



**ADDIS ABABA UNIVERSITY
SCHOOL OF COMMERCE
GRADUATE STUDIES PROGRAM**

**EMPLOYEES' PERFORMANCE MANAGEMENT SYSTEM: PRACTICES
AND CHALLENGES IN SELECTED ETHIOPIAN PRIVATE
COMMERCIAL BANKS**

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

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Advisor: Teklegiorgis Assefa (Asst. Professor)

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STATEMENT OF DECLARATION

I, Fasil Afework, declare that this thesis entitled “*Employees’ Performance Management System: Practices and Challenges in Selected Ethiopian Private Commercial Banks*” is carried by myself with the close guidance & support of my advisor Teklegiorgis Assefa (Asst. Professor). I have followed all ethicality standards while conducting the research and all references and sources are properly acknowledged. The study is original and has not been used as a partial fulfillment for any sort of educational qualification at this university or any other.

Fasil Afework
Candidate

Signature

Date

STATEMENT OF CERTIFICATION

This is to certify that this study paper titled “*Employees’ Performance Management System: Practices and Challenges in Selected Ethiopian Private Commercial Banks*” conducted by Fasil Afework for the partial fulfillment of Master of Arts Degree in Human Resource Management from Addis Ababa University school of commerce is an original work and fit for partial fulfillment for Masters of Arts Degree in Human Resource Management.

Teklegiorgis Assefa (Asst. Professor)
Research Advisor

Signature

Date

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ACRONYM

HR- Human Resource

HRM- Human Resource Management

PMS- Performance Management System

PA- Performance Appraisal

PM- Performance Management

BOA- Bank of Abyssinia

CBO- Cooperative Bank of Oromia

NIB- Nib International Bank S.C.

WB- Wegagen Bank S.C.

ABSTRACT

Performance management systems are always of imperative concern of any organization/institution while managing its human resources by creating a linkage between the overall strategic aims of business with individual and/ team goals. Here comes the reason why Ethiopian private commercial banks are trying to experience it currently. The purpose of this study is to examine the practices and challenges of performance management system in selected Ethiopian private commercial banks. A combination of qualitative and quantitative research approach has been adopted whereby a structured questionnaire was administered by the researcher to a selected population size of 132 of which 112 completed questionnaires, generating a response rate of 84.84% and in-depth interviews with HR directors and managers of the case banks are used to support the quantitative data. Findings have shown that the practices of the performance management system do not include intensively all the process of PMS, the output of PMS is mostly used for administrative purpose and lack of senior and line management commitment towards the system is the most potential hindering factor in the implementation of the system in the case banks. The Researcher has also explored various suggestive solutions regarding said factors. Though the research findings are valuable, limitations of the study were usage of only four banks and application of perceptual measures which could increase risk of respondent bias. Future studies, in order to avoid these limitations could extend their scope to include range of banks and conduct longitudinal research using objective data.

Key Words: Performance Appraisal, PMS, Practices, Challenges

CHAPTER ONE

INTRODUCTION

1.1. BACKGROUND OF THE STUDY

Armstrong (2006) has defined Performance Management as a “systematic process for improving organizational performance by developing the performance of individuals and teams”. He states that the overall aim of performance management is 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. Moreover, he argues that there is a significant difference between performance appraisal and performance management even though some people assume they are the same. Performance appraisal is about formal assessment and rating of individuals where as performance management is a continuous and much wider, more comprehensive and more natural process of management that clarifies mutual expectations, emphasizes the support role of managers who are expected to act as coaches rather than judges and focuses on the future. This benefit has its own impact on the performance of the organization at large.

Further Armstrong (2009) quoting Weiss and Hartle (1997) commented, as performance management is: ‘A process for establishing a shared understanding about what is to be achieved and how it is to be achieved, and an approach to managing people that increases the probability of achieving success.’ From this we can understand that performance management system plays an important role for an organizational performance.

Performance management’s importance for organizational results has received a common consensus among various authors. Harrison (2000) noted that through performance management, companies are able to translate their objectives into employee’s performance.

According to Roberts (2001) cited by Deanne N. den Hartog et al., (2004) performance management involves the setting of corporate, departmental, team, and individual objectives (sometimes labeled “policy deployment”, the cascading down of strategic objectives to a meaningful set of targets for every individual involved); the use of performance appraisal systems; appropriate reward strategies

and schemes; training and development strategies and plans; feedback, communication, and coaching; individual career planning; mechanisms for monitoring the effectiveness of performance management system and interventions and even culture management.

Moreover, Armstrong (2009) explaining the importance of performance management system towards the organization, he stated that the overall objective of performance management is to develop and improve the performance of individuals and teams and therefore organizations. Hence, performance management system is critical and necessary to improve organizational and employees' effectiveness.

In line with the benefits gained by or reasons for implementing effective performance management system, Eliane (2004) states that it includes, clarify job responsibility & expectation, enhance individual and group productivity, develop individual capability, align organizational core values, objectives and strategies, improve communication between employees and managers.

However, many organizations face difficulties while managing performance. Ethiopian private commercial banks are not exceptional from this fact. As Mueller and O,Leary cited in Armstrong (2009) stated, performance management is often referred to as the "Achilles heel" of human resource management. This means, performance management is a highly personal and often threatening process for both managers and employees.

As literatures reveal, Banking is practical industry, because it is a service which is rendered to customers. One of the main purposes and advantages of performance management system is its ability to enhance the performance of the organization by aligning individual and team objective with the objective of the organization. Hence in order to increase productivity, competitiveness, generate strong revenues and healthy profits, the development and continuous improvement of the performance of individuals, teams and the organization as whole is one of the requisites. This logic applies for Ethiopian private commercial banks as well.

Currently, there are 16 Private Commercial Banks in Ethiopia which shared the same market. And as they are rendering service to their customers, most of their performance matters on how their employees render the requested service to the customers. Hence, in service industries, the performance of individuals and teams plays a great role to the attainment of the banks' objectives. To this end,

placing effective performance management system impacts the performance of organizations to a large extent.

Accordingly in Ethiopia banking industry, the concept of performance management system is in its inception stage. Even if organizations are aware of the concept of PMS, it is not very much in practice. However, currently some private companies try to implement PMS. In doing so, organizations are unaware of the factual essence of the idea. Keeping this in mind, this study is carried out to examine, analyse and discover the practice and challenges of performance management system in Ethiopian private commercial banks.

1.2. STATEMENT OF THE PROBLEM

As the Banking industry is growing in Ethiopia, the most important area/aspect of competition is becoming deposit mobilisation which has direct relation with the quality of customer service and this also has a direct relationship with the performance of individuals and team. In line with rendering service, especially in banking service, the performance of employees to provide the required service to the customers at the required level, without denying the importance of information technology which the banks are implementing and using currently, have great role in making an organization profitable or not, which is directly linked with the performance of the bank at large.

Managers are reluctant to provide candid feedback and have honest discussions with employees for fear of reprisal or damaging relationships with the very individuals they count on to get work done. Moreover, many complain that performance management systems are cumbersome, bureaucratic and too time consuming for the value added. This leads both managers and employees to treat performance management as a necessary evil of work life that should be minimized rather than an important process that achieves key individual and organizational outcomes (Eliane 2004).

Hence, keeping the above stated concept in mind, this study is carried out to discover the practice and challenges of employees' performance management system in Ethiopian private Commercial banks with the theories and principles. Also, it examines the alignment of the system (PMS) with other HR systems and its implication to the performance of the respective Human Resource Management Departments, in particular, and the Banks, at large.

Even though Performance management system has many purposes, what is observed most of the time in Ethiopian commercial private banks is that the issues of performance management or performance appraisal comes to in mind only at the end of the fiscal period where annual increment and bonus issues are raised. Moreover, inconsistent employee rating and lack of using the outcome of performance management system for employee development are also observed in the case banks.

1.3. RESEARCH QUESTIONS

Based on the data that will be collected, the researcher will try to answer the following research questions:

1. How is performance management and measurement conducted in the Ethiopian private commercial banks?
2. What purposes did the performance management system is being used by Ethiopian private commercial banks?
3. What are the main challenges of Ethiopian private commercial banks confronting while implementing performance management system?

1.4. OBJECTIVES OF THE STUDY

In general terms, the study aims at examining the experience of Ethiopian private commercial banks regarding the implementation of Performance Management System and find out the existing practices and also the challenges of implementing Performance Management System.

Specific Objectives,

- To examine to what extent are PMS and performance measurement are being implemented in Ethiopian private commercial banks.
- To examine for what purpose PMS is being applied in Ethiopian private commercial banks?
- To examine the challenges of PMS in Ethiopian private Commercial banks.

1.5. DEFINITION OF TERMS

Performance Management: is 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)

Performance Management System (PMS): is ‘a strategic and integrated approach of conveying continued success to institutions by developing the people in a way that improves group and personal performance. (Armstrong and Baron, 1998)

Performance appraisal: is formal assessment and rating of individuals (Armstrong 2006)

1.6. SIGNIFICANCE OF THE STUDY

The study examines the practice and challenges of PMS and the role it plays in enhancing the organizational performance of Ethiopian Private Commercial Banks. It also provides a holistic picture of practice and challenges of implementing PMS. The information gathered:

- Alert Ethiopian private commercial banks regarding the opportunities and challenges of implementing PMS.
- Beneficial to organizations with the same or likely be same structured.
- Be used as a reference and also a stepping stone for further studies.

1.7. SCOPE OF THE STUDY

The study is confined only to know the practice and challenges of Performance Management System in Ethiopian private commercial Banks by analysing the existing system being applied. The study comprised Bank of Abyssinia, Wegagen Bank, Nib International Bank and Cooperative Bank of Oromia.

The limitation of the study is that state owned banks are not considered. Because the student researcher believed that the state owned banks are mainly working to meet the policy of the government. Therefore, the study doesn't reflect the overall picture of the practice and challenges of

performance Management System of the Banking industry in Ethiopia; rather it deals on Ethiopian private commercial banks.

1.8. ORGANIZATION OF THE STUDY

The study paper is organized in to five chapters. The first chapter is introductory part of the study which emphasizes the problem statement, research question, objective and significance of the study. Chapter two presents review of related literature by different subject matter scholars, with proper acknowledgment. In the next chapter, research design and methodology will be discussed. It specifically addresses the design of the study, the sampling technique & size, data collection instruments used, and data quality assurance. Chapter four covers data presentation, analysis, and interpretation. The last chapter of the paper, Chapter 5, deals with summary of findings, conclusion, and recommendation.

CHAPTER TWO

REVIEW OF RELATED LITRATURE

2.1. DEFINITION OF PERFORMANCE MANAGEMENT

The concept of Performance management did first originate in the 20th century and Beer and Ruh (1976) first coined the phrase in 1976 and the term was formally recognized as a distinctive approach in mid 1980s (Beer and Ruh 1976 as cited by Jawaria Andleeb Qureshi et al., 2010). They states that the main reasons for the emergency of performance management system was that, managers realized that a more continuous and integrated approach was needed to manage and reward performance. In addition, T.V. Rao (2004) also explain the reason for the system to be emerged globally in the later 1980s was due to the negative dimensions of merit ratings, MBO and performance appraisal. Moreover, its development was accelerated by the emergence of HRM, a realization that it was a concern of everyone and a shift from top-down to upward appraisal.

According to Ogutu Miruka (2014) the potential value of using PMS as a tool to manage and measure both employee and organizational performance depends largely on the quality of how the system is implemented. As a result, an implementation of such a system is of critical importance to the success factor in the future of any organization.

Performance management as well as performance management system is defined by different scholars in different times. Some of the definitions are:-

- Performance management is 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)
- Performance Management System (PMS) is defined as ‘a strategic and integrated approach of conveying continued success to institutions by developing the people in a way that improves group and personal performance. (Armstrong and Baron, 1998)
- PMS is as a strategic and organizational approach, which describes, evaluates, executes, and improves organizational performance constantly. It comprises of methodologies, framework, and indication that facilitate organization in the formulation of their strategy and make possible for employees to gain strategic insight, which permits them to face strategic assumptions,

improve strategic thinking, and inform strategic decision-making and learning (Marr, 2006 as cited by Armstrong 2009).

- Simons (2000) as cited by Armstrong (2009) describes PMS as ‘the formal, information based routines and procedures which are used by managers to maintain or alter patterns in organizational activities’.

Moreover, performance management is neither a technique nor a single step process, it can be considered as a set of pro-cess that includes knowledge of employees about what their managers expect of them, their motivation to per-form well, mentoring and evaluation of their performance aimed at identifying areas where the improvements are needed (Wilson 2005 as cited by Muhammad Imran Rasheed et al., 2011).

2.2. PERFORMANCE MANAGEMENT VS PERFORMANCE APPRAISAL

Azhar & Shehazadi (2013) states that performance management has basic difference with performance appraisal, which is the systematic description of an employee's strengths and weaknesses. As he discussed the issue, unlike performance management, performance appraisal lacks strategic business intent /consideration/ and also in contrast to performance management, performance appraisal system do not include extensive and ongoing feedback for the employees and also it is typically a once-a-year event that is often driven by the HRM department, whereas performance management is a year-round way of managing business that is driven by line managers.

Moreover, Armstrong (2006) states that performance appraisal is often backward looking, concentrating on what had gone wrong, rather than looking forward to future development needs.

In addition to these, James W. Smither and Manuel London (ed.) (2009) stated that although PM is frequently used synonymously with terms such as performance appraisal and performance review, PM is a process that includes more than simply assessment. However, it also includes facets of motivation, situational and environmental influences, measure design, feedback, and employee development.

Abdulaziz Al-Raisi, et, al. (2011) supported the idea and stated that the increased competitive nature of the economy and rapid changes in the external environment has forced many organizations to shift

from reactive performance appraisals to the proactive performance management to boost productivity and improve organizational performance.

2.3. FOUNDING THEORIES OF PERFORMANCE MANAGEMENT

Goal, Control and Social Cognitive theories are the three underpinning theories for performance management (Buchner, 2007 as cited by Armstrong, 2009).

2.3.1. GOAL THEORY

This theory underpins the emphasis in performance management on setting and agreeing objectives against which performance can be measured and managed. Moreover, he stated that this theory supports the agreement of objectives, feedback and review aspects of performance management.

According to Robertson, Smith and Cooper (1992) as cited by Armstrong (2009), goals inform individuals to achieve particular levels of performance, in order for them to direct and evaluate their actions; while performance feedback allows the individual to track how well he or she has been doing in relation to the goal so that, if necessary, adjustments in effort, direction or possibly task strategies can be made.

Moreover, according to Locke, 1966; Locke & Latham, 1990 as cited by James W. Smither and Manuel London (ed.) (2009), the prime focus of goal setting theory is that specific, difficult goals lead to higher performance than when people strive to simply “do their best”.

As Peter A. Heslin et, al. (2009) also supported the idea and stated that specific goals can boost motivation and performance by leading people to focus their attention on specific objectives and increase their effort to the achievement of those objectives.

2.3.2. CONTROL THEORY

Control theory focuses attention on feedback as a means of shaping behavior. As people receive feedback on their behavior they appreciate the discrepancy between what they are doing and what they are expected to do and take corrective action to overcome the discrepancy. Feedback is recognized as a crucial part of performance management processes.

As it is discussed in one of the foundation of performance management theory (i.e goal setting theory), for challenging goals to be achieved, it should be accompanied by continuous feedback.

2.3.3. SOCIAL COGNITIVE THEORY

Social cognitive theory was developed by Bandura (1986) as cited by Armstrong (2009). It is based on his central concept of self-efficacy (i.e self-motivation will be directly linked to the self-belief of individuals that they will be able to accomplish certain tasks, achieve certain goals or learn certain things). This suggests that what people believe they can or cannot do powerfully impacts on their performance. Developing and strengthening positive self-belief in employees is therefore an important performance management objective.

According to James W. Smither and Manuel London (ed.) (2009) while discussing social cognitive theory, there are three important aspects and these include: - developing competencies, strengthening employee's beliefs in their capabilities and enhancing self-motivation through goal system.

2.4. THE PERFORMANCE MANAGEMENT PROCESS

As we inferred from the definitions given by different authors' performance management is a continuous, extensive and ongoing process that involve different stages in which the stages take place in a cyclical and ongoing manner. Different authors discuss the performance management process in different ways or stages.

According to Armstrong (2009), the performance management system takes place the following process: plan, act, monitor and review. On the other hand, Eliane (2004) while discussing the process of performance management system, she describes the phases as follows: performance planning, ongoing feedback, employee input, performance evaluation and performance feedback. Even though the authors discuss the process by taking different models, the whole idea is the same.

However, the most common and popular performance management process takes six phases as it is described by (Aguinis 2009).

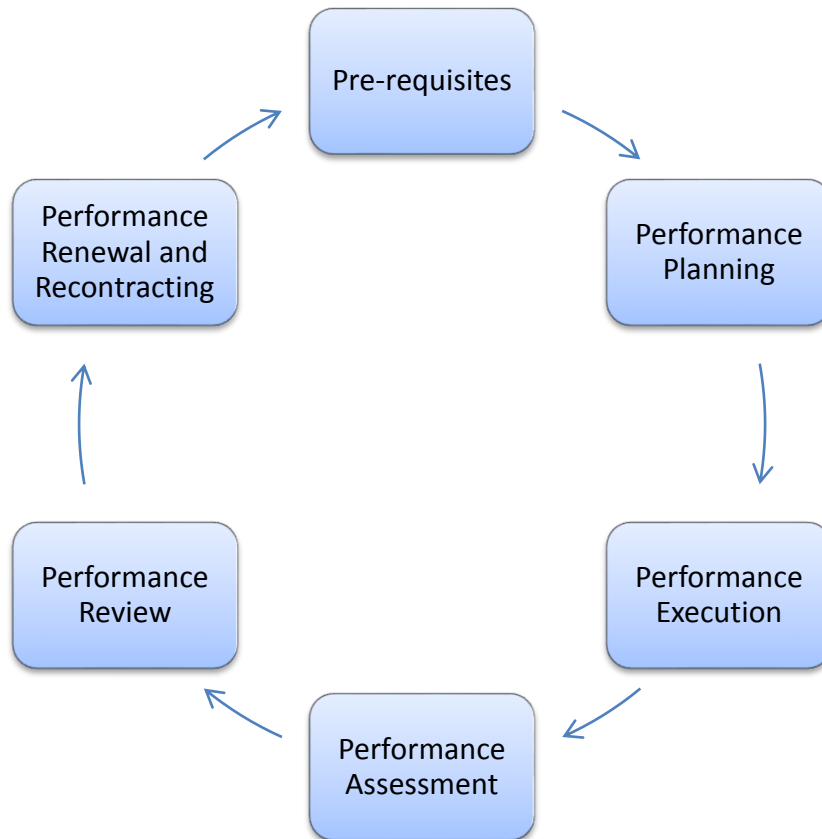


Figure 2.1 Performance Management Process

Source: Herman Aguinis: *An expanded view of performance management*, 2009

2.4.1. PRE – REQUISITES

This is the first stage of the process which requires having knowledge of the organization's mission and strategic goals and understanding of the job in question. Herman Aguinis (2009) states that 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. Organizations are required to define the purpose or the reason for existence, where they want to be in the future, what objectives to achieve by deploying different strategies to achieve those objectives. Once the goals for the entire organization have been established, similar goals cascade downward, with departments setting objectives to support the organization's overall mission and objectives and the cascading continuous to individual level. (Herman Aguinis 2009).

As it is discussed in the above, at this stage of the performance management process, the first requirement is to have is that knowledge of the organization mission and strategic goals. In this regard, Robert S. Kaplan and David P. Norton (1996) states that the first barrier to strategic implementation occurs when the organization cannot translate its vision and strategy into terms that can be understood and acted upon. They state that where fundamental disagreement exists about how to translate the lofty vision and mission statements into actions, the consequence is fragmentation and sub optimization of efforts.

The second prerequisite of the performance management process is knowledge about the job in question which is done through job analysis. Job analysis is a process of determining the key components of a particular job, including activities, tasks, products, services, and processes. Moreover, Herman Aguinis (2009) state that without a job analysis, it is difficult to understand what constitutes the required duties for a particular job. *If we don't know what an employee is supposed to do on the job, we won't know what needs to be evaluated and how to do so.*

2.4.2. PERFORMANCE PLANNING

At this stage of the performance management system what is expected is that employees have to a comprehensive knowledge of the performance management system. In relation to this, Armstrong (2006) stated that performance planning is the process of agreeing objectives and competence requirements and producing performance agreements and performance improvement and personal development plans.

As Herman Aguinis (2009) stated that in the performance planning stage, the discussion should include results, behaviours and development plan. Accordingly,

- **Results-** refer to what needs to be done or the outcomes an employee must produce which includes accountabilities (major areas of a job in which the employee is responsible), specific objectives that the employee will achieve as part of each accountability and performance standards (i.e refers to a yardstick used to evaluate how well employees have achieved each objective) provide information about acceptable and unacceptable performance.

- **Behaviours-** refer to how work is completed. Even though measuring results of a given job is important, but it does not give compressive picture of the employees' performance. In addition to this, sometimes it's difficult to measure the results of a given job because for some jobs it may be difficult to establish precise objectives and standards and in such cases, behaviours should be given more priority/importance/ than results. cf Shippmann et al., cited by H.Aguinis (2009) a consideration of behaviors includes discussing competencies, which are measurable clusters of knowledge, skills, and attitudes (KSAs) that are critical in determining how results will be achieved.

- **Development plans-** it is the other important issue that must be addressed and should both parties (i.e employee and supervisor) reached an agreement before heading to the next step of the process. The plan should incorporate areas that need future improvement and setting goals on how to attain those improvements. Reyna & Sims (1995) as cited by H. Aguinis (2009) development plans highlight an employee's strengths and the areas in need of development, and they provide an action plan to improve in areas of weaknesses and further develop areas of strength. In order to detect the employee's strength and weakness and to create and complete the development plan that will increase the effectiveness of the employee's, direct supervisors and line managers should play an important role to make it effective. Moreover, Dunning (2004) cited by James W. Smither and Manuel London (ed.) (2009), stated that this active role will help the supervisor understand the process from the employee's perspective, anticipate potential roadblocks and defensive attitudes, and create a plan in a collaborative fashion.

In line with this, while Eliane (2004) discusses the performance planning phase of PMS, she states that at the beginning of the performance management cycle, it is important to review with employees their performance expectations, including both the behaviors employees are expected to exhibit and the results they are expected to achieve during the upcoming rating cycle.

2.4.3. PERFORMANCE EXECUTION

Performance execution is the stage where the employee expected to perform or implement the agreed upon goals during the performance planning phase of the process by delivering the results, behaviors as well as developmental plans.

Aguinis H. (2009) stated that, the employee has the primary responsibility and ownership of this process of the performance management system. As it is discussed earlier, at this stage the employee is expected to put all his or her effort to produce the expected result by displaying the required behaviours as well.

Additionally, Aguinis H. (2009) argued that although the employee has primary responsibilities for performance execution, the supervisor also needs to do his or her share of the work. According to him, supervisors have primary responsibility over the following issues:

- ❖ Observing and documenting performance on a daily basis to keep track of good and poor performers.
- ❖ Perform the necessary update and revise initial objectives, standards, accountabilities and also behaviors whenever the organization's goals may change.
- ❖ Provide feedback on a regular basis on progression toward goals and coaching to improve performance and certainly before the review cycle is over.
- ❖ Supervisors should provide the necessary resources that facilitate the employee to perform his or her responsibilities and also create the opportunities to involve employees in developmental activities. In general supervisors have a responsibility to ensure that the employee has the necessary supplies and funding to perform the job properly.
- ❖ Supervisors must let employees know that their outstanding performance is noticed by reinforcing effective behaviors and progress toward goals. Also, supervisors should provide feedback regarding negative performance and how to remedy the observed problem.

2.4.4. PERFORMANCE ASSESSMENT

Performance assessment phase is the stage where both parties (employee and supervisor) should take their part regarding to evaluate whether performance (result) is on the right track with the desired level of behavior. It is important that both the employee and the manager take ownership of the assessment process. The reason is that firstly, it provides good information to be used in the review phase since both parties have a saying. Secondly, there is a greater likelihood that the information will be used productively in the future (Aguinis H., 2009).

Moreover Aguinis H. (2009) stated that the inclusion of self - ratings helps emphasize possible discrepancies between self - views and the views that important others (that is, supervisors) have. It is the discrepancy between these two views that is most likely to trigger development efforts, particularly when feedback from the supervisor is more negative than are employee self - evaluations. The inclusion of self-appraisals is also beneficial regarding important additional factors.

As it is discussed in the above paragraphs too, making the employee to assess him/herself before adopting a formal review/appraisal/session, he/she may have a clear picture of the level of his/her performance. Self-appraisals can reduce an employee's defensiveness during an appraisal meeting and increase the employee's satisfaction with the performance management system, as well as enhance perceptions of accuracy and fairness and therefore acceptance of the system (Shore, Adams, & Tashchian, 1998 as cited by Aguinis H. (2009)).

2.4.5. PERFORMANCE REVIEW

The Performance review is a formal setting where both parties (i.e the employee and supervisor) meet face to face to discuss their respective self-assessment made in the performance assessment phase of the performance management process. This phase covers achievements, growth and difficulties requiring revision upon performance agreement and personal development plan.

Jawaria Andleeb Qureshi et al., (2010) argued that Performance reviews are not only 'top-down appraisals', nor like the interviews in which one party asks questions and other answers, instead they are like open meetings where both parties can exchange their views, which leads to consented conclusions.

Armstrong (2009) argued that the performance review should be rooted in the reality of the individual's performance. It is concrete, not abstract and it allows managers and individuals to take a positive look together at how performance can become better in the future and how any problems in meeting performance standards and achieving objectives can be resolved. Overall, the performance review meeting is the means through which the five primary performance management elements of agreement, measurement, feedback, positive reinforcement and dialogue can be put to good use.

Even if appraisal meeting /performance review/ is important since employees receive formal performance feedback, however, supervisors are reluctant to do that. Eliane (2004) states that managers are reluctant to provide candid feedback and have honest discussions with employees for fear of reprisal or damaging relationships with the very individuals they count on to get work done. Employees feel that their managers are unskilled at discussing their performance and ineffective at coaching them on how to develop their skills.

Moreover, Kikoski (1999) as cited by Aguinis (2009) despite of its importance in performance management, the appraisal meeting is often regarded as the “Achilles’ heel of the entire process”. This is because many managers are uncomfortable providing performance feedback, particularly when performance is deficient.

2.4.6. PERFORMANCE RENEWAL AND RE-CONTRACTING

Performance renewal and re-contacting is the final stage of the performance management process. As Aguinis (2009) stated that this stage is similar or identical to the performance planning stage of the process and the main difference is that the renewal and re-contracting stage uses the insights and information gained from the other phases.

2.5 PURPOSES OF PERFORMANCE MANAGEMENT SYSTEM

Performance management system can serves different purposes according to an organization’s needs in which the result of the system will be utilized.

Performance management systems can be a basis for pay decisions, promotion decisions, employee development and reductions in force. In general since there is no one type of system or set of objectives that is best suited for all organizations, the purposes for a given performance management system should be determined by considering business needs, organizational culture and the system’s integration with other human resource management systems. (Eliane 2004)

Performance management system can serve the following six important purposes according to (cf. Cleveland & Murphy (1989) as cited by Aguinis 2009) and these are:

2.5.1. STRATEGIC PURPOSE

Performance management system can reinforce behaviours consistent with the attainment of organizational goals by linking the organization's goal with department, team and individual goals. Moreover, linking individual goals with organizational goals serves as a way to communicate what are the most crucial business strategic initiatives. By doing so, organizations can use their PMS as means of communicating their employees about the organization's strategic objectives.

2.5.2. ADMINISTRATIVE PURPOSE

The other important purpose that performance management system can yield is administrative purpose. Such administrative decisions include salary adjustments, promotions, employee retention or termination, recognition of superior individual performance, identification of poor performers, layoffs, and merit increases since PMS is a source of valid and useful information for making decisions about employees. In other words, the implementation of reward systems based on information provided by the performance management system falls within the administrative purpose. If an organization does not have a good performance management system in place, administrative decisions are more likely to be based on personal preferences, politics, and otherwise biased decisions. Having a good system in place is particularly relevant for the implementation of contingent pay (CP) plans, also called pay-for-performance.

2.5.3. COMMUNICATION PURPOSE

Performance management system can be an excellent communication device. Employees are informed about how well they are doing and receive information on specific areas that may need to be improved by practicing an ongoing basis of feedback system both from supervisors and colleagues. Moreover, performance management systems are also a medium to communicate the organization's and the supervisor's expectations and what aspects of work the supervisor /management/ believes are most important as it is discussed earlier in the strategic purpose of the system.

2.5.4. DEVELOPMENTAL PURPOSE

An important component of a well -implemented performance management system is feedback. Managers can use feedback to coach employees and improve performance on an ongoing basis. The developmental purpose includes to both short-term and long-term aspects of development. In the short-term, feedback allows for the identification of strengths and weaknesses as well as the causes for performance deficiencies (which could be due to individual, group, or contextual factors). And also it is useful only to the extent that remedial action is taken and concrete steps are implemented to remedy any deficiencies (Aguinis & Kraiger, 2009). In the long-term, its purpose is that employees receive information about themselves that can help them individualize their career paths.

2.5.5. ORGANIZATIONAL MAINTENANCE PURPOSE

Organizational maintenance of purpose of performance management system has two major aspects. The first one is Performance management systems are the primary means through which accurate talent inventories can be assembled. That means, a well implemented performance management system can have work related information like skills, abilities, promotional potential, and assignment histories of current employees and this helps the organization to know what kind of talent the organization currently available. The second aspect of organizational maintenance purposes served by performance management systems include assessing future training needs, evaluating performance achievements at the organizational level, and evaluating the effectiveness of HRM interventions (for example, whether employees perform at higher levels after participating in a training program) and also what extra activities should the organization place /practice/ in order to upgrade the existing talent and none of these activities can be conducted effectively in the absence of a good performance management system.

2.5.6. DOCUMENTATION PURPOSE

Documentation purpose of performance management systems allows managers and supervisors to make important administrative decisions. Additionally, the organization can use the documents in the case of litigation.

Moreover, according to Miller (2006) as cited by Barbara A. and Dr. Eleanor M. (2008) a thorough and complete performance management system would include attracting the right employees, retaining

those employees, performance planning, performance assessment, motivating and/or creating conditions that motivate, offering feedback and reviewing performance which generate increased profit, higher service levels to the employer and also increase the motivation of the employee too.

2.6 PERFORMANCE MANAGEMENT BEST PRACTICES

Performance management system to be successful and to produce the results and to live up to its promise in terms individual, team and organizational performance, the system must meet some features. James W. Smither and Manuel London (ed.) (2009) argue that even though practical constraints may not allow for the implementation of the following features, the more these features that are incorporated in the system the more likely to allow a performance management system to be successful. According to him these features /characteristics/ are:-

- ❖ **Strategic congruence** – the system should align individual and team goals with the goals of a given unit and the organization at large.
- ❖ **Thoroughness**- the system should include following four dimensions in order to be the system thorough and these are: First, all employees should be evaluated (including managers). Second, it should include all major job responsibilities to be evaluated. Third, the evaluation should include performance spanning the entire review period, and finally, feedback should be given both on positive and negative / those that are in need of improvement/.
- ❖ **Practicality**- the system should not be too expensive, time-consuming, and complicated. And also the benefits of using the system must be seen as outweighing the costs.
- ❖ **Meaningfulness**- meaningfulness of the system can be expressed in several ways. These are: - the system must consider important standards and relevant information for each job functions, performance assessment must emphasize only those functions under the control of the employee, evaluation must takes place at a regular interval and moments, it should provide for the continuing skill development of evaluators and the result should be applicable to administrative decisions.
- ❖ **Specificity**- a good system 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.*** A good performance management system should provide information that allows for the identification of effective and ineffective behaviors and results. Moreover, it should also allow for the identification of employees displaying various levels of performance effectiveness.
- ❖ ***Reliability*** – a performance management system in order to be said reliable, it should embrace measures of performance that are consistent and free of error.
- ❖ ***Validity***- a good system should include all relevant performance facets (include all critical performance facets) and do not include irrelevant performance facets (do not include factors outside of the control of the employee or factors unrelated to performance).
- ❖ ***Acceptability and fairness*** – even though perceptions of fairness are subjective the only way to know whether a system is seen as fair is to ask the participants about distributive and procedural justice. Distributive justice is perceptions of the performance evaluation received relative to the work performed, and perceptions of the rewards received relative to the evaluation received. Procedural justice is perceptions of the procedures used to determine the ratings as well as the procedures used to link ratings with rewards. Since both perceptions may lead to adverse effect if they are not perceived positively and one way to improve both distributive and procedural justice is to set clear rules that are applied consistently by all supervisors.
- ❖ ***Inclusiveness*** – inclusiveness of a good system is measured by whether all concerned parties have a voice in the process of designing and implementing the system. In short, the system should include input from multiple sources on an ongoing basis.
- ❖ ***Openness*** – a good system provides employees to have clear understanding of the essence of the system and also it increases their belief towards the system. This can be gained through: first, performance is evaluated frequently and performance feedback is provided on an ongoing basis. 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*** - 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** - This means that performance is evaluated consistently across people and time. In order to achieve this goal, the ongoing training of the individuals in charge of appraisals, usually managers, is a must.
- ❖ **Ethicality** – a good system should comply with ethical standards. Operationally, this means the supervisor evaluates only performance dimensions for which she has sufficient information, and the privacy of the employee is respected (cf. Eddy, Stone, & Stone - Romero, 1999 as cited by James W. Smither and Manuel London (ed.) 2009).

2.7 COMMON CHALLENGES OF PERFORMANCE MANAGEMENT SYSTEM

There are many challenges are discussed by different scholars regarding why effective employee performance is not obtained. But in this section challenges discussed by Ogutu Miruka is presented as follows, as it is believed that it will summarize the analysis given on the topic by different scholars in different times.

Ogutu (2014) states that the most commonly cited challenges of implementing PMS as follows:

- **Senior and Line Management Commitment:** The most critical performance management implementation challenges are related to poor executive engagement and execution. It is utterly useless to have a well-developed PMS without commitment from the management team.
- **Lack of Knowledge and Skill:** the weakness in a performance management system arise primarily because the PMS is poorly designed or training on the PMS has not transferred into the organization to support its implementation. Moreover, he states that Regular rather than a once off communication should be driven from the highest offices and supported by the communications department using every possible vehicle within the organization's communication infrastructure.
- **Resistance to Change:** implementing a PMS, which makes performance of everybody in the organization much more transparent, can cause resistance amongst organizational members. Various authors acknowledge resistance in any change initiative as a normal human behavior

that must be overcome for the PMS initiative to succeed. The most critical and frequently experienced challenge in the development, implementation and maintenance of PMS within organizations is probably organizational culture.

- **Evaluating Performance:** Traditionally, performance evaluations are an annual or semi-annual event that at times can be seen by employees as routine and insignificant. Evaluating performance competencies is usually the most difficult part of performance management. Line managers are generally less comfortable discussing and giving feedback on behaviors, and because they are more subjective and less quantifiable than objectives, as a result managers tend to avoid this area.
- **Linking Job Descriptions to Performance Management:** the tasks and key result indicators (KRI) included in individual job descriptions must be congruent with the organization and unit's strategic plans. In other words, job descriptions should include activities that, if executed well, will help fulfill the mission and vision. Job descriptions detached from strategic priorities will lead to performance evaluations focused on behaviors and results that are not central to an organization's success. Hence, having direct links between job descriptions and individual performance plans and appraisals is very critical. However, the most common challenge is keeping job descriptions up to date.

2.8 RESULTS OF EMPIRICAL STUDIES

It is seen in the detailed literature research that organizations implement PMS for various reasons or purposes but the general purpose is to increase the performance of the organization by establishing 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. However, organizations encountered various challenges while implementing the system.

Ogutu Miruka (2014) carried out a research related to implementation challenges encountered during the implementation of PMS with selected 24 participants for the 4 focus groups. According to findings, among the various challenges identified, failure from the management to start with change

management process and training of employees prior to implementation of the system are the major hindrance regarding successful implementation of PMS.

Migiro S. O. and Taderera M. M. (2010) carried out an empirical research with regard to the subject matter (PAS) in banking industry and result indicate that the system is used to identify employees for promotion and to decide on salary awards. However, it was also found out that the reward outcomes did not always show a positive reflection of the performance appraisal outcomes, and that the system was not consistent. Moreover, training for the employees and the evaluators, transparency in the implementation of the system, provision of continuous feedback to employees on their performance, reduction of inconsistency in the system needs to be addressed for the Bank's performance appraisal system to be effective.

A comparative empirical study carried by (Mesfin Berhanu, 2013) regarding the prevailing features of PMS of the Ethiopian banking industry (comparing private and state owned banks). According to his findings, some of the banks try to implement the Balanced Score Card (BSC) however, implementation gap was observed and lack of management commitment is the root case.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1. RESEARCH DESIGN

The overall purpose of the study is to get a higher degree of understanding of the practice and challenges of performance management system. Accordingly, this study employ mixed approach, by which both qualitative and quantitative methodologies are used; both numerical and non numerical data are gathered from managers and professionals or experts working in the selected private commercial banks of Ethiopia.

By using quantitative method, it is easier to analyse the data and come up with the findings. On the other hand, since qualitative research is fundamentally interpretative, this approach is the most appropriate for serving the purpose of this research. Moreover, it is preferable to use a method that makes it possible to understand, describe, and discover meaning as at the same time as it is flexible and evolving method, (Creswell, 2003).

Moreover, by quoting Stake (1995), Creswell (2003) further state that case study research explores in depth a program, and event, and activity, a process, or one or more individuals. Hence, this study is a case study, by which it explores in depth about the practice and challenges of performance management system, using variety of data collection procedures as stated below.

3.2. SAMPLING

According to National Bank of Ethiopia, currently there are sixteen privately owned commercial banks in the country. The student researcher made an effort to include private banks that entered to the industry at various periods so that it would be more representative.

Those banks who have joined the industry in the last five years are excluded because the student researcher believed that these banks have less experience in the industry regarding performance management system, they benchmark much from those banks which have stayed longer and it would take some time, even, to experience the system. The major reason the student researcher has only included private banks is that, they operate under the same environment and have the same motive that is profit maximization.

The researcher has requested seven private banks and has got a positive response from four of them. These banks are selected purposively based on their entry to the industry and number of staff they have as compared to those banks who have stayed long in the industry (BOA-1906G.C,-3,076; WB-1997G.C,-2,924; NIB-1999G.C,-2,428; CBO-2004G.C,-1,698;). This was followed by selecting the concerned HR department officers since they are the focus of the study, and all other department managers since they are direct implementers of the system. Moreover, the study also incorporate main branch managers and senior officers of the selected banks since they are the highest grade branches of all banks due to this more attention is given to them with regard to resources, materials and also they have large number of staffs compared to other branches of their respective bank and this is used as a sampling unit for the study.

Then the numbers of employees who are working in the selected departments and main branches of the case banks are used as a target population (i.e. total of 201 employees). This information is obtained from the HR departments of the respective banks. Based on this, a sample of 132 employees are included in the study which is believed that it represents the total population.

The formula used for the calculation is:

$$n = \frac{X^2 * N * P * (1-P)}{(ME^2 * (N-1)) + (X^2 * P * (1-P))}$$

Where :

n = sample size

X² = Chi – square for the specified confidence level at 1 degree of freedom

N = Population Size

P = population proportion (.50 in this table)

ME = desired Margin of Error (expressed as a proportion)

Source <http://www.research-advisors.com/tools/SampleSize.html>,

Then using each bank as a stratum the number of respondents from each bank is determined by the ratio of the number of employees at each bank in the sample frame to the number of the total sampling frame. The same procedure utilized at department and branch level. The following table explains clearly how the sample size is reached look at the table below.

Table 3.1: Sample size determination table

Dep'ts	BOA		CBO		NIB		WB	
	No. of staff	Sample	No. of staff	Sample	No. of staff	Sample	No. of staff	Sample
DD & DM	15	14	13	13	14	14	12	12
HRM	13	13	13	13	11	11	19	18
Branch								
MB	20	19	28	26	25	24	26	24

(DD&DM- Department Directors & Department Managers; MB- Main Branch)

Then after, simple random sampling is used to distribute the survey questionnaires to acquire respondents' perception towards the PMS practices, the purposes of PMS being used and the challenges being faced by the case banks while managing employees' performance. Random sampling is considered because the more randomly selected are the sample respondents, the more they are representative of the target population. This will also help ensure replicability of the research because if another researcher conducts the same research on the same population, he/she must be able to identify the sampling method which is free from the current researcher's possible bias.

3.3. SOURCE & INSTRUMENTS OF DATA COLLECTION

It is considered to be of importance that using different information gathering techniques or methods, since there is no single source of information that can provide a comprehensive and complete perspective on the study.

Based on this, this research used both primary and secondary data. Primary data is gathered through interview and questionnaire. The interview and questionnaire are designed with both open-ended questions and close-ended (with 5 point likert-scale ranging from 1-strongly disagree to 5-strongly agree) respectively. The data gathered through interview will be helpful in order to get in-depth data, at the same time; help in order to support those data gathered using questionnaire. The questionnaire, on its part, consists of questions which focus on the practices and challenges of performance

management practice and for what purpose performance management system is being used in the Ethiopian private commercial banks in particular and the concept in general.

In addition, at the end of the questionnaire respondents are invited to give their opinion on the subject under study, performance management system. This was believed to make comparison of the overall response to the questionnaire and the respondents' general feeling. Moreover, an interview was made with concerned officials (HR Department Directors or Department Managers) of the HR departments of the banks under the study. The interview questions which are semi-structured will be extracted from the literature review and will be designed to address issues related to the practice and challenges of performance management in Ethiopian private commercial banks and this was believed to help the student researcher to find out the practice and challenges of performance management system and to make comparison of the questionnaire respondents and the opinion of interviewee.

Moreover, in order to fill the purpose of this study, in addition to the primary sources gathered through the above stated methods, secondary sources also be used. The secondary data are collected from reputable journals, articles, research publications, books and from various documents including internet and company reports, as well as unpublished materials which the student researcher believed important.

3.4. PROCEDURES OF DATA COLLECTION

Most of the data used in this study are collected through questionnaire and interview. The questionnaire was distributed to the HRM department managers and officers, all other department managers and branch managers and senior officers of main branch of the selected banks.

The data collection also be made in person. For the research participants (respondents) who need clarification on the questionnaire face-to-face and telephone briefings were made as required.

3.5. METHODS OF DATA ANALYSIS

The collected data was analysed by using descriptive statistics. The numerical data in the study was analysed with the use of statistical software SPSS V20.

Descriptive statistics such as percentage, frequency and measures of central tendency (mean, standard deviation, & skewness) are used to summarize the responses. Tables, charts, and histograms are used to increase understanding and facilitate easy comparison of the analysed data. The responses are treated as ordinal level of data since the Likert scale is a label given for respondents" to express their level of agreement for each item among the scales. With regard to data collected through interview, content analysis is also employed to analyse the data.

3.6. ETHICAL CONSIDERATION

The ethical issues are also considered in the study: informed consent (by informing the respondents regarding the background of the study, including the importance of the data to be gathered from them) and issues of confidentiality (by ensuring the respondents that all of the information in this study will solely used for academic purposes only).

In addition, the student researcher also make sure that all of the responses from the sample are given merit, whether the student researcher agree or not to their individual responses. The student researcher will not disclose any personal information of the respondents, which had been explained in the questionnaire and interview directly to the respondents. The student researcher also pledge about these ethical principles towards all selected banks for this study.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This section deals with the analysis and interpretation of data collected from the survey questionnaire, interview and data collected from the banks under this study. Responses for the measures on the questionnaire are summarized and presented using tables, graphs and charts to facilitate easy understanding. The findings were reviewed by considering the different topic areas covered in the literature part of this study and the questions included in the questionnaire and interview.

Of the 132 questionnaires distributed, 114 filled questionnaires were collected representing around 86% response rate, of which, three of the returned questionnaires responses were not usable because, they were not filled properly. Therefore, the researcher has excluded these responses lowering the number of filled questionnaire to 112 which gives a response rate of 84.84%.

4.1. DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS

In this section the demography of respondents is presented. It includes gender, age, educational status, work experience and job category in line with the name of the banks in which the respondents are working.

Table 4.1 Demographic Characteristics of Respondents

S.N	Variables	Type	Name of the bank in which respondents are working								Total	
			NIB		WB		BOA		CBO			
			Freq	%	Freq.	%	Freq	%	Freq	%	Freq	%
1	Gender	Male	20	60.61	17	65.38	15	62.50	21	72.41	73	65.18
		Female	13	39.39	9	34.62	9	37.50	8	27.59	39	34.82
		Total	33	29.46	26	23.21	24	21.43	29	25.89	112	100.00
2	Age	20 yrs - 30 yrs	21	63.64	9	34.62	12	50.00	12	41.38	54	48.21
		31 yrs - 40 yrs	9	27.27	14	53.85	9	37.50	15	51.72	47	41.96
		41 yrs - 50 yrs	2	6.06	3	11.54	3	12.50	2	6.90	10	8.93
		51yrs – 60 yrs	1	3.03	0	0.00	0	0.00	0	0.00	1	0.89
Total			33	29.46	26	23.21	24	21.43	29	25.89	112	100.00

S.N	Variables	Type	Name of the bank in which respondents are working								Total	
			NIB		WB		BOA		CBO			
			Freq	%	Freq.	%	Freq	%	Freq	%	Freq	%
3	Level of Education	Diploma	0	0.00	0	0.00	2	8.33	0	0.00	2	1.79
		BA Degree	28	84.85	25	96.15	17	70.83	21	72.41	91	81.25
		Masters Degree and above	5	15.15	1	3.85	5	20.83	8	27.59	19	16.96
Total			33	29.46	26	23.21	24	21.43	29	25.89	112	100.00
4	Job Category	Manager &/ Supervisor	16	48.48	9	34.62	9	37.50	11	37.93	45	40.18
		Senior Officer	11	33.33	10	38.46	9	37.50	9	31.03	39	34.82
		Officer	6	18.18	7	26.92	6	25.00	9	31.03	28	25.00
Total			33	29.46	26	23.21	24	21.43	29	25.89	112	100.00
5	Work Experience	1 Yr - 2 Yrs	11	33.33	8	30.77	3	12.50	4	13.79	26	23.21
		3 Yrs - 4 Yrs	9	27.27	2	7.69	5	20.83	4	13.79	20	17.86
		5 Yrs - 6 Yrs	7	21.21	5	19.23	2	8.33	11	37.93	25	22.32
		7 Yrs - 8 Yrs	3	9.09	4	15.38	7	29.17	6	20.69	20	17.86
		9 Yrs - 10 Yrs	2	6.06	4	15.38	7	29.17	3	10.34	16	14.29
		More than 10 Yrs	1	3.03	3	11.54	0	0.00	1	3.45	5	4.46
Total			33	29.46	26	23.21	24	21.43	29	25.89	112	100.00

Source: Survey Questionnaire 2015

4.1.1 EDUCATIONAL QUALIFICATION OF RESPONDENTS

The above table (Table 4.1) shows that 2 respondents (1.79%) are Diploma holders, 91 respondents (81.25%) have a Bachelor degree and 19 respondents (16.96%) have Masters degree and above. This shows that majority of the respondents are educated to a level of Bachelor degree which may be due to the fact that the target population of the study does include those who are working in officer and above positions that means it doesn't include those who are working in junior and secretarial and non-clerical positions. The other reason as to why most of the respondents have Bachelor Degree could be that those banks under this study covers educational fee for their employees only to the level of first degree.

4.1.2. JOB CATEGORY AND WORK EXPERIENCE OF RESPONDENTS

With regard to job category of respondents, 40.18% are working at managerial and supervisory level, 34.82% are at senior positions and 25% are at officer level. From this it can be noted that proportionate number of respondents have participated in the study from each job category. When looking at the tenure of respondents, 23.21% of the respondents have 1-2 years of experience, 58.04 % of the respondents have 3-8 years of experience and this indicates that the respondents information is reliable to this study since they have rich experience as shown in the above table.

4.2. DESCRIPTIVE ANALYSIS OF RESPONSES ON THE PRACTICES AND CHALLENGES OF PERFORMANCE MANAGEMENT SYSTEM

In order to see the general perception of the respondents regarding practices and challenges of performance management system in the selected Ethiopian private commercial banks, the researcher has included the measures stated in the following tables and followed by analysis & interpretation supplemented using frequency tables, percentage, bar charts & histograms.

In order to simplify interpretation of the results, ratings of agree & strongly agree are grouped as agreement and ratings of disagree & strongly disagree are grouped as disagreement.

4.2.1 PERFORMANCE APPRAISAL VS PERFORMANCE MANAGEMENT

In order to analyze the respondent's perception with regard to the differences between performance appraisal and performance management, respondents were presented with items listed in table 4.2. Accordingly, 78 (69.7%) of respondents have agreed that performance appraisal is practiced in the Ethiopian private commercial banks. However, 20.5% of respondents disagreed with the idea and 9.8% of the respondents are indifferent to the idea.

This indicates that there is a formal performance appraisal practice in the Ethiopian private commercial banks. In addition to this, during an interview session with HR department Directors and Managers of the banks, they have stated as every employee of the banks go through the appraisal process every six months of the fiscal year.

Table 4.2 Respondents' perception on Performance Appraisal vs Performance Management

Descriptions	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
I receive formal appraisal twice a year	11	9.8	12	10.7	11	9.8	35	31.3	43	38.4
I receive continuous assessment	32	28.6	49	43.8	14	12.5	9	8.0	8	7.1
The appraisal I receive focuses on my past performance	3	2.7	7	6.3	8	7.1	53	47.3	41	36.6
The appraisal I receive incorporates my development needs	37	33.3	43	38.4	4	3.6	16	14.3	12	10.7

Mean: 3.25

Source: Survey Questionnaire 2015

Continuous evaluation and on-going feedback are central to have an effective performance management system (Gilmore, *et al*, 2009). In view of this, respondents were asked whether they have received a continuous performance assessment and 17 (15.1%) respondents agreed and 14 (12.5%) were neutral about it whereas 81 (72.4%) respondents disagree that they receive performance assessment on continual basis. This indicates that even if every employee of the banks was appraised twice a year, there is a lack of continuous assessment on how they are performing their job and this may be the case that managers and supervisors think that performance management is a time taking process and the other reason could be most of their attention is on daily routine banking operational service. Moreover, lack of continuous assessment bear consecutive negative impact on the assessment and review phases of the performance management process.

Similarly, 94 (83.9%) respondents believe that the performance appraisal system focuses on past performance and 8 (7.1%) were neutral about it whereas 10 (9.0%) respondents disagree that the system focuses on past performance only. The reason why the system focuses only on past performance could be the initial orientation of the system which gives more focus to monitoring aspect instead of future developmental orientation of employees.

Fig 4.1 Histogram of respondents' perception on formal appraisal

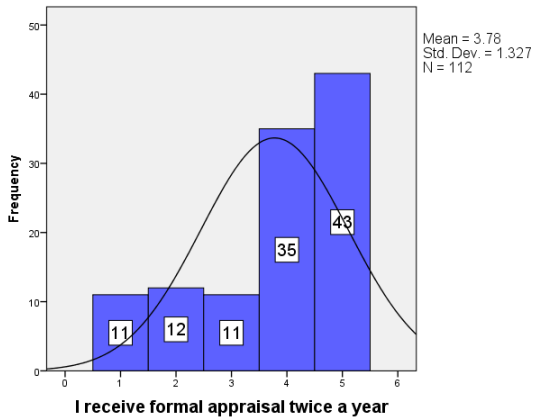
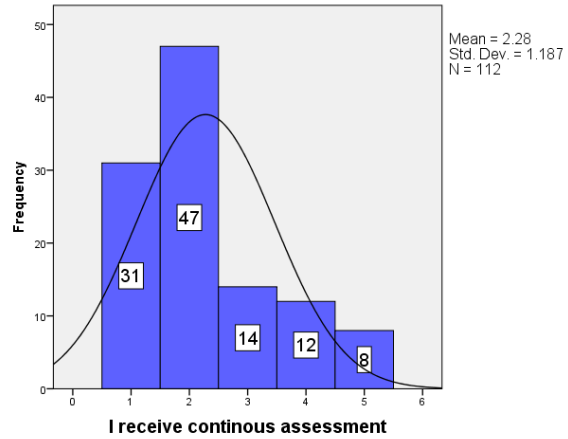


Fig 4.2 Histogram of respondents' perception on continuous assessment



Source: Survey Questionnaire 2015

Similarly, 94 (83.9%) respondents believe that the performance appraisal system focuses on past performance and 8 (7.1%) were neutral about it whereas 10 (9.0%) respondents disagree that the system focuses on past performance only. The reason why the system focuses only on past performance could be the initial orientation of the system which gives more focus to monitoring aspect instead of future developmental orientation of employees.

In addition, respondents were asked about whether the system incorporates future individual developmental areas 80 (71.7%) respondents disagreed that the system integrates further developmental needs while 4 (3.6%) of the respondents were neutral to judge and 28 (25.0%) agreed that the system reflects area that need future developments. Since majority of the response is a disagreement which implies that the system lacks on indicating future developmental areas of employees.

4.2.2 PERFORMANCE MANAGEMENT PROCESS - PRE-REQUISITE

Identification of performance Pre-requisite is the first step in the implementation of performance management system which requires having knowledge of the organization's mission and strategic goals and understanding of the job in question. In this regard, respondents were presented six

questions listed and analyzed as in table 4.3 below, 94 (84%) of the respondents agreed that they have clear knowledge about the mission, strategic goals and objectives their organizations.

Table 4.3 Respondents’ perception regarding Pre-requisites

Descriptions	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
I clearly know my organization’s mission and strategic goals	2	1.8	6	5.4	10	8.9	47	42.0	47	42.0
My objectives support the overall mission, strategic goals and objectives of my organization	1	0.9	3	2.7	18	16.1	46	41.1	44	39.3
I have a clear understanding of how my job is related to the overall goals of my firm	51	45.5	36	32.1	2	1.8	12	10.7	11	9.8
My duties and job responsibilities are clearly defined to my understanding	1	0.9	5	4.5	27	24.1	49	43.8	30	26.8
I have a clear knowledge about the job I do	0	0.0	3	2.7	4	3.6	41	36.6	64	57.1
I have autonomy over the way I perform my work	27	24.1	68	60.7	5	4.5	9	8.0	3	2.7

Mean: 3.47

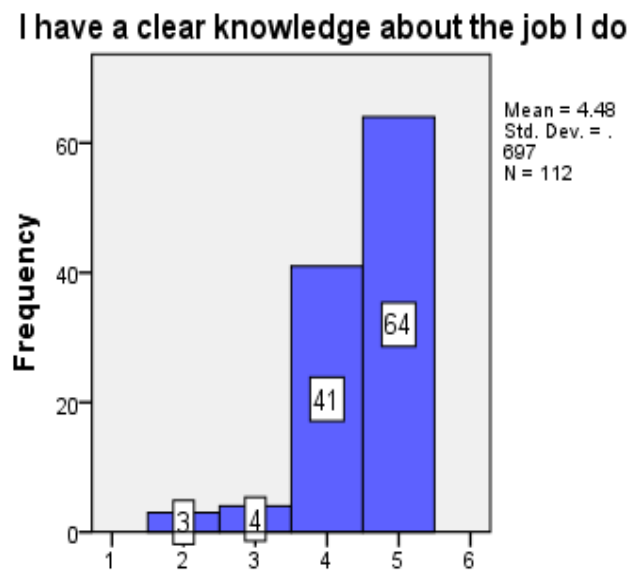
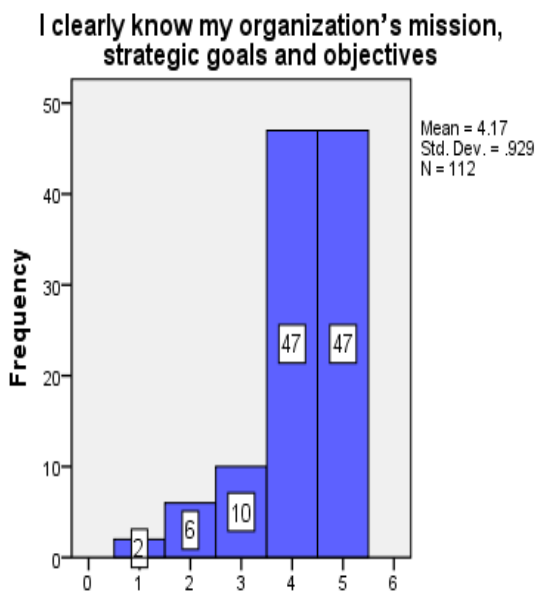
Source: Survey Questionnaire 2015

However, 4 (3.6%) of respondents disagreed to the idea and 10 (8.9%) of the respondents are indifferent to the idea. This indicates that even though the number of respondents who were neutral is insignificant, it may indicate that there is still some gap and this may arise due to continuous amendments of organizational goals and objectives and lack of communication for the changes made. A question was forwarded in order to assess individual objectives complements to the organizations objectives, 90 (80.4%) respondents agreed that their objectives are in line with the overall objectives of the organization 4 (3.6%) disagreed and 18 (16.1%) were neutral to the measurement. Since majority of the respondents agreed on this measure, it can be inferred that individual objectives support the mission, strategic goals and objectives of the case banks. On the contrary, the vast majority

of respondents i.e, 87 (77.6%) disagree to the statement “I have a clear understanding of how my job is related to the overall goals of my firm” and 2 (1.8%) neutral where as 18 (16.1%) disagreed to the measurement. From this it can be noted that respondents do not have knowledge on this measure. This might be because the goal setting process does not involve employees’ active participation or lack of orientation of managers and/or supervisors on how their job is aligned with the strategic goals of the organization.

Fig 4.3 Histogram of respondents’ perception on knowledge of the organization

Fig 4.4 Histogram of respondents’ perception on knowledge of the job



Source: Survey Questionnaire 2015

4.2.3 PERFORMANCE MANAGEMENT PROCESS- PERFORMANCE PLANNING

Performance planning is a stage at which the supervisor and the employee meet to discuss and agree on performance related issues. At this stage the basic objective is to clarify the organization’s performance management objectives and producing performance agreements that will be measured in subsequent stages of the system and let employees to have a thorough knowledge of the system.

Clarity in performance expectation is a significant stimulus for high work performance (Armstrong, 2006). In relation to this, 17 (15.2%) respondents strongly agree that they have a clear understanding

of what they are expected to do in their role and 50 (44.6) respondents agree with the same question which gives a cumulative agreement of 67 (59.8%) agreement while 31 (28.5%) respondents disagree with the remaining 11.6% being neutral on the clarity of expectation. This depicts that employees know what is being more valued while performing their job.

As presented on table 4.4 below, 72 (64.3%) respondents disagreed that the objective of the performance management system is described for them and 28 (25.1%) respondents agreed, the remaining 12 (10.7) being neutral. This is may be an indication that HR and line managers do not give orientation to employees towards the overall purpose and objective of the system as well as unavailability of a formal PMS document that can be used as a reference as required. Regarding goal setting process, 50 (44.7%) respondents disagreed that they set goals with their supervisors on the other hand 36 (32.1%) agree on this measure while 26 (23.2%) of the respondents were neutral to judge. This depicts that a significant number of respondents have fallen to the disagreement and neutral side and from this it can be concluded that employees and supervisors reach into an agreement on already set goals instead of setting goals together.

Table 4.4 Respondents' perception regarding Performance Planning

Descriptions	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
My organization's performance management objectives are described to me	28	25.0	44	39.3	12	10.7	21	18.8	7	6.3
Me and my supervisor set goals together	17	15.2	33	29.5	26	23.2	28	25.0	8	7.1
My supervisor gives me a chance to participate in performance planning (agreed on my job goals, objectives and measurement standards)	34	30.4	49	43.8	8	7.1	11	9.8	10	8.9
My supervisor clearly explains to me what he/she expects from my performance.	8	7.1	24	21.4	13	11.6	50	44.6	17	15.2
I reach an agreement with my supervisor on how performance will be measured.	34	30.4	43	38.4	12	10.7	13	11.6	10	8.9
My supervisor explains to me the standards that are used to evaluate my work	44	39.3	48	42.9	6	5.4	13	11.6	1	0.9

Mean: 2.51

Source: Survey Questionnaire 2015

Concerning reaching an agreement with supervisor on how performance is measured, 78 (68.8%) respondents disagreed, 12 (10.7%) being neutral to this measure while 23 (20.5%) respondents expressed their disagreement. Moreover, in order to check whether supervisors provide explanation and clarification on the standards used to evaluate performance on later stages of PMS, 92 (82.2%) of the respondents disagreed, 11 (20.6%) disagreed and only 6 (5.4%) respondents were neutral which shows they are unsure about performance evaluation standards. In both measures majority of respondents disagreed so taking these figures the banks must work hard on how to make the performance system clear and transparent to employees since it is the best way of differentiating and recognizing best performers and identifying the gap and providing training to under performers too. In addition to this making performance measures and standards clear it brings down the level of disputes and conflict during performance review stage.

4.2.4 PERFORMANCE MANAGEMENT PROCESS- PERFORMANCE ASSESSMENT

Performance assessment phase is the stage where both parties (employee and supervisor) should take their part regarding whether performance (result) is on the right track with the desired level of behavior. It is important that both the employee and the manager take ownership of the assessment process. In order to analyze the respondent's perception to this stage of the process, respondents were presented with items listed in table 4.5. Accordingly, as it is described in table 4.4 the result depicted regarding reaching an agreement (employees and supervisors) on performance measure has its own implication on the measure regarding "*my performance is measured based on the agreement I reached with my supervisor*". In this regard 87 (77.6%) of respondents disagree on the measure of performance, 19 (17%) agreed and only 6 (5.4%) are indifferent to the idea.

However, 53 (47.3%) respondents indicated their agreement that the performance assessment covers important attributes regarding the job they perform, 32 (28.6%) of the respondents neutral and the remaining 24% of the respondents were disagreed. From this it can be noted that even though majority of the respondents agreed on the measure, on the other hand the cumulative figure of the respondents has fallen to disagreement and neutral is 52.6%. This number is substantial and this is may be the reason that job descriptions are not updated in line with as changes made in the strategic goals.

On the subject of performance rating standards, 69 (61.6%) of the respondents believes that performance rating is standard to all employees. From this it can be noted that a standard performance rating is practiced in the Ethiopian private commercial banks since majority of the respondents agreed on the subject matter.

Table 4.5 Respondents' perception regarding Performance Assessment

Descriptions	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
My performance is measured based on the agreement I reached with my supervisor	36	32.1	51	45.5	6	5.4	13	11.6	6	5.4
My performance assessment covered those issues which were very important in performing my job.	7	6.3	20	17.9	32	28.6	45	40.2	8	7.1
There is performance rating standards for all employees.	6	5.4	14	12.5	23	20.5	43	38.4	26	23.2
My performance rating is based on how well I do my job	5	4.5	20	17.9	32	28.6	43	38.4	12	10.7
I am given a chance to assess my performance	40	35.7	43	38.4	6	5.4	14	12.5	9	8.0
Assessments of my performance are consistent, fair & unbiased.	12	10.7	18	16.1	36	32.1	40	35.7	6	5.4

Mean: 2.93

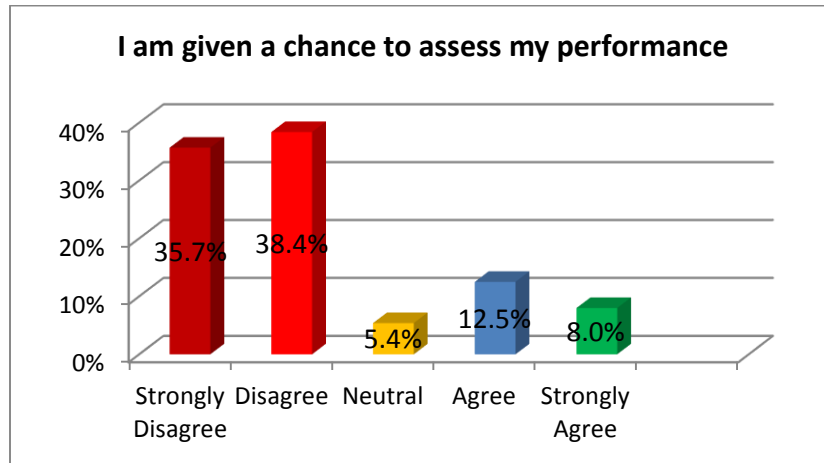
Source: Survey Questionnaire 2015

In the same token, respondents were also asked to rate whether they have given a chance to assess their performance and 55 (49.1%) respondents agreed that they were given the chance to assess their performance by themselves while 25 (22.4%) respondents expressed their disagreement and the remaining respondents being neutral as shown in Fig. 4.5

Lastly, regarding performance assessment respondents were requested to rate their perception towards the consistency, fairness and unbiasedness of performance assessment and 46 (41.1%) respondents agreed that they feel the assessment is fair and consistent. However around 60% are either neutral or

don't perceive it to be fair. Therefore, fairness among employees needs to be ensured to further enhance organizational goal achievement.

Fig 4.6 Bar Chart of respondents' perception on performance assessment



Source: Survey Questionnaire 2015

4.2.5 PERFORMANCE MANAGEMENT PROCESS- PERFORMANCE REVIEW

The review stage of the performance management cycle is a formal meeting of both parties (i.e the employee and supervisor) to discuss their respective self-assessment made in the performance assessment phase of the performance management process. This phase covers achievements, growth and difficulties requiring revision upon performance agreement and personal development plan. As presented on table 4.6 below, 45 (67%) respondents disagreed that during the review process, two way communication were not encouraged and 19 (25.9%) agree towards this measure where as only 8 (7.1%) being neutral. Here it can be noted that much of the discussion time was taken by appraisers than the appraisee and taking this into account, two way communication is not practiced well in Ethiopian private commercial banks.

The other critical aspect is the discussion of employee's personal development and future plan and towards this, majority of the respondents 87 (77.7%) disagreed that such issues were not discussed in the performance review session. This may be exhibited because the focus of performance appraisal system in Ethiopian private commercial banks is a backward looking system as discussed at the beginning of the analysis section. The other measure forwarded for the respondents were the appealing

process in place for those who are not satisfied with the rating and 54 (48.2%) agreed that there is a clear appealing process in place and only 21% of the respondents disagreed. However a significant number were depicted as being neutral 34 (30.4%). This may indicate that those who aren't satisfied by the rating may not have an idea on what step to follow or how to renegotiate to bring change on the ratings and moreover they may feel that they will be coerced by their supervisors afterwards if they appeal.

Table 4.6 Respondents' perception regarding Performance Review

Descriptions	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Performance review is a two-way process, with both manager & employee expressing their views	32	28.6	43	38.4	8	7.1	19	17.0	10	8.9
Employee's personal development and plans for future progress are discussed	34	30.4	53	47.3	9	8.0	11	9.8	5	4.5
There is an appealing process in place if I do not accept the rating.	10	8.9	14	12.5	34	30.4	41	36.6	13	11.6
The performance result I received has helped me improve my performance	13	11.6	16	14.3	28	25.0	37	33.0	18	16.1
Training Need Assessment is gathered from performance review.	40	35.7	47	42.0	9	8.0	10	8.9	6	5.4
I am not satisfied with the way my manager /supervisor conducts my performance review	10	8.9	35	31.3	33	29.5	26	23.2	8	7.1
I find it difficult to discuss work problems with my manager/supervisor	12	10.7	56	50.0	25	22.3	9	8.0	10	8.9
I have received trainings as per my performance gap and need	35	31.3	37	33.0	22	19.6	14	12.5	4	3.6
The system of performance management used here works well and does not need to change	38	33.9	54	48.2	7	6.3	8	7.1	5	4.5

Mean: 2.53

Source: Survey Questionnaire 2015

In addition, respondents were also asked to give their view on difficulty to discuss work related problem with their supervisors and 19 (16.9%) respondents feel uncomfortable to discuss work related problems. However, majority of the respondents 68 (60.8%) agreed they have no problem to discuss with their supervisors to discuss on such issues. This indicates that on this specific issue one can say that there is a good manager subordinate relationship in Ethiopian private commercial banks.

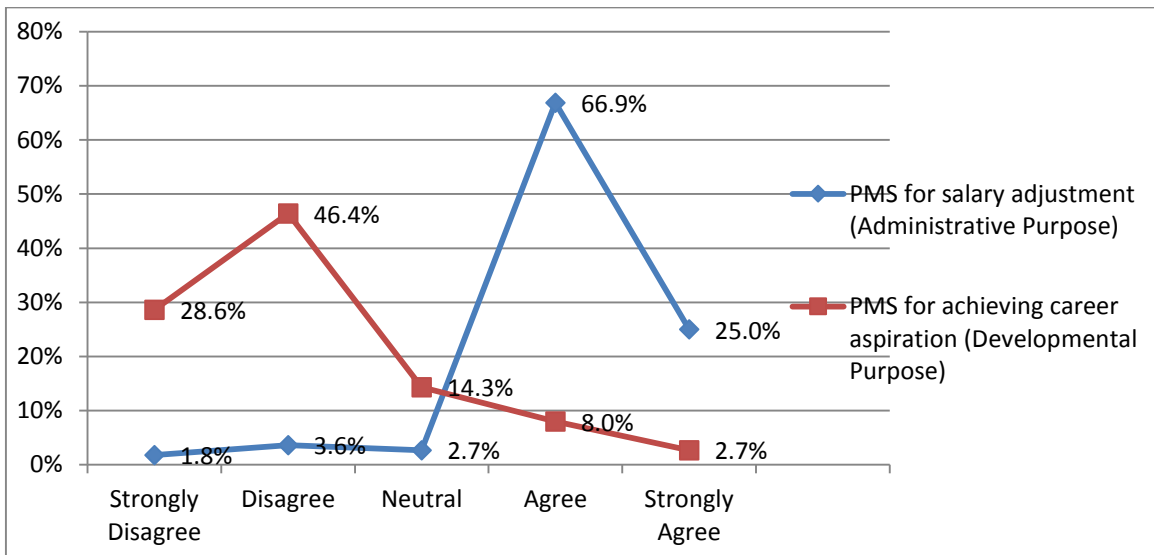
Lastly, respondents were asked to rate their feeling towards the existing system used for managing performance. In relation to this, 92 (82.1%) respondents agreed that the existing system does need change in order to be effective. This implies that the current system used for managing performance of employees in Ethiopian private commercial banks needs to be changed or adjusted to a system that is considered by fair, consistent and unbiased by employees as well as a system that dictates best performers as well as poor performers and should recognize them properly.

4.3. PURPOSES OF PERFORMANCE MANAGEMENT SYSTEM

Performance management system can serves different purposes according to an organization's needs in which the result of the system will be utilized. In this regard, respondents were asked to give their views towards what purpose performance management is being used in the Ethiopian private commercial banks. Accordingly, respondents were asked to confirm if they have observed in the organization the intention of linking the organizational objectives with team and/or individuals goals by using their active participation in the performance management process, and 17 (15.2%) respondents disagreed, 12 (10.7%) stood neutral and the remaining 83 (74.1%) agreed on the measure. Form this it can be noted that PMS facilitate individual and/or team goals to be aligned with the organizations strategic goals.

Participants were asked if the banks under this study are using the output result of PMS for administrative purposes such as salary increment and promotion and/or demotion. To this end, as shown in Fig 4.6, 103 (94.9%) and 68 (60.7) respondents agreed that PMS were applied for making salary adjustment and also influences strongly decisions related to promotion and demotion of employees respectively. In general it can be inferred from the table, majority of respondents agreed in both measures and this tells PMS is primarily used for making such administrative decisions in the Ethiopian private commercial banks.

Fig 4.7 Line Chart of Comparison of Administrative and Developmental Purposes of PMS



Source: Survey Questionnaire 2015

In addition to this, during an interview session with HR department Directors and Managers of the case banks, they have stated as the current performance management system is used largely for administrative purposes like salary adjustment based on their rating results and to see and measure employees' skills for promotion.

With regard to communication purpose of PMS, respondents were asked if performance management is used to communicate to employees performance expectations of the organization and 78 (69.6%) respondents agreed, 36 respondents (32.1%) being neutral and only 7 (6.3%) disagreed that the organization uses the system to communicate performance expectations to its employees. This is also reflected during the interview session too.

Similarly, respondents were also asked to rate developmental purposes of PMS that can be reflected by identifying performance deficiencies and performance gap, 55 (49%) respondents showed their agreement, 20 (17.9%) and remained neutral while 37 (33.1%) respondents agreed that performance management process helped them identify their performance deficiencies, gaps and areas of improvement. In addition to this, respondents were asked if performance management system supports employees for achievement of their career aspiration in the long run, and 84 (75%) respondents disagreed that they were not supported by the system to achieve their long run career aspirations, 16

(14.35%) of them stayed neutral and only the remaining 12 (11%) respondents agreed that they are benefited from the system in their pursuit of their aspired career track in the long run. This shows that the system is good in identifying performance deficiencies and gaps, however, employees do not get a clear picture & support from the system towards their career aspiration.

Table 4.7 Respondents perception on Purposes of PMS

Description	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
PMS is aimed at linking the organization's goal with department, team and individual goals. (Strategic Purpose)	7	6.3	10	8.9	12	10.7	65	58.0	18	16.1
PMS output is used for salary adjustment. (Administrative Purpose)	2	1.8	4	3.6	3	2.7	75	66.9	28	25.0
PMS output is used for promotion and/or demotion. (Administrative Purpose)	6	5.4	10	8.9	28	25.0	50	44.6	18	16.1
PMS is used to communicate performance expectations of the bank. (Communication Purpose)	2	1.8	5	4.5	36	32.1	45	40.1	33	29.5
PMS functions for identifying performance deficiencies and performance gap. (Developmental Purpose)	5	4.5	32	28.6	20	17.9	34	30.4	21	18.6
PMS facilitates employees to achieve their career aspirations in the long run. (Developmental Purpose)	32	28.6	52	46.4	16	14.3	9	8.0	3	2.7
PMS is used as a tool for succession planning in the organization. (organizational Maintenance Purpose)	37	33.0	50	44.7	15	13.4	8	7.1	2	1.8
PMS document can be used as a source to avoid litigations. (Documentation Purpose)	4	3.6	7	6.2	11	9.8	28	25.0	62	55.4

Source: Survey Questionnaire 2015

The other measure regarding purposes of performance management is organizational maintenance. In this regard, respondents were asked to express their level of agreement whether PMS is used as a tool for succession planning, 87 (77.7 %) respondents disagreed, 15 (13.4%) employees stood neutral and only 10 (7.1%) respondents agreed that performance management system is used in decision making

regarding succession planning. From this it can be said that succession planning in the Ethiopian private commercial banks is practiced at lower level or even not yet practiced.

As a final point in this subtopic, in examining the documentation purposes of performance management system, respondents were asked about the system's benefit with regard to producing formal documentations that are useful to avoid litigations, and 90 (80.4%) of the respondents agreed, 22 (19.6%) respondents showed their neutrality and disagreement with this measure.

4.4. CHALLENGES OF PERFORMANCE MANAGEMENT PRACTICES

In the category of likely challenges, respondents were presented with items listed in table below 4.8. Accordingly, on the idea that managers and/or supervisors perception towards carelessness of employees in exerting their utmost effort for the attainment of performance objectives and 24 (21.4%) disagreed, 7 (6.3%) respondents remained neutral and the majority 81 (72.3%) of them agreed for the measure. This shows that employees are reluctant to provide their utmost effort while performing their job. Even though this issue needs further investigation to decide on the factors that brought employee's carelessness one of the factors could be lack of consequences in terms the outcomes that they value for their performance level. In this regard Herman Aguinis (2009) stated that, there are some best practices that one performance management system should consist and among them is "*Meaningfulness of the system*"; which means, if that system has no consequences in terms of outcomes that the participants value, people will not pay attention to that system and thereby will be inconsiderate. It seems that this issue needs further investigation to decide on the factors that brought employees' carelessness.

Respondents were also asked to rate the commitment of top and line management towards PMS and 53 (47.3%) respondents agreed that the existence of insufficient and inadequate commitment by the senior and line management were observed, 34 (30.4%) stood neutral on the statement and the remaining 25 (22.3%) respondents disagreed to the measure. According to Pace (2011), most critical performance management implementation challenges are related to poor executive engagement and execution. It is utterly useless to have a well-developed PMS without commitment from the management team. If senior and line management do not show commitment to the implemented PMS, the employees will also not take it serious. Therefore, 77.7% (cumulative of neutral and disagreed) of the respondents indicates that there is a gap in the support of line management to the system.

Similarly, in relation to the support provided by the HR departments on performance related issues, 36 (32.1%) agreed that support from HR department was sufficient, 69 (61.7%) of them disagreed that they are satisfied by the support provided from the HR department while 7 (6.3%) respondents stayed neutral to this measure. From the above figures again one can understand that the majority of the participants are not satisfied by the service and support given by the human resource department and there seems much to be done to see where this specific support is deficient so as to be able to give the necessary support to the users.

Table 4.8 Respondents perception on challenges PMS

Description	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
There is carelessness of employees to exert their effort to attain performance objectives	12	10.7	12	10.7	7	6.3	72	64.3	9	8.0
Inadequate commitment of top and line management towards performance management	0	0.0	25	22.3	34	30.4	40	35.7	13	11.6
Insufficient support by Human Resource department	8	7.1	28	25.0	7	6.3	62	55.4	7	6.3
Measures used to evaluate performance are exposed to subjectivity	6	5.4	13	11.6	15	13.4	58	51.8	20	17.9
There is lack of employees training and development in performance management	0	0.0	8	7.1	9	8.0	75	67.0	20	17.9
Poor understanding of employees towards performance management practices	4	3.6	13	11.6	8	7.1	78	69.6	9	8.0

Source: Survey Questionnaire 2015

One of the measures raised in assessing the challenges was lack of training and development in relation to performance management, and accordingly majority 95 (84.9%) of the respondents agreed that there is lack of employee training and development, 9 (8.0%) of them remained neutral while 8

(7.1%) of them disagreed on the statement. From these figure, as the vast majority of the respondents forwarded their experience regarding lack of sufficient trainings on performance management and related aspects. As stated by Auguis (2009), providing training and development for employees should be one of the major purposes of contemporary performance management systems which again might be considered as a pillar for making employees gain control over their future and thereby play an active role in the achievement of organizational objectives. Therefore it is obvious that the case banks should give huge emphasis in this regard so as to achieve the established organizational goals.

In addition, 78 (69.7%) respondents agreed that measures used to evaluate performance of employees are exposed to subjectivity, 19 (17.0%) disagreed and 15 (13.4%) respondents were neutral to this measure. The last measure in this category was understanding of respondents with regard to performance management practices and 87 (77.6%) respondents agreed that employees do not have the necessary knowledge and understanding on the practice and its benefits in general, 17 respondents (15.2%) disagreed on the idea, while the rest 8 (7.1%) individuals remained neutral on this matter. It can be inferred from this figure that the majority of the employees' awareness and understanding on the practice of performance management system and its benefits is weak and not satisfactory which may be counted as a challenge in the journey to success.

Also during an interview made with HR directors and managers of the case banks, the greatest challenges in the application of performance management practice is the HR department don't have a staff development unit who follows-up the issues of performance management and providing the necessary trainings and development to staffs. While they explain the reasons for such gap were lack of budget, lower commitment of the HR department and others are the reasons mong many. In addition, carelessness of line managers and lack of accountability in accomplishing their respective tasks; like providing timely and ongoing feedbacks, coaching and training to the employees under their unit.

In addition to this, staff attitude only focuses on the monetary benefit and annual increments in the performance management. Employees do not focus on other objectives of the system like skill development and future career advancement.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

In this chapter, major findings of the study are summarized and the subsequent conclusions are made based on the findings and recommendations are forwarded to better enhance the system used to manage employees performance.

5.1 SUMMARY OF MAJOR FINDINGS

The main objective of this study is to examine the practices and challenges of performance management system in selected Ethiopian private commercial banks. The specific objectives were to examine to what extent PMS and performance measurement are being implemented, to analyse for what purpose PMS is being applied or used and to analyse the challenges of PMS in the Ethiopian private commercial banks. In this study, both primary (structured survey questionnaire and interview) and secondary (bank's performance appraisal document and other relevant documents) data were used. The major findings of the study results are presented as follows:-

- Formal performance appraisal is conducted every six month of the fiscal year; however the system lacks continuous assessment. In addition, the orientation of the system is focuses on past performance and also the system lacks incorporating employee's future developmental aspects in the selected Ethiopian private commercial banks. (Table 4.2)
- Impressions of employees of the selected Ethiopian private commercial banks can be said well towards knowledge about the mission, strategic goals and objectives of their organizations as well as knowledge about the job they do. In the same token, the result indicates that individual and/or team objective complements with the overall goals. However, the analysis indicates towards respondents understanding on the relationship or integration between individual goals and organizational goals are not good. On the subject of the autonomy they have on performing their job, the result shows that much interference is exhibited in the selected Ethiopian private commercial banks. (Table 4.3)

- Majority of the respondents agree that the purpose and objective performance management system are not described properly and the result also indicates that the goal setting process follows a top down approach in which goals are formulated by the top management and department and individual goals cascaded accordingly. However, employees are not participating in this process and this implies that individual goal setting process is not practiced in the case banks. On the other hand, the result also depicts the clarification that employees have on what is being valued most by the case banks, majority of the respondents showed their agreement. However, lack of reaching an agreement between supervisors and employees in the standards used to measure performance was identified as a gap in the case banks. (Table 4.4)
- On the subjects of performance rating standards and whether the assessment covers important attributes of the job, majority of respondents showed their agreement. However, regarding their perception towards self assessment and consistency and fairness of the system, the result indicates that majority of the respondents are either neutral or don't perceive it to be fair. (Table 4.5)
- In relation to two-way communication and discussion of employee's personal development and future plan, the result reflects that the banks under this study are not performing well. However concerning appealing process for employees not satisfied with their rating and difficulty to discuss work related problem with their supervisors, majority of the respondents showed their agreement and the case banks performing in this regard can be said good. The other major finding according to the result of this study highlights that almost all of the respondents agreed that the existing system that is used to manage employees performance in the selected Ethiopian private commercial banks needs to be changed. (Table 4.6)
- Regarding the purposes of performance management system being used in the selected Ethiopian private banks, the result depicts that majority of the respondents showed their agreement that PMS has a strategic, administrative, communication and documentation purposes. However, in relation to developmental and organizational maintenance purposes some gaps are observed. (Table 4.7)
- However, the selected Ethiopian private commercial banks face different challenges while managing performance of employees. Accordingly, majority of the respondents agreed that

employees are not ready and willing to exert their most effort for the attainment of performance objectives, lack of commitment of senior and line management towards performance management, support provided by HR department on performance related issues is insufficient, measures used to evaluate performance of employees exposed to subjectivity, lack of employees training and development on the subject matter and in general poor understanding of employees regarding the purpose and benefits of performance management practices. (Table 4.8)

5.2 CONCLUSIONS

As mentioned in the introductory section of this study paper, performance management system is critical for achieving organizational objectives. This can be achieved by developing and improving the performance of individuals and teams and thereby organizational effectiveness can be achieved. Knowing the correct way to manage employees' performance takes an organization a great leap forward towards success. Thus, based on the major findings stated above, the following conclusions can be drawn.

- ❖ Based on the findings, it can be concluded that the system used by the selected Ethiopian private commercial banks for managing employee's performance it can be said that it is performance appraisal system instead of performance management system. The reason is that, for a system to be labeled as performance management, even though many indicators can be used for making such evaluation, continuous assessment and discussion of employee's future improvement and development areas can be considered as indicators. In this regard, even if employees of the case banks receive formal appraisal twice a year, it lacks continuous assessment and in addition to this it focuses only on past performance without incorporating way forward regarding future developments.
- ❖ Administrative, documentation and communication purposes of performance management are found to be well applied in the selected Ethiopian private commercial banks. Moreover, as noted from the interview made with all concerned, PMS output is mostly used in administrative and documentation purposes. However, in relation to strategic, developmental and organizational maintenance purposes some gap has been observed.

- ❖ Coming to performance management challenges that the case banks are facing, again based on the findings it can be concluded that, most of the challenges are rooted in the lack of commitment of top and line management. In this regard, since performance management system increases the effectiveness and profitability, senior and line management should have to give more attention and commitment towards its application.

5.3 LIMITATION OF THE STUDY & SUGGESTIONS FOR FUTURE RESEARCH

The study is intended to examine and analyze the experience of Ethiopian private commercial banks regarding practices and challenges of employees' performance management system. In this regard the research obtained valuable results however potential limitations should be discussed. The first one is the use of subjective data to measure the subject matter. Scholars have indicated that it is justifiable to use subjective data where objective measures are not available (Delaney & Huselid, 1996; Dess & Robinson, 1984), However, the research findings "would have been strengthened" if objective measures were used. Though relevant objective measure could be difficult to acquire, future researchers could adopt longitudinal data collection approach and collect necessary data on regular basis from the industry to acquire objective measures to correlate with productivity.

In addition to this, the research is done only on four banks out of sixteen privately owned commercial banks which make it indicative but not fully conclusive. Thus, future studies in this area could be done in a broader scope to include other private commercial banks in the industry and increase conclusiveness of the findings.

5.4 RECOMMENDATIONS

The overall aim of performance management is 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. The challenges discussed in the conclusion section of this study can be addressed if the case banks take necessary corrective measures.

Accordingly, based on the analysis and the above drawn conclusions, the following recommendations are forwarded:

- Senior and Line managers need to show a real sense of ownership towards the effectiveness of performance management system that means senior and line managers should play an important role for its effectiveness and in order to achieve this it must be line driven rather than HR department driven. Moreover, if line management buy-in and commitment is not dealt with, the effectiveness of performance management is doomed to fail.
- Even if the case banks are practicing appraisal twice a year, they should have to work better with regard to continuous assessment and this can be achieved by providing clear and timely feedback on continual basis.
- Employees of the case banks should have to be encouraged to participate during performance planning phase. The reason is that employees will exert their maximum effort for the attainment of the goals which they jointly planned.
- The case banks should have to provide performance management related training and development to senior and line managers in order to appropriately set goals, deliver constructive and ongoing feedback, assess the right competencies for development, evaluate performance, and deliver appropriate rewards and for all employees as well in order to support how to receive feedback and on how to be more accountable for their own performance review.

While this study has tried to examine and analyse the practices and challenges of employees' performance management system in selected Ethiopian private commercial banks, it provides a platform for future work in this area. The case banks should have to give more attention in this regard, as it has a great impact on employees' morale and satisfaction as well as the overall performance of the banks in general.

Addis Ababa University
School of Commerce



Dear Respondent,

You are kindly requested to participate on a research study for partial fulfillment of Master degree in Human Resource Management. The purpose of the questionnaire is to collect data for research on “Employees’ Performance Management: Practices and Challenges in selected Ethiopian private commercial banks”. The research is designed to examine and analyze the experience of Ethiopian private commercial banks regarding the implementation of Performance Management System, find out the existing practices and the challenges of implementing Performance Management System. The research outcomes alert Ethiopian Private Commercial Banks regarding the opportunities and challenges of implementing PMS. Your genuine and honest response is very important for the success of the research and the researcher would like to thank you for your cooperation in advance.

Note: for any clarification or question please don’t hesitate to contact the researcher through the following address: Name Fasil Afework, mobile phone 0911784577 email “afeworkfasil@yahoo.com“

General Instruction:

1. No need to write your name
2. Your response confidentiality is maintained
3. Instruction for each part of the questionnaire is given at the beginning of the questions.

Part I: RESPONDENT’S DEMOGRAPHIC DATA

Gender:

Male Female

Age:

20-30 31-40 41-50 above 50

Educational Level:

Masters and above Bachelor of Arts (BA) Diploma Other _____

Current Position _____

Work experience in your current organization _____

Thank You for your cooperation!

PART II: QUESTIONS ON PRACTICES OF PERFORMANCE MANAGEMENT SYSTEM

Listed below are statements that explain the practices of performance management system. To this regard, please indicate your degree of agreement or disagreement by putting a tick mark (√) on one of the five alternatives.

Responses are measured on 5- point scales with the following verbal anchors: Strongly Disagree (1), Disagree (2), Neutral (3), Agree (4) and Strongly Agree (5).

No.	Particulars	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
I	Performance Appraisal Vs Performance Management					
1	I receive formal appraisal twice a year					
2	I receive continuous assessment					
3	The appraisal I receive focuses on my past performance					
4	The appraisal I receive incorporates my development needs					
II	Performance Pre-requisites					
1	I clearly know my organization's mission, strategic goals and objectives					
2	My objectives support the overall mission, strategic goals and objectives of my organization					
3	I have a clear understanding of how my job is related to the overall goals of my firm.					
4	My duties and job responsibilities are clearly defined to my understanding					
5	I have a clear knowledge about the job I do					
6	I have autonomy over the way I perform my work					
III	Performance Planning					
1	My organization's performance management objectives are described to me					
2	Me and my supervisor set goals together					

No.	Particulars	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
3	My supervisor gives me a chance to participate in performance planning (agreed on my job goals, objectives and measurement standards).					
4	My supervisor clearly explains to me what he/she expects from my performance.					
5	I reach an agreement with my supervisor on how performance will be measured.					
6	My supervisor explains to me the standards that are used to evaluate my work.					
IV Performance Assessment						
1	My performance is measured based on the agreement I reached with my supervisor.					
2	My performance assessment covered those issues which were very important in performing my job.					
3	There is performance rating standards for all employees.					
4	My performance rating is based on how well I do my job.					
5	I am given a chance to assess my performance.					
6	Assessments of my performance are consistent, fair & unbiased.					
V Performance Review						
1	Performance review is a two-way process, with both manager & employee expressing their views.					
2	Employee's personal development and plans for future progress are discussed					
3	There is an appealing process in place if I do not accept the rating.					
4	The performance result I received has helped me improve my performance.					
5	Training Need Assessment is gathered from performance review.					

No.	Particulars	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
6	I am not satisfied with the way my manager /supervisor conducts my performance review.					
7	I find it difficult to discuss work problems with my manager/supervisor.					
8	I have received trainings as per my performance gap and need.					
9	The system of performance management used here works well and does not need to change.					

Part III: PURPOSES OF PERFORMANCE MANAGEMENT SYSTEM

Listed below are the major purposes of performance management system and accordingly please indicate your degree of agreement or disagreement by putting a tick mark (√) on one of the five alternatives. **Responses are measured on 5- point scales with the following verbal anchors: Strongly Disagree (1), Disagree (2), Neutral (3), Agree (4) and Strongly Agree (5).**

No	Particulars	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	PMS is aimed at linking the organization's goal with department, team and individual goals. (Strategic Purpose)					
2.	PMS output is used for salary adjustment. (Administrative Purpose)					
3.	PMS output is used for promotion and/or demotion. (Administrative Purpose)					
4.	PMS is used to communicate performance expectations of the bank. (Communication Purpose)					
5.	PMS functions for identifying performance deficiencies and performance gap. (Developmental Purpose)					
6.	PMS facilitates employees to achieve their career aspirations in the long run. (Developmental Purpose)					
7.	PMS is used as a tool for succession planning in the organization. (organizational Maintenance Purpose)					
8.	PMS document can be used as a source to avoid litigations. (Documentation Purpose)					

Part IV: CHALLENGES IN PERFORMANCE MANAGEMENT SYSTEM

Please carefully read the below listed descriptive sentences regarding likely challenges in the practice of performance management system accordingly please indicate your degree of agreement or disagreement by putting a tick mark (✓) on one of the five alternatives. **Responses are measured on 5- point scales with the following verbal anchors: Strongly Disagree (1), Disagree (2), Neutral (3), Agree (4) and Strongly Agree (5).**

No	Particulars	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	There is carelessness of employees to exert their effort to attain performance objectives					
2.	Inadequate commitment of top and line management towards performance management					
3.	Insufficient support by Human Resource department					
4.	Measures used to evaluate performance are exposed to subjectivity					
5.	There is lack of employees training and development in performance management					
6.	Poor understanding of employees towards performance management practices					

(You may use either separate paper to address any idea you think relevant in addition to what is mentioned above)

THANK YOU FOR YOUR GENUINE RESPONSE & COOPERATION!!!

APPENDIX B

INTERVIEW QUESTIONS

Interview questions to examine and analyse “*Employees Performance Management System: Practices and Challenges in Selected Ethiopian Private Commercial Banks*”

1. What is role of subordinates in planning performance management system?
2. What are major purposes that the PMS is used for?
3. What is the HR role in the PMS implementation?
4. How frequent does employees receive trainings on PMS?
5. Is there an appeal process for discrepancies over employee-supervisor ratings?
6. What challenges do you face while implementing the system?

Thank You

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