs are more important than others and must be satisfied before the other needs can serve as motivators. For example, physiological needs

must be satisfied before safety needs are activated; safety needs must be satisfied before social needs are activated; and so on.

- a. *Physiological*: The need for food, air, water, shelter, and the like.
 - b. *Safety*: The need for a secure and stable environment and the absence of pain, threat, or illness.
 - c. *Belongingness/love*: The need for love, affection, and interaction with other people.
 - d. *Esteem*: The need for self-esteem through personal achievement as well as social esteem through recognition and respect from others.
 - e. *Self-actualization*: The need for self-fulfillment, realization of one's potential.
- B. **Alderfer's ERG theory**: Clayton Alderfer's ERG theory is also based on needs, but it differs from Maslow's theory in three main respects. First, ERG theory merges Maslow's five need categories into three: **existence** needs, desires for physiological and material well-being; **relatedness** needs, desires for satisfying interpersonal relationships; and **growth** needs, desires for continued personal growth and development. Second, ERG theory emphasizes a unique frustration-regression component. An already satisfied lower-level need can become activated when a higher-level need cannot be satisfied. Thus, if a person is continually frustrated in his or her attempts to satisfy growth needs, relatedness needs can again surface as key motivators. Third, unlike Maslow's theory, ERG theory contends that more than one need may be activated at the same time.
- C. **McClelland's Acquired Needs Theory**: was developed by David McClelland and his associates. It looks at three needs:
- a. *Need for achievement (nAch)*: is the drive to excel, to achieve in relationship to a set of standards.
 - b. *Need for power (nPow)*: is the need to make others behave in a way they would not have otherwise.
 - c. *Need for affiliation (nAff)*: is the desire for friendly and close interpersonal relationships.

D. **Herzberg's Two-Factor Theory:** This theory identifies motivator factors as primary causes of job satisfaction and hygiene factors as primary causes of job dissatisfaction.

- a. *Hygiene factors:* are sources of job dissatisfaction, and they are found in the job context or work setting. That is, they relate more to the setting in which people work than to the nature of the work itself. The two-factor theory suggests that job dissatisfaction occurs when hygiene factor is poor. But it also suggests that improving the hygiene factors will not increase job satisfaction; it will only decrease job dissatisfaction. Herzberg found that a low base salary or wage makes people dissatisfied, but that paying more does not necessarily satisfy or motivate them.
- b. *Motivator factors:* These factors are found in job content—what people actually do in their work. They include such things as a sense of achievement, opportunities for personal growth, recognition, and responsibility.

According to two-factor theory, the presence or absence of satisfiers or motivators in people's jobs is the key to satisfaction, motivation, and performance. When motivator factors are minimal, low job satisfaction decreases motivation and performance. When motivator factors are substantial, high job satisfaction raises motivation and performance. A key and controversial point to remember about two-factor theory is that job satisfaction and job dissatisfaction are separate dimensions. Taking action to improve a hygiene factor, such as by giving pay raises or creating better physical working conditions, will not make people satisfied and more motivated in their work; it will only prevent them from being less dissatisfied on these matters.

2.3.2.2. 'Process' Theories of Motivation

These theories focus on the thought or cognitive processes that take place within the minds of people and that influence their behavior. Whereas a content approach may identify job security as an important individual need, a process approach would probe further to identify why the person decides to behave in certain ways relative to available rewards and work opportunities.

- A. **Goal-setting theory.** This theory states that goal setting is essentially linked to task performance. It states that specific and challenging goals along with appropriate feedback contribute to higher and better task performance. In simple words, goals indicate and give

direction to an employee about what needs to be done and how much efforts are required to be put in.

The important features of goal-setting theory are as follows:

- a. The willingness to work towards attainment of goal is main source of job motivation. Clear, particular and difficult goals are greater motivating factors than easy, general and vague goals.
- b. Specific and clear goals lead to greater output and better performance. Unambiguous, measurable and clear goals accompanied by a deadline for completion avoids misunderstanding.
- c. Goals should be realistic and challenging. This gives an individual a feeling of pride and triumph when he attains them, and sets him up for attainment of next goal. The more challenging the goal, the greater is the reward generally and the more is the passion for achieving it.
- d. Better and appropriate feedback results direct the employee behavior and contributes to higher performance than the absence of feedback. Feedback is a means of gaining reputation, making clarifications and regulating goal Employees' participation in goal is not always desirable.
- e. Participation of setting goal, however, makes goal more acceptable and leads to more involvement.
- f. Goal setting theory has certain eventualities such as:
 - a. *Self-efficiency*: Self-efficiency is the individual's self-confidence and faith that he has potential of performing the task. Higher the level of self-efficiency, greater will be the efforts put in by the individual when they face challenging tasks. While, lower the level of self-efficiency, less will be the efforts put in by the individual or he might even quit while meeting challenges.

b. *Goal commitment*: Goal setting theory assumes that the individual is committed to the goal and will not leave the goal. The goal commitment is dependent on the following factors:

- i. Goals are made open, known and broadcasted.
- ii. Goals should be set-self by individual rather than designated.
- iii. Goals should be set-self by individual rather than designated.

B. ***Expectancy theory***: Offers an elegant model based on rational logic to predict the chosen direction, level, and persistence of motivation. Essentially, the theory states that work effort is directed toward behaviors that people believe will lead to desired outcomes. In other words, we are motivated to achieve the goals with the highest expected payoff. An individual's effort level depends on three factors: effort-to-performance (E-to-P) expectancy, performance-to-outcome (P-to-O) expectancy, and outcome valences. Employee motivation is influenced by all three components of the expectancy theory model. If any component weakens, motivation weakens.

- a. *E-to-P expectancy*. This is the individual's perception that his or her effort will result in a particular level of performance. In some situations, employees may believe that they can unquestionably accomplish the task. In other situations, they expect that even their highest level of effort will not result in the desired performance level. In most cases, the E-to-P expectancy falls somewhere between these two extremes.
- b. *P-to-O expectancy*: This is the perceived probability that a specific behavior or performance level will lead to a particular outcome. In extreme cases, employees may believe that accomplishing a particular task (performance) will definitely result in a particular outcome, or they may believe that successful performance will have no effect on this outcome. More often, the P-to-O expectancy falls somewhere between these two extremes.

- c. *Outcome valences.* A valence is the anticipated satisfaction or dissatisfaction that an individual feels toward an outcome. It ranges from negative to positive. An outcome valence represents a person's anticipated satisfaction with the outcome. Outcomes have a positive valence when they are consistent with our values and satisfy our needs; they have a negative valence when they oppose our values and inhibit need fulfillment.
- C. **Equity theory:** The equity theory of motivation is based on the relatively simple premise that people in organizations want to be treated fairly. The theory defines equity as the belief that we are being treated fairly in relation to others and inequity, as the belief that we are being treated unfairly compared with others. Equity theory describes the equity comparison process in terms of an input-to-outcome ratio. Inputs are an individual's contributions to the organization—such factors as education, experience, effort, and loyalty. Outcomes are what the person receives in return - pay, recognition, social relationships, intrinsic rewards, and similar things. In effect, then, this part of the equity process is essentially a personal assessment of one's psychological contract. A person's assessments of inputs and outcomes for both self and others are based partly on objective data (for example, the person's own salary) and partly on perceptions (such as the comparison-other's level of recognition).

Equity theory offers managers three messages. *First*, everyone in the organization needs to understand the basis for rewards. If people are to be rewarded more for the quality of work rather than for quantity of work, for instance, that fact needs to be clearly communicated to everyone. *Second*, people tend to take a multifaceted view of their rewards; they perceive and experience a variety of rewards, some tangible and others intangible. *Finally*, people base their actions on their perceptions of reality. If two people make exactly the same salary but each thinks the other makes more, each will base his or her experience of equity on the perception, not the reality. Hence, even if a manager believes two employees are being fairly rewarded, the employees themselves may not necessarily agree if their perceptions differ from the manager's.

Equity theory can be extended into an organizational justice. The theory serves as the foundation for the common thread of perceived fairness among the two dimensions of the *organizational justice* – distributive and procedural.

- a. *Distributive justice* is a perception where an individual's cognitive evaluation regarding whether or not the amounts and allocations of rewards in a social setting are fair. In simple terms, distributive justice is one's belief that everyone should "get what they deserve.
- b. *Procedural justice* is concerned with the fairness of the procedure used to make a decision. For example, a pay raise may be based on a sales representative selling more units, for example cars.

2.3.3. Relationship of Motivation and Performance Management System

DeCenzo and Robbins (2010) have clearly indicated that a performance management system must be able to convey to employees how well they have performed on established goals. It's also desirable to have such goals and performance measures mutually set between the employee and the supervisor. Without proper two-way feedback about an employee's effort and its effect on performance, we run the risk of decreasing his or her motivation.

When employees have goals, they tend to be more motivated if they also receive feedback about their progress. Although performance management systems can be quite effective in motivating employees and resolving performance problems, in reality, only a small number of organizations use the performance appraisal process to its full potential. In many companies, a performance management system takes the form of a strict activity that is mutually despised by employees and managers. The problems a poor performance management system process can create may be so severe that many experts have recommended eliminating the system altogether.

According to Noe et al. (2016) effective performance management system has a developmental purpose, meaning that it serves as a basis for motivating employees to improve their knowledge and skills. Even employees who are meeting expectations can become more valuable when they

hear and discuss performance feedback. Effective performance feedback makes employees aware of their strengths and of the areas in which they can improve.

In summary, the relationship between motivation and performance is dynamic and complex, depending on how performance is defined, the nature of the task, how performance feedback is interpreted, and the extent to which environmental factors may limit performance accomplishments.

2.4. Empirical Studies

Aguinis (2009) has conveyed the idea that practical constraints may not allow for the implementation of all or some features of a 'perfect' performance management system. The reality is that performance management systems are seldom implemented in an ideal way. For example, there may not be sufficient funds to deliver training to all people involved, supervisors may have biases in how they provide performance ratings, or people may be just too busy to pay attention to a new organizational initiative that requires their time and attention. Similarly, Armstrong (2012) believes that motivation would be enhanced by leadership that sets the direction, encourages and stimulates achievement and provides support to employees in their efforts to reach goals and improve their performance generally.

Discussing the importance of acceptability and fairness as core characteristics of an 'ideal' performance system, Aguinis (2009, p.32) has added that "A good system is acceptable and is perceived as fair by all participants. Perceptions of fairness are subjective, and the only way to know whether a system is seen as fair is to ask the participants. We can ask about distributive justice, which includes perceptions of the performance evaluation received relative to the work performed, and perceptions of the rewards received relative to the evaluation received, particularly when the system is implemented across different work settings."

Pulakos (2009) states that performance management has been considered as one of the lowest-rated areas in employee surveys. She argues that the performance management system has been viewed as the paperwork drill needed by human resources due to the lack of understanding of the benefits that could be derived from the effective performance management system. Thus

management has so far failed to realize that the implementation of the management strategies and communications among employees are the two major characteristics that could influence the effective implementation of performance management system.

Ajitha & Panchanatham (2014) have noted that employees' reactions to the fairness and accuracy of the appraisal system may affect their motivation to correct weak performance or develop unused potential. These scholars have concluded from their study that most of the employees understand the fact that performance appraisal system has direct impact on the employee motivation. Accordingly, it is the duty of every organization to motivate the employees through performance appraisal system and influence their behavior. Thus the superiors have to pay more importance to performance evaluation system to motivate the employees which will enhance their productivity.

In his study on 'The Role of performance Management Practice on Employees' Motivation: The Case of Commercial Bank of Ethiopia', Abebe Kassaye (2017) has concluded that effective performance management system is positively related to employees' motivation. He added that "a well-performed performance management process gives a powerful tool for addressing or improving poor performance issues, when they identified." (Abebe Kassaye, 2017, p.78)

Hamid Abdurehim (2017) had studied 'The Role of performance Management Practice on Employee Productivity in East Africa Bottling Share Company' and found out that "the performance management practice of the company has a significant role on employee productivity. Regarding its relationship with employee productivity, it has positive and significantly high correlation. And, it has also positive and significant effect on employee productivity." (2017, p.53)

In conclusion, it is worth noting Armstrong (2008) who had considered that the overall aim of performance management was to establish a high performance culture in which individuals and teams take responsibility for the continuous improvement of business processes and for their own skills and contributions within a framework provided by effective leadership.

2.5. Conceptual Framework

According to the different literature reviewed, the following conceptual framework is developed. The framework describes the relationships between performance management system and employee motivation. The model is limited only to factors related to performance management system and motivation variables. In this model, the factors that influence the effectiveness of performance management system are categorized as independent variable while motivation is considered a dependent variable. Figure 2.5, below shows the conceptual model of this study.

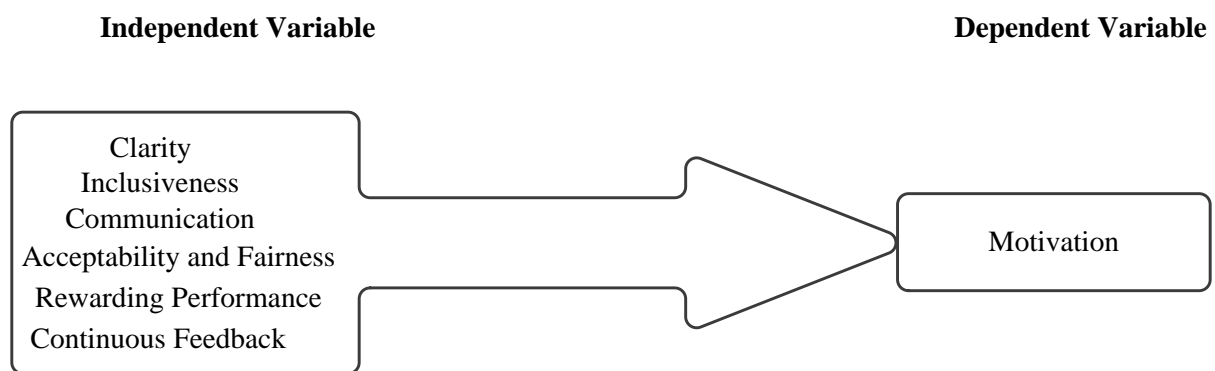


Figure 2.5. Conceptual Model of the Study: Developed based on Pulakos (2004), Aguinis (2009) and Armstrong (2012).

CHAPTER THREE

METHODOLOGY

3.1. Description of the Study Area

The study is focused in assessing the effect of the performance management system on employees' motivation. It was conducted in Ethiopian Airlines, a fully government-owned 'flag carrier' corporation headquartered at Bole International Airport - in Addis Ababa, Ethiopia. While the Airline operates in 5 continents and has employed more than 13,000 Ethiopians and citizens of other countries, the study has focused on the employees currently working at the headquarters in Addis Ababa. As the airline is organized in seven business units, the study has attempted to address employees in those divisions proportionally.

3.2. Research Design and Approach

Research Design

The study has employed explanatory research design as its purpose is mainly to understand and explain if the effectiveness of the performance management system has any effect on the motivation of the employees.

Research Approach

The study adopted quantitative approach and this approach has been used to quantify the respondents' evaluation of the performance management system and its relationship with their motivation. According to Plano Clark and Creswell (2015), this approach is preferred as it attempts to examine the relationship between variables, which are measured numerically and analyzed using a range of statistical and graphical techniques.

3.3. Population and Sample

3.3.1. Sample Frame

The target population of the study are the permanent employees of Ethiopian Airlines currently working at the headquarters in Addis Ababa. Detailed information about the staff has been

obtained from Corporate HRM unit has been used as a base to outline the target population. For the purpose of this study, a target population of 11,313 permanent employees of the company were considered. Employees that are working outside of Addis Ababa and who have been with the company less than a year have been excluded, which makes the sample frame. The reason for choosing employees that have worked more than one year as a sampling frame is that, these employees will certainly have been evaluated - with the existing performance management system - at least twice. Employees with an experience of less than one year were excluded from participating in the study as they may fail to clearly understand the organizational culture and practices of the performance management system.

3.3.2. Sampling Technique

Plano Clark and Creswell (2015) have warned that in quantitative research, the way that participants are selected directly affects the kind of conclusions that will be drawn from a study's results. Sekaran (2003, p.272) has stated that a "stratified random sampling, as its name implies, involves a process of stratification or segregation, followed by random selection of subjects from each stratum." Hence, the stratified random sampling technique has been used as a sampling method for the study. Scholars have recommended that dividing the population into a series of relevant strata means that the sample is more likely to be representative, as it ensures that each of the strata is represented proportionally within the sample (Saunders, Lewis and Thornhill, 2016 and Kothari, 2004). Accordingly, each of the business units were considered as strata from which samples of employees are taken proportionately based on the population size of the strata. While the major reason for selecting this sampling technique is to involve as many employees (from the different business units) as possible, it would also allow the researcher assess the views of employees' with different level of exposure to the administrative practices of the airline. Cooper & Schindler (2014) believe that this method has higher statistical efficiency than a simple random sample. As the functional goal of each business varies from the other, so is expected that their perception towards the HR practices – such as the performance management system. Therefore, grouping them in to units that will be a common factor to a certain band and analyze the data accordingly should make the information more precise for each strata and obtain a representative sample per group.

3.3.3. Sample Size

The total number of permanent employees at Ethiopian Airlines, as of November, 2017, is 11,313. These employees are assigned to the seven business units that are located at the Bole International Airport. The allocation of the employees in each business unit along with the sample size determination, from each portion of the target population is summarized in the Table 3.1, below. According to Kothari (2004, p.63), "the method of proportional allocation under which the sizes of the samples from the different strata are kept proportional to the sizes of the strata." Hence, the sample size calculation formula is adopted from Kothari (2004) to determine the population and the sample size for each strata as follows.

$$n = N / (1 + Ne^2)$$

Where; "n" is the sample size, "N" is the population size and "e" is the level of precision.

At 95% confidence level, degree of variability=0.05 is considered for this study. Hence, using this formula will result in the sample size to be:

$$n = 11,313 / (1 + 11,313(0.05)^2)$$

$$n = 11,313 / (1 + 0.9525) \quad n = \underline{386}$$

To calculate the sizes of the samples from the different strata, the researcher uses the below formula, derived from C. R. Kothari (2004).

$$n_i = n * P_i$$

Where: 'i' is a strata in the target population

'n_i' represents the total sample size,

'P_i' represents the portion of target population included in stratum 'i' and 'n' is the number of elements selected from stratum 'i'

This calculation would give the sample size per each strata as illustrated in the table above.

For example, to determine the strata sample size of employees working at the ET – MRO business unit:

$$n_i = n * P_i$$

$$P_{ET-MRO} = 3045/11,313.$$

$$N_{ET-MRO} = 386(3045/11,313)$$

$$N_{ET-MRO} = \underline{104}.$$

Thus, each strata sample has been derived using the above formula in order to disseminate the questionnaire to the sample groups.

Table 3.1. Ethiopian Airlines Employees list: Summarized from 'Ethiopian Airlines Monthly Headcount Status Report as of November 30, 2017' for sample size determination.

No	Location	Number of Employees	Sample Size for each Strata	Percentage of Strata
1	Corporate (Administration)	1,546	53	14%
2	ET MRO Services	3,045	104	27%
3	ET Cargo	481	16	4%
4	ET Aviation Academy	190	6	2%
5	Customer Service	3,482	119	31%
6	ET Ground Services	1693	58	15%
7	Flight Operations	876	30	8%
	Total	11,313	386	100%

3.4. Data Sources and Types

The study is based on sources of primary and secondary data. To collect the primary data, a structured and self-administered questionnaire has been developed, based on the objective of the study and the research design chosen. Questionnaires were then distributed to the selected sample size, based on the sampling technique that is discussed above. The questionnaire has closed ended questions to gather the desired quantitative data. The main reason for selecting structured questionnaires, according to Kothari (2004, p.102) is that “they are simple to administer and relatively inexpensive to analyze.” In addition, the high possibility of obtaining those employees' response located in the seven different business units without being physically available has an implication in cost and time. The study has also referred the airline's Human Resources documents and publications of journals as a secondary data to get different information and for data reconciliation purpose.

3.5. Data Collection Instrument

Based on the objective of the study, which is to analyze the effect of the performance management system on employees' motivation, a questionnaire that consist elements of motivation and performance management system was prepared. Sekaran (2003) believes that structured type of questionnaire helps respondents to make quick decisions in choosing from the several alternatives before them. This type of questionnaire also helps the researcher to code the information easily for subsequent analysis. Accordingly, the questionnaire was drafted based on similar studies that were conducted on the same subject. In customizing the questions to fit the contents of the study, they were evaluated with the help of colleagues and scholars for their applicability. Hence, the questionnaire's contents are believed to be able to measure effectiveness of the performance management system practices in terms of feedback, communication, clarity, inclusiveness, rewarding performance and its acceptability and fairness on employees' motivation. A '5-point Likert Scale' method is mainly used in the questionnaire. According to this scale, a score of 5 is the highest degree of agreement and a score of 1 will be the least degree of agreement. Kothari (2004, p.38) advises that “it is always desirable to pretest the data collection instruments before they are finally used for the study purposes.” Accordingly, 30 copies of the questionnaire were distributed to a selected employees at the finance department of the company for 'pilot testing' purpose. Results greater than 0.7 of Cronbach's alpha on a reliability test are considered to be

reliable (Sekaran, 2003). The results of the questionnaire was tested found to be reliable since it has scored 0.872 on Cronbach's alpha for reliability, as indicated in the below table 3.2. The researcher has since checked on flaws and adjusted the questionnaire as required to maintain its validity. The main reason for selecting the employees at the finance department, for pilot testing, was due to the reason that employees at the section have relatively similar tasks, work experience and work environment. Upon completing the 'pilot-test' for validity and reliability, copies of the questionnaire were distributed to the employees. Distribution of the questionnaire has been made, as per the sample size and frequent reminders were followed to make the response rate higher.

Table 3.2: Reliability test result.

Reliability Statistics	
Cronbach's Alpha	N of Items
.872	30

Source: Own survey, 2018

3.6 Methods of Data Analysis

Upon collection of the distributed questionnaires, checking and cleaning the respondents' quantitative data, they were coded and entered in to SPSS version 20.0 software to facilitate the analysis process. Using this software has helped the researcher to organize, analyze and present the raw data by creating tables and other graphics.

Analysis of the results obtained from the respondents on a Likert scale of 1 to 5, will be interpreted based on the key for the range of agreeableness table provided below.

Table 3.3: Range of agreeableness.

No	Mean range	Response option
1	[1.00-1.80)	Strongly disagree
2	[1.80-2.60)	Disagree
3	[2.60-3.40)	Neutral
4	[3.4 - 4.20)	Agree
5	[4.20 -5.00)	Strongly agree

Source: based on Sekaran (2003) and Plano Clark and Creswell (2015)

Similarly, the relationship between variables has been interpreted and discussed with the strength of the correlation reference table 3.4, provided below. The table lists the range of the coefficient values with the level of strength of the relationship.

Table 3.4: Strength of the correlation reference.

Range of Coefficient	Description of Strength
Very strong	$\pm.81$ to ± 1.00
Strong	$\pm.61$ to $\pm .80$
Moderate	$\pm.41$ to $\pm.60$
Weak	$\pm.21$ to $\pm.40$
<i>none</i>	$\pm.00$ to $\pm.20$

Source: Saunders, Levin and Thornhill (2016)

Finally, the researcher has attempted to describe and relate the results by quantitatively testing the effect of the selected variables; feedback, communication, clarity of the process, transparency, rewarding of performance and acceptability and fairness of the performance management system. In addition, their relationship with employees' motivation were analyzed. The results of the analysis have been compared against the literature reviewed in drawing conclusions and provision of recommendations.

3.7. Ethical Considerations

The researcher considers employing different ethical standards is not only important but also essential. Even though the study is conducted purely for an academic purpose, the consent of the organization was solicited. The participants' were informed about the purpose of the study and guaranteed the confidentiality of their participation. The researcher has also acknowledged the authors and owners of the referred documents that were used in this study.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 Response Rate

This research attempts to examine employees' perception on the effectiveness of the performance management systems and its impact on their motivation. In order to come up with the results a survey was conducted on employees of Ethiopian Airlines.

This chapter presents the results of the study based on the analysis of the data collected from the respondents and discussion of results based on the literature reviewed. This part includes the descriptive, correlation and regression analysis that evaluated the relationship between the variables. As indicated in the methodology section, the study was conducted basically using a questionnaire filled by respondents. A total of 394 questionnaires were distributed out of which 378 were returned (with a response rate of 96%) and 7 questionnaires were discarded due to the incompleteness of data. Therefore, 371 questionnaires were considered for the data analysis. The data received from the respondents were analyzed with the help of statistical software program – the SPSS.

4.2. Composition of Respondents

Demographic information about respondents is shown below:

Table-4.1: Demographic information

DEMOGRAPHIC DATA		Frequency	Percent
GENDER	MALE	242	65%
	FEMALE	129	35%
AGE	20-30 YEARS	220	59%
	31-40 YEARS	127	34%
	41-50 YEARS	24	6%
EDUCATION	DIPLOMA	17	4%
	BA/ BSC DEGREE	322	87%
	MA/ MSC	32	9%
YEAR OF SERVICE	1 TO 5 YEARS	193	52%
	6 TO 10 YEARS	109	29%
	MORE THAN 10 YEARS	69	19%
DEPARTMENT	ET-MRO	99	27%
	AVIATION ACADEMY	6	2%
	CUSTOMER SVCS	113	30%
	ET-CARGO	16	4%
	GROUND HANDLING	55	15%
	FLIGHT OPS	30	8%
	CORPORATE (ADMINISTRATION)	52	14%
MONTHLY SALARY	LESS THAN 5,000	32	9%
	5,000 TO 10,000	86	23%
	10,000 TO 15,000	92	25%
	15,000 TO 20,000	102	27%
	MORE THAN 20,000	59	16%

Source: Own survey, 2018

As it is depicted in the above table, 65% of the respondents were male with 35% being female. This data indicates that the airline is dominated by male employees. The age distribution of the respondents shows that 59% of them were between the age group of 20 to 30 years, 34% of them were between the ages of 31 to 40 years, and the remaining 6% being in the age group of 41 to 50 years. This result indicates that the company has a dominant young work force. The majority, 87% of the respondents' education qualification level is BSC/BA degree with a few portion of 4% holding a diploma and the remaining 9% respondents acquiring an MSC/MA degree. Similarly, the level education of the employees in the airline indicate that a knowledgeable pool of professionals are being employed. With regard to the work experience of respondents, 52% of the respondents have served the airline between 1 and 5 years. 29% of the respondents, have been employed between 5 to 10 years and the remaining 19% were with the company for more than 10 years. In contrast, more than half of the employees of the airline are considered to be inexperienced, having worked only for less than 5 years in the company. Division wise, the respondents were selected based on the proposed sampling technique and comprise 27% from ET-MRO division, 2% from Aviation Academy, 30% from Customer Services, 4% from ET-Cargo, 15% from Ground Handling, 8% from Flight Operations and the remaining 14% from Corporate (Administration) division. This indicates that the major business units of the airline are customer Services and ET-MRO amassing more than half of the workforce. The modal basic monthly salary (in ETB) for the sample employees lies between Birr 15,000 to 20,000 - with the average monthly salary being Birr 13,840. This average salary range indicates that the company pays better compared to the country's annual per capita income of Birr 20,577 – as cited in the World Bank assessment of Ethiopia, in April 2018.

4.3. Analysis of the Independent Variables

Summarized mean and standard deviation scores of the independent variables of the study is presented as follows:

Table 4.2: Mean and standard deviations of the independent variables

Variable	Mean	Std. Deviation
Clarity	2.53	0.65
Inclusiveness	3.17	0.72
Communication	3.41	0.72
Fairness and Acceptability	3.52	0.81
Feedback	2.56	0.62
Rewarding Performance	3.48	0.72
Group Mean	3.11	0.45

Source: Own survey: 2018

Table 4.2 shows a summarized average (mean) score of the employee's perception towards the determinant factors of the performance management systems' effectiveness, provided by the 371 respondents on a Likert scale of 1 to 5. It shows that the average score for clarity is 2.53 with a standard deviation of +0.65. This indicates that the respondents disagree with the level of clarity factor in the performance management system. The mean score for the inclusiveness factor is 3.17 and a standard deviation of 0.72. This implies that the employees' view towards this factor is neutral, while the standard deviation of 0.72 describes the uniformity of the respondents' reaction. The continuous communication factor has scored a mean of 3.41 indicating that the respondents agree with it. Similarly, a standard deviation of +0.72, is an indicator that the employees' view towards this factor is homogenous. The acceptability and fairness factor has a mean of 3.52 with a standard deviation of +0.8, which again indicates that the respondents' agreeableness to this factor of the system. Rewarding performance has a score of 3.48 with a standard deviation of +0.62, indicating that the respondents' agreement with the factor. Continuous feedback has a score of 2.56 with a standard deviation of +0.72. This shows that the respondents do not agree with the effectiveness of the performance management system in providing continuous feedback. Finally, the mean score of all the determinant factors of the system has a group mean of 3.11 with a standard

deviation of 0.45 implying that the system is viewed neutrally by the employees. In summary, the standard deviations of the each variables being in the range of 0.62 to 0.81 shows that the data obtained from the response of the employees were closer to the mean.

Assessment of each determinant factor of the performance management system is presented and discussed in the subsequent sub-topics.

4.3.1. Clarity in the Performance Management System.

Employees' response with regards to the questions on the level of clarity, in the performance management system is composed and presented in the table below.

Table 4.3: Summary of response to questions on clarity.

	N	Mean	Std. Deviation
The Performance Management System clearly defines objectives that I need to achieve.	371	2.43	1.06
I believe that the Performance Management System is less subjective and transparent.	371	2.76	1.18
I am satisfied with the consistency of the supervisors in conducting a performance review.	371	2.81	1.24
I clearly understand the objectives of Performance Management System of the company.	371	2.14	0.96
Clarity Group Score	371	2.53	0.65

Source: own survey, 2018.

As indicated in table 4.3, the clarity aspect of the performance management system has a group score of 2.53, which indicates that the employees disagree that the system is perceived to be clear by them. Similarly, the group standard deviation being 0.65 indicates that the general perception of the employees towards this variable is homogeneous. The results has also shown that the system has hardly defined the objectives that the employees need to achieve. The majority of the employees also believe that they do not feel that the system is subjective and transparent. Similarly, employees responded that they are not satisfied with the consistency of their supervisors in

conducting the review. Finally, the respondents have indicated that they do not clearly understand the objectives of performance management system of the company.

4.3.2. Inclusiveness in the Performance Management System.

Data collected from employees about their perception towards the inclusiveness nature of the performance management system is presented below.

Table 4.4: Summary of response to questions on inclusiveness.

	N	Mean	Std. Deviation
I personally get involved in the process of setting objectives and targets of my performance expectations.	371	2.88	1.05
Participation in the Performance Management System makes me feel that I am part of the organization.	371	3.02	1.24
I prefer my performance to be evaluated by a system developed and designed with the help of employees.	371	3.55	1.11
I am always informed and reached on to agreement with my supervisors about the standards that will be used to evaluate my work.	371	3.22	1.00
Inclusiveness Group Score	371	3.17	0.72

Source: Own survey, 2018.

Respondents' data with regards to the inclusiveness variable of the performance management system range between the means of 2.88 and 3.55 with a group score of 3.17, which indicates that employees' perception towards this factor of the system is neutral. The result from the respondents shows that the employees find it difficult in getting involved in the process of setting objectives and targets of their performance expectations. On the contrary, employees' response towards the importance of participation on the system shows that they believe that involvement helps them feel they are part of the organization. Nearly 54% of the respondents have agreed that they prefer their performance to be evaluated by a system that is developed and designed by the help of the employees. Employees have also indicated that they are always being informed and reached on to agreement with their supervisors about the standards that will be used to evaluate their work.

4.3.3. Communication in the Performance Management System

Employees' response with regard to the level of communication in the performance management system is summarized in the table below.

Table 4.5: Summary of response to questions on communication.

	N	Mean	Std. Deviation
I am given the opportunity to express my feelings when my performance is evaluated.	371	3.65	0.97
There is continuous communication between managers and employees for expressing their views.	371	3.62	1.00
I have no problem discussing work related issues with my supervisor.	371	3.23	1.05
Results of an evaluation are openly described and discussed to me.	371	3.15	1.06
Communication Group Score	371	3.41	0.72

Source: own survey, 2018.

According to the data summarized in table 4.5, employees' perception towards the communication factor of the performance management system is shown to be generally positive. Almost 60% of the employees have agreed that they are given the opportunity to express their feelings when their performance is evaluated. Employees also believe that there is a continuous communication between managers and employees for expressing their views. The majority of respondents also feel that they have no problem in discussing their work related issues with their supervisors. Finally, they feel that the results of their evaluation are openly discussed and described to them. In general, the group score of 3.41 implies that the employees agree that the performance management system is indeed acting as a communications tool in conveying key performance indicators to the employees. Similarly, the standard deviation of the group being 0.72, indicates that respondents' reaction was closer to the mean.

4.3.4. Acceptability and Fairness

Employees' response with regards to the level of acceptability and fairness in the performance management system is summarized in the table below.

Table 4.6: Summary of response to questions on Acceptability and Fairness.

	N	Mean	Std. Deviation
I believe the Performance Management System is rational and fair.	371	3.72	1.35
I feel that I am fairly treated in every way in the Performance Management System.	371	3.31	1.12
I get reasonable feedback from my supervisor related to my performance.	371	3.50	1.15
I get evaluated fairly according to the standards set without subjectivity and bias.	371	3.54	1.165
Acceptability and Fairness Group Score	371	3.52	0.81

Source: own survey, 2018.

According to the summary on table 4.6, the group score has a mean of 3.52 which implies that the respondents agree to the nature of fairness and acceptability of the system. Similarly, the standard deviation value of 0.81, indicates that the response of the employees was closer to the mean. It has been shown that the respondents feel that the performance management system is fairly rational and fair. Close to 54% of the employees believe that they are fairly treated in every way in the performance management system. Employees also have agreed that they get reasonable feedback from their supervisors in relation to their performance. The majority of the respondents also believe that they get evaluated fairly according to the standards set without subjectivity and bias.

4.3.5. Rewarding Performance in the Performance Management System

Employees' response with regards to the level of rewarding performance in the performance management system is presented in the table below.

Table 4.7: Summary of response to questions on rewarding performance.

	N	Mean	Std. Deviation
Performance Management System results are directly linked with promotional opportunities.	371	3.35	0.99
I get rewarded proportionally to my individual performance.	371	3.87	1.01
I receive annual bonus based on my performance and it has really motivated me.	371	3.49	1.14
High score in performance review is appropriately recognized and rewarded.		3.21	1.23
Rewarding Group Score	371	3.48	0.72

Source: own survey, 2018.

As indicated in table 4.7, the means of the employees' response towards the questions on the rewarding performance factor of the system range between 3.21 and 3.87. The group mean value of 3.48 implies that the employees agree that the system is rewarding. The respondents tended to believe that performance management system is directly linked with promotional opportunities. Employees feel that they get rewarded proportionally to their individual performance. Around 58% of the respondents have agreed that they receive annual bonus based on their performance and it has really motivated them. Finally, respondents are indifferent in response to whether the high scores in performance review are being appropriately recognized and rewarded.

4.3.6. Continuous Feedback in the Performance Management System

Employees' response with regards to the level of continuous feedback in the performance management system is summarized in the table below.

Table 4.8: Summary of response to questions on continuous feedback.

	N	Mean	Std. Deviation
The performance feedback I receive helps me to improve my job performance and attain my goals.	371	2.72	1.08
The feedback I get helps me to gain an insight about my strengths and weaknesses.	371	2.82	1.03
I receive regular and timely performance feedback besides the semiannual performance review.	371	2.19	0.94
The information provided by my supervisor during my performance feedback is accurate.	371	2.63	1.02
Continuous Feedback Group Score	371	2.56	0.62

Source: own survey, 2018.

Table 4.8 indicates that employees' response to the questions on the continuous feedback factor range between the means of 2.19 and 2.82. The group mean score of 2.56 is an indicator that the employees disagree with the factor of continuous feedback in the performance management system. Similarly, the standard deviation value of 0.62, is an indicator that the respondents' reaction towards the factor is closer to the mean value. This result has shown that the employees do not agree that there is continuous feedback in the performance management system. Respondents have indicated that the performance feedback that they receive has not helped them to improve their job performance and attain their goals. Similarly, the response collected show that the feedback that employees get has not helped them gain an insight about their strengths and weaknesses. The respondents have also indicated that they do not agree that they receive regular and timely performance feedback, besides the semiannual performance review. Finally the employees' have responded that the information provided by their supervisors during the performance feedback is not accurate.

4.4 Analysis of the Dependent Variable

Primary data collected from employees' with regard to the level of motivation, using 6 questions, is summarized and presented in table 4.9 below.

Table 4.9: Summary of responses for the questions on motivation.

	N	Mean	Std. Deviation
I am encouraged to improve my performance and to develop my skills	371	3.31	1.01
I am willing to accept challenging responsibilities and to contribute more	371	3.59	1.04
My job is beneficial to my career	371	3.43	1.06
I feel the job environment is safe and enjoyable		3.38	1.09
The acknowledgment I get for my accomplishments has made me to exert more effort.		3.90	0.96
The company values my service	371	3.25	1.17
Motivation Group Score	371	3.42	0.67

Source: own survey, 2018.

According to the data indicated on table 4.9, the employees' mean level of motivation ranges between 3.30 and 3.90 – which is generally positive. The mean score value of 3.42, for the questions asked on motivation imply that the employees generally agree to the motivation variable. The standard deviation value of 0.67 is also an indicator of the closeness of the responses to the mean score. Employees have indicated that they are encouraged to improve their performance and develop their skills. Similarly, respondents have indicated that they are willing to accept challenging responsibilities and contribute more. In addition, employees believe that their job is beneficial to their career as well as they feel that the job environment is safe and enjoyable. Employees also agreed that the acknowledgement that they get for their accomplishments has made them exert more effort. Finally, the employees have responded positively that the company values their services.

4.5 Relationship between the Independent and Dependent Variables

A correlation analysis method has been implemented to analyze the relationship between the independent variables of the performance management system and the dependent variable - motivation. According to Saunders, Levin and Thornhill (2016), a correlation coefficient of +1 means that the items are positively and strongly related, while a correlation coefficient of 0 means that the two variables are not related. The following table presents the correlation between the independent and dependent variables.

Table 4.10: Correlation of independent variables and the dependent variable.

Independent Variables		Motivation
Clarity	Pearson Correlation	.117*
	Sig. (2-tailed)	.025
Inclusiveness	Pearson Correlation	.309**
	Sig. (2-tailed)	.000
Communication	Pearson Correlation	.358**
	Sig. (2-tailed)	.000
Acceptability	Pearson Correlation	.300**
	Sig. (2-tailed)	.000
Feedback	Pearson Correlation	.254**
	Sig. (2-tailed)	.000
Rewarding	Pearson Correlation	.336**
	Sig. (2-tailed)	.000
ALL_PMS_VARIABLES	Pearson Correlation	.442**
	Sig. (2-tailed)	.000

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

* . Correlation is significant at the 0.05 level (2-tailed).

Source: Own survey, 2018

According to the above correlations table 4.10, each of the independent variables have a weak but positive relationship with the dependent variable when their relationship against the dependent variable is analyzed. The clarity factor of the performance management system has a Pearson's correlation coefficient (r) of $+0.117$ with motivation. According to the relationship table 3.3, this coefficient is considered too weak to be indicate any relationship between the clarity factor of the performance management system and the dependent variable. On the other hand, the relationship between the inclusiveness variable and motivation has a correlation coefficient of $r = +0.309$, which implies that there is a weak but positive relationship between the two variables. Similarly, the correlation coefficient of $r = +0.358$ obtained for the communication factor of the performance management system indicates that there is a weak and positive relationship between the communication factor and motivation. The relationship between the acceptability and fairness variable and the motivation has a coefficient of $r = +0.300$, which is again considered to be a positive but weak relationship. The feedback factor and motivation have similarly a weak but positive relationship with a correlation coefficient of $r = +0.245$. Finally, the rewarding performance factor of the performance management system with motivation has a coefficient of $r = +0.336$, which is again a weak but positive relationship. Each independent variable has scored a significance value of lesser than 0.05, which implies that the relationship model was significant.

The correlation between all the independent variables and the dependent variable was also analyzed and the relationship has a Pearson Correlation coefficient of $+0.442$ value. This coefficient, unlike the individual variables implies that there is a moderately strong and positive relationship between all the determinant factors of the performance management system, in general, and motivation. The relationship has also a value of 0.000 in significance which indicates that the model was significant.

4.6 Effect of Performance Management System on Motivation

A regression analysis was conducted in order to understand and analyze the effect of the independent variables of the model on the dependent variable. According to Kothari (2004), the objective of this analysis is to make a prediction about the dependent variable based on its covariance with all the concerned independent variables. Therefore, the relationship between the independent variables of the performance management system and the dependent variable (motivation) hypothesis testing was performed and the results are presented and discussed below.

Table 4.11: Regression analysis of individual independent variables against motivation

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.386	.220		6.313	.000
Clarity	-.035	.050	-.034	-.691	.490
Inclusiveness	.127	.049	.136	2.598	.010
Communication	.105	.058	.114	1.823	.049
Acceptability	.103	.045	.124	2.284	.023
Feedback	.151	.055	.141	2.766	.006
Rewarding	.178	.049	.192	3.613	.000

a. Dependent Variable: Motivation

H1 There is significant and positive relationship between clarity factor and employees' motivation

The results of regression as presented in above table indicate that clarity level of the performance management system has no significant effect on level of employees' motivation with a beta value of $\beta_1 = -0.35$ (sig = 0.49 which is greater than $\alpha = 0.05$). Therefore, the researcher rejects this hypothesis and considers this variable as irrelevant in affecting the dependent variable.

H2 There is a significant and positive relationship between inclusiveness factor and employees' motivation

The results of regression presented in above table has also indicated that inclusiveness nature of the performance management system has a positive and significant effect on level of employees' motivation with a beta value of $\beta_1 = 0.127$ (sig = 0.011 which is lesser than $\alpha = 0.05$). Therefore, the researcher accepts this hypothesis and it is accepted that for each unit increase in inclusiveness factor of the performance management system, there is 0.127 unit improvement in level of employees' motivation.

H3 There is significant and positive relationship between communication factor of performance management system and employees' motivation

The results of regression presented in above table has also indicated that continuous communication factor of the performance management system has a positive and significant effect on level of employees' motivation with a beta value of $\beta_1 = 0.105$ (sig = 0.049 which is lesser than $\alpha = 0.05$). Therefore, the researcher accepts this hypothesis and it is accepted that for each unit increase in the continuous communication factor of the performance management system, there is 0.105 unit improvement in level of employees' motivation.

H4 There is significant and positive relationship between fairness and acceptability factor and employees' motivation

The results of regression presented in above table has also indicated that fairness and acceptability variable of the performance management system has a positive and significant effect on level of employees' motivation with a beta value of $\beta_1 = 0.103$ (sig = 0.023 which is lesser than $\alpha = 0.05$). Therefore, the researcher accepts this hypothesis and it is accepted that for each unit increase in the fairness and acceptability variable of the performance management system, there is 0.103 unit improvement in level of employees' motivation.

H5 There is significant and positive relationship between continuous feedback factor and employees' motivation

The results of regression presented in the above table has also indicated that continuous feedback factor of the performance management system has a positive and significant effect on level of employees' motivation with a beta value of $\beta_1 = 0.151$ (sig = 0.006 which is lesser than $\alpha = 0.05$). Therefore, the researcher accepts this hypothesis and it is accepted that for each unit increase in the continuous feedback factor of the performance management system, there is 0.151 unit improvement in level of employees' motivation.

H6 There is significant and positive relationship between rewarding performance factor and employees' motivation

The results of regression presented in above table has also indicated that the rewarding performance variable of the performance management system has a positive and significant effect on level of employees' motivation with a beta value of $\beta_1 = 0.178$ (sig = 0.00 which is lesser than $\alpha = 0.05$). Therefore, the researcher accepts this hypothesis and it is accepted that for each unit increase in the rewarding performance variable of the performance management system, there is 0.178 unit improvement in level of employees' motivation.

Finally, the results presented in tables YYYY and QQQQ were used to test the last hypothesis. This hypothesis intends to test the overall impact of the performance management systems' effectiveness on the employees' motivation discussion and interpretation of the result is provided below.

Table 4.12 Regression Model Summary of the relationship

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.465 ^a	.216	.204	.59395

a. Predictors: (Constant), Rewarding, Feedback, Clarity, ACCEPT, Inclusiveness, Communication

b. Dependent Variable: Motivation

Source: own survey, 2018

Table 4.13: ANOVA test of the relationship

ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	35.480	6	5.913	16.763	.000 ^b
Residual	128.409	364	.353		
Total	163.889	370			

a. Dependent Variable: Motivation

b. Predictors: (Constant), Rewarding, Feedback, Clarity, Acceptability, Inclusiveness, Communication

Source: own survey, 2018

Based on the results of the study, the value of the adjusted R-Square is 0.204 which indicates 20.4% of variance in the employees' motivation is due to the effectiveness of the performance management system. According to the scores obtained from the ANOVA table, it is indicated that the model is significant with the value of 0.000.

Table 4.14: Regression coefficient analysis of the dependent and independent variables

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.393	.217		6.430	.000
ALL_PMS	.652	.069	.442	9.473	.000

a. Dependent Variable: Motivation

Source: own survey, 2018

H7: There is significant and positive relationship between the performance management system and employees' motivation

The results of regression analysis have indicated that the level of employees' motivation has positive and significant effect on the effectiveness of the performance management system with a beta value of $\beta_1 = 0.442$ (p-value = 0.00 which is less than $\alpha = 0.05$). Therefore, the researcher accepts the hypothesis and it is accepted that for each unit increase in the effectiveness of the performance management system, there is 0.442 unit improvement in the employees' motivation.

4.7. Effect of Demographic Factors on the Study Variables.

Comparison of means has been conducted to understand and analyze the effect of demographic factors on the perception of employees towards the performance management system and motivation. Comparison tables of these results are attached as an appendix.

The results of the compared means have shown that the Male employees' score on the performance management variables and motivation is slightly above the mean. Whereas, the scores of the female respondents is just below the average (mean score). This implies that the male employees perceive the performance management system as effective better than the female employees. Similarly, the male employees are better motivated when compared to their female colleagues.

Results of the age group have also shown that employees their perception towards the performance system is almost equal regardless of their age. On the contrary, the level of motivation is shown to be higher among those employees who are between the age group of 41-50 years followed by those in the age group of 20-30 years. The age group 31-40 years, has a score of below average in their level of motivation.

Scores of respondents on the performance management system based on their length of service in the airline has shown no difference to the mean score. Their level of the motivation, however, has shown that the senior employees with a work experience of more than 10 years to be better motivated followed by the junior employees with a work experience of less than 5 years. The employees with an experience of 5-10 years have scored below the average.

Employee's level of education have been indicated to have an effect on the employees' perception towards the effectiveness of the performance management system. This is indicated by those employees who achieved an MA/MSc degree who have scored above average in their responses to the variables of the performance management system. On the contrary, employees' who hold a diploma have a score of below average in their response to the variables of the performance management system. This implies that the system is being understood differently by employees of different educational background. Regardless of their educational level, the employees' level of motivation is shown to be uniform to the average score.

Employees' perception towards the performance management system and motivation in comparison to their monthly salary earnings is indicated to nearly equal to the average score. This indicates that the employees' perception of the performance management system and motivation is varied from each other based on the monthly salaries that they earn.

Finally, the employees' work division was compared to their perception on the variables of the performance management system and their level of motivation. The result has shown that the employees' level of motivation is uniform regardless of their work division. On the contrary, employees' perception of the performance management system varies from division to division. While the perception of employees in the work divisions of Aviation Academy, Customer Services, ET Cargo, Flight Ops and Corporate divisions have a score of above the mean, employees' working in the ET MRO and Ground Handling divisions have scored far below the average. This implies that the system has not been uniformly implemented.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

The main purpose of the study was to analyze the level of employees' perception towards the effectiveness of the performance management system and its impact on their motivation. Based on the primary and secondary data collected and related literature reviewed, the following conclusions and recommendations are provided.

5.1. Conclusion

The analysis of this study has shown us that employees of the airline view each of the determinant factors of the performance management system differently. They feel that the performance management system lacks clarity in order for it to be deemed effective. On the contrary, employees have shown a positive attitude towards the inclusiveness factor of the system. They have also perceived that the system is a useful communication medium and feel that it is acceptable and fair. However, the employees have considered that the feedback variable of the performance management system to be relatively poor. Finally, the employees' perception towards the rewarding performance aspect of the system to be positive.

In general, it can be concluded that 51.8% of the employees perceive the performance management system to be positive when measured based on the six determinant factors of performance management system's effectiveness.

The dependent variable of the study - employees' motivation - was analyzed separately and in relation to the performance management system. Accordingly, the study has found out that the motivation level of the employees to be positive, as 57% of the employees feel that they are motivated in response to the six separate questions asked in relation to their motivation.

The analysis of the study has indicated that employees are hardly affected by the effectiveness of the performance management system. While the relationship model has shown that the performance management system and motivation variables are positively related and significant. Each of the determinant factors of the performance management system were analyzed independently for any effect on employees' motivation and the conclusions drawn from the results are discussed below.

Employees have indicated that the clarity and continuous feedback factors of the performance management system to be less satisfactory. However, their impact on the employees' motivation was found to be positive but minimal. While the effect of the clarity variable on motivation was found out to be insignificant, the continuous feedback variable was found to have a positive and significant effect on employees' motivation. Therefore, it can be concluded that improvement of the clarity factor of the performance management system would only enhance its effectiveness, but it is unlikely that the motivation level of the employees will be altered radically.

On the other hand, the study has found out that the inclusiveness, communication, fairness and acceptability as well as rewarding performance factors to be perceived as satisfactory. This indicates that the performance management system only needs to maintain these determinant factors with appropriate improvement to keep the system effective. Regardless of their positive and significant relationship with the dependent variable, the study has again indicated that these variables have only little influence on the motivation of the employees. Therefore, improving these factors will make the system more effective with a positive improvement in the level of employees' motivation.

Finally, it has been found out that employees with different demographic background view the performance management system differently. On the contrary, employees' level of motivation is uniform regardless of their demographic difference.

5.2. Recommendations

Based on the conclusions derived from the study the following recommendations are drawn.

- The clarity and feedback factors of the performance management system play a vital role in its effectiveness. Hence, it is advisable that Ethiopian Airlines works towards the improvement of these factors in order to improve the level of employees' motivation.
- The performance management system needs to be reviewed so that its relationship with the employees' motivation becomes stronger.
- The performance management system needs to be implemented systematically throughout the organization so that the employees understand its purpose and processes uniformly regardless of their demographic background.

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Appendix I - Questionnaire

ADDIS ABABA UNIVERSITY - SCHOOL OF COMMERCE

Dears, I appreciate your participation in this study. This questionnaire is designed to collect primary data from the employees of Ethiopian Airlines. The data being collected is to be used for the research entitled “*Effectiveness of the performance management system and its impact on employees’ motivation: The case of Ethiopian Airlines.*” The study is to be submitted as the partial fulfilment of Masters of Arts in Human Resource Management. The study is intended only for academic purpose and you are assured of the confidentiality and anonymity of your participation. Moreover, the output of the study will help as an input for the organization for any future action.

General Instruction

1. The questionnaire has three parts: in part I, general demographic data are requested. In Parts II and III, your opinion is requested on the determinant factors of effective performance management system and elements of motivation.
2. Put a “√” mark in the box next to the point which highly reflects your idea.
3. You do not need to write your name.

I. Demographic Data

1. Sex A. Male B. Female
2. Age A. 20-30 B. 31-40 C. 41-50 D. > 51
3. Highest educational level
A. Diploma B. BSC/BA Degree
C. Masters D. PhD
4. Length of service in Ethiopian Airlines
A. < 1 years B. 1 - 5 years C. 6 - 10 years D. > 10 years
5. Where is your current work division?
ET-MRO Aviation Academy Customer SVCs
ET-Cargo Ground handling Flight Ops
Corporate (Administration)
6. In which range does your monthly basic salary fall? (in Birr)
<5000 5,000-10,000 10,000-15,000 15,000 - 20,000 > 20,000

II	Effectiveness of Performance Management System Practice	Measurement Scale				
	<i>NB: Please indicate your opinion about the determinant factors of effective performance management system as implemented in Ethiopian Airlines</i>	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	Clarity	1	2	3	4	5
1	The performance management system clearly defines objectives that I need to achieve.					
2	I believe that the performance management system is less subjective and transparent.					
3	I am satisfied with the consistency of the supervisors in conducting a performance review.					
4	I clearly understand the objectives of performance management system of the company.					
	Inclusiveness	1	2	3	4	5
5	I personally get involved in the process of setting objectives and targets of my performance expectations.					
6	Participation in the performance management system makes me feel that I am part of the organization.					
7	I prefer my performance to be evaluated by a system developed and designed with the help of employees.					
8	I am always informed and reached on to agreement with my supervisors about the standards that will be used to evaluate my work.					
	Communication	1	2	3	4	5
9	I am given the opportunity to express my feelings when my performance is evaluated.					
10	There is continuous communication between managers and employees for expressing their views.					
11	I have no problem discussing work related issues with my supervisor.					
12	Results of an evaluation are openly described and discussed to me.					
	Acceptability and Fairness	1	2	3	4	5
13	I believe the performance management system is rational and fair.					
14	I feel that I am fairly treated in every way in the performance management system.					
15	I get reasonable feedback from my supervisor related to my performance.					
16	I get evaluated fairly according to the standards set without subjectivity and bias.					

		Measurement Scale				
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	Continuous Feedback	1	2	3	4	5
17	The performance feedback I receive helps me to improve my job performance and attain my goals.					
18	The feedback I get helps me to gain an insight about my strengths and weaknesses.					
19	I receive regular and timely performance feedback besides the semiannual performance review.					
20	The information provided by my supervisor during my performance feedback is accurate.					
	Rewarding performance	1	2	3	4	5
21	Performance management system results are directly linked with promotional opportunities.					
22	I get rewarded proportionally to my individual performance.					
23	I receive annual bonus based on my performance and it has really motivated me.					
24	High score in performance review is appropriately recognized and rewarded.					
III	Motivation	1	2	3	4	5
25	I am encouraged to improve my performance and to develop my skills					
26	I am willing to accept challenging responsibilities and to contribute more					
27	My job is beneficial to my career					
28	I feel the job environment is safe and enjoyable					
29	The acknowledgment I get for my accomplishments has made me to exert more effort.					
30	The company values my service					

Appendix II: Compared means of demographic data

ALL_PMS Motivation * Work division

Mean

Work division	ALL_PMS	Motivation
ET-MRO	2.9263	3.3923
AVIATION ACADEMY	3.2153	3.8611
CUSTOMER SVCS	3.1615	3.4174
ET-CARGO	3.1953	3.5208
GROUND HANDLING	3.0068	3.4606
FLIGHT OPS	3.3444	3.4944
CORPORATE (ADMINISTRATION)	3.3037	3.3397
Total	3.1129	3.4241

ALL_PMS Motivation * AGE

Mean

AGE	ALL_PMS	Motivation
20-30 YEARS	3.1189	3.4508
31-40 YEARS	3.1063	3.3596
41-50 YEARS	3.0920	3.5208
Total	3.1129	3.4241

ALL_PMS Motivation * GENDER

Mean

GENDER	ALL_PMS	Motivation
MALE	3.1296	3.4525
FEMALE	3.0814	3.3708
Total	3.1129	3.4241

ALL_PMS Motivation * Length of service in Ethiopian Airlines

Mean

Length of service in Ethiopian Airlines	ALL_PMS	Motivation
1 TO 5 YEARS	3.0907	3.4724
5 TO 10 YEARS	3.1200	3.2768
MORE THAN 10 YEARS	3.1636	3.5217
Total	3.1129	3.4241

ALL_PMS Motivation * Highest educational level

Mean

Highest educational level	ALL_PMS	Motivation
DIPLOMA	2.9951	3.4314
BA/ BSC DEGREE	3.1131	3.4156
MA/ MSC	3.1732	3.5052
Total	3.1129	3.4241

ALL_PMS Motivation * Monthly basic salary (in Birr)

Mean

Monthly basic salary (in Birr)	ALL_PMS	Motivation
LESS THAN 5,000	3.0208	3.3698
5,000 TO 10,000	3.1584	3.4787
10,000 TO 15,000	3.0417	3.4149
15,000 TO 20,000	3.1242	3.3660
MORE THAN 20,000	3.1879	3.4887
Total	3.1129	3.4241