



**CHALLENGES AND PROSPECTS OF PERFORMANCE MANAGEMENT
SYSTEM: LESSONS FROM ADDIS ABABA CHAMBER OF COMMERCE AND
SECTORAL ASSOCIATIONS (AACCSA)**

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This is to certify that the thesis prepared by Assefa Kassa, entitled: Challenges and prospects of Performance Management System: Lessons from Addis Ababa Chamber of Commerce and Sectoral Associations (AACCSA) and submitted in partial fulfillment of the requirements for the Degree of Master of the College of Business and Economics Department of Management Executive MBA Program complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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DECLARATION

I, the undersigned, declare that this study entitled Challenges and Prospects of Performance Management System: Lessons from Addis Ababa Chamber of Commerce and Sectoral Associations (AACCSA) is my own work. I have undertaken the research work independently with the guidance and support of the research advisor. This study has not been submitted for any degree or diploma program in this or any other institution and that all sources of materials used for the thesis have been duly acknowledged.

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ACRONYMS

AACCSA **Addis Ababa Chamber of Commerce and Sectoral Associations**

HRM **Human Resource Management**

PDP **Personal Development Plan**

PMS **Performance Management System**

SP **Strategic Plan**

SPSS **Statistical Package for Social Scientists**

Abstract

The purpose of this study was to investigate the practical challenges faced in the implementation of performance management system in view of best practice in the literature and highlight the prospects of the system in Addis Ababa Chamber of Commerce and Sectoral Associations (AACCSA). A mixed research design was applied using both qualitative and quantitative approach. The researcher employed census method to collect primary through questionnaire and interview data due to the small number of population. Secondary data gathered from different sources was reviewed contextually. The data were analyzed and presented using tables, frequency percentage, mean value and standard deviation in the quantitative data and also qualitative data analyzed by thematic summary of findings. Major weaknesses identified among others include, AACCSA's PMS is not serving its developmental purposes appropriately; AACCSA is not providing sufficient resources for the accomplishment of employees' duties; there is lack of practice of giving timely and continuous feedbacks to employees; supervisors do not keep regular records about employees' performance; there is no clear appeals procedure and top management is not committed to the successful implementation of the PMS. In order to fill the identified gaps, recommendations were forwarded to use PMS as a source for the identification of developmental needs of employees; AACCSA should try to provide employees with the necessary resources for carrying out their activities; evaluators should be trained about the importance of ongoing and timely feedbacks for the development of employees; implement a clear appeals procedure and top management should show its commitment for the effective implementation of the PMS. Finally, if AACCSA implements all the recommendations the prospects of the system will be improved and it will reap the benefits of an effective PMS.

Key words: PMS, feedback, midterm review, performance review, appraisal methods and appraisal rating

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Davidson (2004) asserts that employees are the most valuable assets a corporation has and that they are the catalysts of any organization. Njenga-Orlale (2008) observes that the competitive advantage of any organization in a global economy depends primarily on how well its human resource is managed. Of course, the financial, technological, and other material resources are undoubtedly critical, but these resources are generated by the industrious and creative efforts of people, and it is also their ingenuity that also ensures that these resources are effectively deployed. This argument underscores the importance of employee performance management.

Employee performance management plays a significant role in the overall corporate performance. Armstrong (2006) asserts that the assumption underpinning human resource management practice is that people are the organization's key resource and organizational performance largely depends on them. Adoption of appropriate range of human resource policies and processes, therefore, makes a substantial impact on firm performance. Torrington et al (2005) state that, the approach in many organizations has traditionally centered on the assessment of performance and the allocation of reward. Performance is typically seen as the result of the interaction between individual ability and motivation. According to them, organizations are increasingly recognizing that planning and enabling performance have a critical effect on individual performance.

Armstrong (2009) explained that performance management is a tool for improving the overall performance of an organization by developing the performance of employees and work units or teams. Performance management serves as a process for increasing performance through planned

and agreed goals, standards and required competencies. The process aligns employee objectives with work unit and organizational objectives.

Aguinis (2007) defined performance management as a process for the identification, measurement and development of the performance of employees and teams and aligning performance with the strategic goals of the organization. According to this definition, continuous feedback and improvement processes for the development of people are required for a performance management system to be effective.

Performance management is now regarded as a number of interlinked processes. It is seen as continuous process, not as a once – a year appraisal, focused on employee development rather than on performance related pay, shift towards getting line managers accept and own performance management and use of different performance management systems in different parts of the organization and for different people.

Jacelyn – Tse (2007) defines an employee performance management system as the process of motivating employees through setting goals, measuring progress, giving feedback, coaching for improved performance and rewarding achievements. An employee performance management system comprises of five distinct components that can be broadly defined as planning work, continually monitoring performance, developing the capacity to perform, periodically rating performance and rewarding good performance.

A performance management system can play a vital role in aligning the actions of the employees in an organization with corporate goals. Performance management is a useful tool for aligning all the major organizational functions and sub functions so that the focus is directed towards attainment of the organizational goal. By clearly explaining both the individual and team responsibilities in the form of Key Responsibility Areas (KRAs) as well as by creating an understanding of shared responsibilities, a good performance management system smoothen the progress and development of employees.

The Addis Ababa Chamber of Commerce and Sectoral Associations (AACCSA) is the oldest, largest and strongest Chamber in Ethiopia, which represents a wide spectrum of businesses accounting for more than 60% of businesses residing in Addis Ababa. Being a member of the World Chambers Federation, AACCSA also has a prominent place in the international network of chambers.

Written records testify that strategic planning has been part of the overall strategic management and leadership of AACCSA at least for the past 15 years. AACCSA has now implemented its fourth five year strategy. All work units of the Chamber prepare their annual plans by cascading from the strategic plan.

AACCSA has developed and implemented a manual on performance management system. The performance management literature shows that the participation of employees in the design and implementation of a performance management system is crucial for the success of the system but AACCSA did not involve all employees in the development of the system and hence there is lack of ownership of the system on the part of some employees. The manual states that an annual objective should be prepared for all employees and a formal and informal feedback should be given on the performance of the employee throughout the year. However, the actual practice does not seem to conform to the stipulation of the manual. The practice of preparing annual objectives for each employee is at an early stage and performance management is not considered as a continuous process but rather an annual controversial event. Performance management in AACCSA is reduced/limited to a form-filling exercise when annual performance appraisals are conducted and managers find performance appraisals tedious and time-consuming. AACCSA is not currently using the performance management system for administrative and developmental purposes as it should and therefore it is not reaping the benefits of the system.

The research tries to investigate the practices and challenges of performance management system of the Addis Ababa Chamber of Commerce and Sectoral Associations by taking into consideration best practices in the literature of performance management and identify the prospects for improving the system.

1.2 BACKGROUND OF AACCSA

The Addis Ababa Chamber of Commerce & Sectoral Associations (AACCSA) is established, by the General Notice Number 90/ 1947, in April 1947 as an autonomous, non-governmental, non-political and non-profit organization to act on behalf of its members. As per the General Notice Number 90/1947, the major functions of the chamber are: promoting trade and industry, disseminating business information, consulting government and members on economic development and business issues, establishing friendly relationship with similar chambers in other countries, and exchanging information as well as engaging in arbitration in times of disputes among members.

The Addis Ababa Chamber of Commerce and Sectoral Associations (AACCSA) is the oldest, largest and strongest Chamber in Ethiopia, which represents a wide spectrum of businesses accounting for more than 60% of businesses residing in Addis Ababa. Being a member of the World Chambers Federation, AACCSA also has a prominent place in the international network of chambers. At present, the chamber is home to more than 15,000 businesses.

AACCSA's performance management system was implemented in 2010 with the help of a consulting firm and the system is both behavior and result based. The system clearly states that employees and supervisors should prepare annual performance plan at the beginning of the budget year and the signed copy of the plan should be sent to the Human Resource Department for filing in the employees' file. Supervisors are advised to give feedback to employees on a continuous basis and midterm review should be conducted at the middle of the budget year to review progress and to take corrective actions in case of negative deviations. Once a year, the employee and the immediate supervisor will participate in a formal performance appraisal discussion. A copy of each annual performance review will be reviewed and signed by the supervisor's manager and placed in the employee's personnel file after being reviewed by the Executive Management Committee. It is stated in the PMS manual that the purposes of PMS are developmental and administrative.

1.3 STATEMENT OF THE PROBLEM

The overall objective of a PM system is to improve the performance of a company, business unit, or individual employee. The formation of a clear link between the company's strategy and objectives and employee objectives is a major principle of the system and its other aspects are continuity and cyclical nature (Aguinis, 2013; Armstrong, 2009). PMS can therefore be defined as a process in which performance will be evaluated and improved continuously, based on clearly defined criteria that are aligned to the business strategy (Festing et al., 2011).

Since the introduction of performance management ten years ago in AACCSA, there have been problems in implementing performance management processes correctly. The strategic plan is not adequately shared with all employees at all levels, resulting in performance objectives not being cascaded to the next level as required. In addition, managers and subordinates are not adhering to performance management timelines. Other challenges include managers failing to give regular performance feedback and failure to identify development areas for their subordinates, midyear reviews not being adequately conducted. Employees are signing the generic performance scorecards that they do not understand, and poor performance is not being managed properly. As a result, a significant number of grievances have been reported with regard to the implementation of performance management processes. Another challenge is that employees still view performance management as a futile exercise. This has also partly contributed to the challenges in the effective implementation of a performance management system in AACCSA.

An effective performance management system clearly defines expectations and helps to align employee behavior with the culture and business needs of the organization. In an increasingly competitive world, performance management is not optional but rather it is essential for enhancing organization's effectiveness and competitiveness. Today's organizations have to face a turbulent environment where change seems to be the only constant. To meet this challenge, organizations are forced to accelerate effectiveness in all activities, be flexible to changes in the internal and external environment, improve quality and service delivery, reduce cost and fully

use their intellectual capacity. Furthermore, as the system is becoming more complex, emphasis is given to the process orientation and cross functional approaches. To succeed, knowledge, skills, experience and perspectives of a wide range of people must be integrated. There needs to be understanding of the relationship between strategy, people, organizational design and performance systems in order for performance management to be implemented effectively in AACCSA.

Considering the importance of performance management system in AACCSA, the student researcher became interested to investigate the challenges of performance management system in AACCSA in order to answer the following basic questions:

1. How is performance management practiced in Addis Ababa Chamber of Commerce and Sectoral Associations (ACCSSA)?
2. How is AACCSA's performance management system implemented and what were the respective roles of managers and employees in the development and implementation of the system?
3. How effective was the overall implementation of the performance management system and what lessons can be learnt?
4. What is being done to address the challenges related to the performance management system in AACCSA?
5. What are the prospects of the performance management system?

1.4 OBJECTIVES OF THE STUDY

1.4.1 General Objectives

The main purposes of the study is to investigate the practical challenges AACCSA faced in the implementation of its performance management system in view of best practice in the literature and highlight the prospects of the system.

1.4.2 Specific Objectives

The specific objectives of the study are:

- Describing the performance management practices of AACCSA
- Examine the attitudes and perceptions of staff and management towards AACCSA's performance management practices in particular and performance management in general
- Compare AACCSA's practices with best practices in the literature
- Bring to light the challenges and problems that AACCSA has encountered in its practices of performance management

1.5 SIGNIFICANCE OF THE STUDY

The results of this proposed study would be significant in various respects. Firstly, on the basis of the findings of this study and its recommendations, the management of AACCSA will be able to take some remedial actions to improve the performance management system. Second, it will be a piece of contribution to the current knowledge in the practice of performance management in a business membership organization operating in Ethiopia and invites for further research to bring about change in the areas of performance management. Thirdly, it gives the researcher the opportunity to gain an in-depth knowledge in performance management.

1.6 DELIMITATION OF THE STUDY

The study is limited to analyzing the practices, challenges and prospects the performance management system of the Addis Ababa Chamber of Commerce and Sectoral Associations (AACCSA) and making recommendations for the improvement of the performance management system. The study will not try to analyze the performance management systems of similar business membership organizations operating in Ethiopia due to time and cost constraints.

1.7 ORGANIZATION OF THE STUDY

The study is organized into five chapters. The first chapter covers the introductory part. Chapter two deals with a discussion of related literature. The third chapter is the research design and methodology. Data presentation, analysis and interpretation are discussed in the fourth chapter. The fifth chapter covers the summary of major findings, conclusions drawn from the findings and recommendations forwarded by the researcher.

1.8 DEFINITION OF KEY TERMS

The contextual definitions of technical terms frequently used in the study are listed as follows:

Performance Management: Performance management is a continuous process of identifying, measuring and developing performance in organizations by linking each individual's performance and objectives to the organization's overall mission and goals (Aguinis, 2005).

Performance Management System (PMS): Is a way of providing a measurement of the organization, the team, and individuals through a variety of performance measurement methods. It involves setting of performance objectives, the measurement of performance against those objectives, the identification of developmental support and a review process to develop performance and subsequent objectives (Schein, 2012).

Performance Plan: This is a composition of the employee's preferred results, how the results tie back to the organisation's preferred results, weighting of results, how results will be measured and what standards are used to evaluate results (Mc Namara 2008:181-198).

Performance Appraisal/Evaluation: Performance evaluation is “a systematic process of measuring a person's performance in the job, based on predetermined performance criteria” (Clake, 2011).

Performance Measurement: A quantifiable indicator used to assess how well an organization or business is achieving its desired objectives. Many business managers routinely review various performance measure types to assess such things as results, production, demand and operating efficiency in order to get a more objective sense of how their business is operating and whether improvement is required (Liu, 2014).

CHAPTER TWO

LITERATURE REVIEW

There are various theories and empirical evidences that elaborate and justify the importance of performance management system. Therefore, the review under this section includes theoretical and empirical literatures on performance management system in general and its practice and challenges in particular. The objective of the review is to throw light on the topic and show the existing knowledge about the topic. The review touches published and unpublished sources that are related to performance management system.

2.1 INTRODUCTION

Aguinis (2007) defined performance management as the process for the identification, measurement and development of the performance of employees and teams and alignment of performance with the strategic goals of the organization. This definition underlines that an effective performance management program requires continuous feedback and improvement processes for the development of people.

Robins (2007) defined performance management as an approach to creating a shared vision of the purpose and aims of the organization, helping each individual employee understand and recognize their part in contributing, to them, and in so doing manage and enhance the performance of both individuals and the organization.

Dessler (2005) defines Performance management as a process that consolidates goal setting, performance appraisal and development into a single, common system, the aim of which is to ensure that the employee's performance is supporting the company's strategic aims. Rothwell (2002) considers performance management as a continuous process of identifying, measuring and developing performance in organizations by linking each individual's performance and objectives to the organization's overall mission and goals.

Performance management is the set of interconnected practices which ensure that a person's overall capabilities and potential are appraised, so that relevant goals can be set for work and development and, through assessment, data on work behavior and performance can be collected and reviewed (Bratton and Gold, 2007).

Aguinis (2007) further elaborates that a system to be considered as a true performance management system should involve an ongoing effort to provide feedback and coaching in addition to employee evaluations during a specific period. It can be inferred that a performance management system that does not explicitly make clear the employee's contribution to the goals of the organization is not an effective system. Performance management ensures that the guidance and assistance people need to develop and improve are readily available. Aguinis (2007) highlights that an effective performance management system makes the following contributions regarding employee performance, morale and organization: motivation for performance increases; self-esteem of each employee increases; managers gain more information about their employees on a regular basis; the definition of jobs and various tasks become clearer; self-insight and growth opportunities are enhanced; various administrative actions are more fair and relevant; the organization's goals are clear to everyone; employees are more competent; the manager's perception of an employee's performance is communicated more clearly on a regular basis and change is facilitated more clearly. Performance Management involves aligning HRM practices so that employee performance and development are enhanced, with the aim of maximizing organizational performance.

Performance management is the set of interconnected practices which ensure that a person's overall capabilities and potential are appraised, so that relevant goals can be set for work and development and, through assessment, data on work behavior and performance can be collected and reviewed (Bratton and Gold, 2007).

2.2 PURPOSES OF PERFORMANCE MANAGEMENT SYSTEM

The fundamental goal of performance management is to establish a culture in which individuals and groups take responsibility for the continuous improvement of business processes and for their own skills and contributions (Smither and London 2009).

According to Williams (2001), performance management is concerned with performance improvement, employee development, communication and involvement in order to achieve organizational effectiveness. Performance management should enable an employee to discuss with the supervisor concerning any unmet needs like need for more or less supervision, more resources, more leeway for creativity, and more input decisions (Nyambegera, 2005).

Aguinis (2011) states that the information collected by a performance management system (PMS) is most frequently used for salary administration, performance feedback and the identification of employee strengths and weaknesses.

According to Pulakos (2004) many organizations use their performance management system for making administrative decisions such as pay, bonuses, promotions, assignments, and reductions in force and fewer organizations use their performance management systems to guide employee development. Performance management systems can serve the six important purposes according to Cleveland & Murphy (as cited in Smither and London, 2009): (1) Strategic Purpose: PMS links the organization's goals with individual goals thereby reinforcing behaviors consistent with the attainment of organizational goals. Linking individual goals with organizational goals also serves as a way to communicate the most crucial business strategic initiatives; (2) Administrative Purpose: PMS serves as a source of valid information for making administrative decisions about employees like salary adjustments, promotions, employee retention or termination, recognition of superior individual performance, identification of poor performers, layoffs, and merit increases; (3) Communication Purpose: PMS can be used to inform employees about their overall levels of performance and improvement areas; (4) Developmental Purpose: Feedback as an output of the PMS helps managers to coach employees and improve their performance on an

ongoing basis; (5) Organizational Maintenance Purpose: PMS provides information about skills, capabilities, potential, and past assignments of employees to be used in workforce planning, assessing training needs and evaluating the effectiveness of human resource interventions; and (6) Documentation Purpose: PMS helps to keep data that can be used to make various administrative decisions and defend the organization in the case of litigation.

Bennett and Minty in Nel et al (2001) state that there are generally three major purposes of performance management:

- It is a process of strategy implementation;
- It is a vehicle for culture change; and
- It provides input to other human resources systems, such as development and remuneration.

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

2.3 PERFORMANCE MANAGEMENT PROCESS

Aguinis (2009) states that performance management is a continuous process but when a system is first implemented it follows the stages of prerequisites, performance planning, performance execution, performance assessment, performance review and performance renewal and recontracting.

According to Aguinis (2009), the two important prerequisites that are required before a PMS is implemented are knowledge of the organization's mission and strategic goals and the nature of the job. Strategic planning enables an organization to clearly stipulate the strategic goals that can be cascaded downward to departmental and each employee level for ensuring compatibility. The other important prerequisite for the implementation of a PMS is to understand the job through job analysis.

Performance planning is performed when the supervisor and the employee discuss and agree what needs to be done and how it should be done at the beginning of the year. Performance planning is the first cycle where the supervisor and employee meet to discuss and agree on what is to be done and how it is to be done by combining the result, behavior and development plan (Smither and London, 2009). Armstrong and Baron (2004) are of the opinion that performance planning is the fundamental constituent of any performance management process which forms the foundation of any performance management system in every organization. Bacal (2004) points out that during performance planning supervisors and managers should work with the employee to set measurable goals/objectives and focus on employee behavior and results which the employee is to achieve. Pulakos (2004) suggested the following points as a basis for the planning process.

- Goals must clearly define the end results to be accomplished.
- To the extent possible, goals should have a direct and obvious link to organizational success factors or goals.
- Goals should be difficult, but achievable.
- Goals should be set in no more than three areas-attempting to achieve too many different goals at once will impede success.

The performance execution stage is primarily owned by employees but supervisors have responsibility for observing and documenting performance on a daily basis, updating and revising initial objectives, giving feedback to employees on progression toward goals, providing employees with resources and opportunities to participate in development activities and

reinforcement (Aguinis, 2007). In an effective performance management system, performance execution also includes a midterm review to ensure that performance is on track (Dick Grote, 2002).

In the performance assessment phase, both the employee and the manager are responsible for evaluating the extent to which the desired behaviors have been displayed, and whether the desired results have been achieved. It is important that both the employee and the manager take ownership of the assessment process. The manager fills out his or her appraisal form, and the employee should also fill out his or her form. The fact that both parties are involved in the assessment process provides better information to be used during the review phase (Smither and London, 2009).

Performance review stage involves the meeting between the employee and the manager to review their assessments and it provides a formal setting in which the employee receives feedback on his or her performance. The appraisal meeting is important because it provides a formal setting in which the employee receives feedback on his or her performance. In spite of its importance in performance management, the appraisal meeting is often regarded as the “Achilles’ heel” of the entire process (Chen & Kinshuk, 2008). This is because many managers are uncomfortable giving performance feedback, particularly when performance is deficient. Avoiding giving negative feedback is very dangerous because it conveys the message that mediocrity is acceptable and damages the morale of the top performers (Chen & Kinshuk, 2008). Providing feedback in an effective manner is extremely important because it leads not only to performance improvement but also to employee satisfaction with the system (Pulakos, 2004).

The final stage, performance renewal and recontracting, is identical to the performance planning component and the main difference is that this stage uses the insights and information gained from the other phases (Smither & London, 2009).

Armstrong (2009) proposes that four main parts shape the PM process:

Defining Performance Plan

The job description and list of competencies required by employees to carry out the duties in the job description successfully are stipulated and the strategic business objectives are identified at this stage also. Torrington, Hall and Taylor (2005) state the importance of the strategic business objectives which are cascaded downward to individual objectives that have an impact on the overall success of the organization.

Obtaining Performance Agreement

Team objectives can be broken down further into individual objectives, which are laid out in a document known as a performance agreement or performance contract (Viedge, 2003). Starting with this type of top down (from organizational objectives to team objectives to individual objectives) approach allows an employee the security of knowing that their individual goals are in alignment with team goals and with the organizations strategic objectives. This can be a motivating factor in individual performance. The objectives of the performance agreement can be expressed as targets which are quantifiable results to be attained, which can be measured in such terms as return on capital employed, output, throughput, sales, levels of service delivery, cost reduction, reduction of reject rate (Wenger and Snyder, 2000). Performance agreement articulates the expectations of both the employee and the supervisor in the process. In this stage, Personal Development Plans (PDPs) can be drawn up through the discussion of the employee and the supervisor. Supervisors can motivate staff to perform to the best of their ability by recognizing their achievements and developing their talents (Armstrong and Baron, 2005).

Managing Performance Throughout the Year

Managing performance on an ongoing basis and personal development planning assist individuals in doing their job better by developing strengths and overcoming weaknesses. This should be a standard part of the manager's role (Armstrong, 2003).

Reviewing Performance

Performance review as a formal part of the PMS process is an assessment of the employee's performance based on objectives set and agreed at the beginning of the year and any changes made during the performance period. The review should take place on a continuous basis throughout the year with a formal review being held at least once a year (Armstrong & Baron 2005).

The five components of an employee PMS according to (US Office of personnel management, 2008) are reviewed below.

1. Planning Work and Setting Expectations

The first component of an employee PMS is planning. Planning encompasses setting performance expectations and goals for employees to channel their efforts towards achieving organizational objectives. Performance expectation and standards should be specific, measurable, understandable, verifiable and achievable. Employee performance plans should be flexible so that they can be adjusted to cater for changing work requirements (US Office of Personnel management, 2008).

2. Monitoring Performance

Monitoring plays a crucial role for checking performance and taking corrective actions in case of deviations on an ongoing basis. Continuous monitoring enables the supervisor to identify gaps in performance during the appraisal period and provide assistance to the employee rather than wait until the end of the period (Armstrong, 2008).

3. Evaluating Performance

Pulakos (2004) suggests that the types of evaluation could be different based on the objective of the evaluation. If its purpose is to make decisions on promotion, salary increment, retention or termination, then a numerical rating like five or seven point scale could be appropriate. On the

other hand if the objective of the evaluation is for developmental issue, then instead of numerical measuring system, identifying competency areas that need improvement may suffice. An effective employee PMS provides a justifiable means for evaluating performance. Performance ratings should inform employees about their current level of performance and need for improvement.

4. Developing the Capacity to Perform

Managers and employees should consider requirements for better support or guidance such as skills and developmental needs required to effectively perform in the role during planning and goal setting. The processes of employee performance management provide an excellent opportunity to identify development needs. During planning and monitoring of work, deficiencies in performance become evident and can be addressed. Areas for improving good performance also stand out and action can be taken to help successful employees improve even further (US Office of personnel management, 2008).

5. Rewarding Good Performance

The effective implementation of employee PMS can help an organization meet the big challenges of improving employee performance (Brignall and Modell, 2000). The reward elements comprise base pay, contingent pay, employee benefit and nonfinancial rewards which include intrinsic rewards that are obtained from the work itself (Armstrong, 2010). According to Stiffler (2006), without a link between individual measures of performance and appropriate rewards for achieving success, there is no effective way to steer an organization.

2.4 PERFORMANCE MEASURES AND APPROACHES TO MEASURING PERFORMANCE

Noe, Hollenbeck, Gerhart and Wright (2000) state that once the company has determined, through job analysis and design, what kind of performance it expects from its employees, it needs to develop ways to measure that performance. The five widely used criteria for evaluating performance management systems are strategic congruence, validity, reliability, acceptability,

and specificity. These criteria are briefly described as follows: (1) Strategic congruence is the extent to which the performance management system elicits job performance that is congruent with the organization's strategy, goals, and culture. Strategic congruence emphasizes the need for the performance management system to provide guidance so that employees can contribute to the organization's success; (2) Validity is the extent to which the performance measure assesses all the relevant-and only the relevant-aspects of performance. For a performance measure to be valid, it must not be deficient or contaminated. A performance measure is deficient if it does not measure all aspects of performance. A contaminated measure evaluates irrelevant aspects of performance or aspects that are not job related; (3) Reliability refers to the consistency of the performance measure. One important type of reliability is interrater reliability: the consistency among the individuals who evaluate the employee's performance. A performance measure has interrater reliability if two individuals give the same (or close to the same) evaluations of a person's job performance; (4) Acceptability refers to whether the parties who use the performance measure accept it. Many very elaborate performance measures are extremely valid and reliable, but they consume so much of managers' time that they refuse to use it. Alternatively, those being evaluated by a measure may not accept it; (5) Specificity is the extent to which the performance measure gives specific guidance to employees about what is expected of them and how they can meet these expectations. Specificity is relevant to both the strategic and developmental purposes of performance management. If a measure does not specify what an employee must do to help the company achieve its strategic goals, it becomes difficult for it to achieve its strategic purpose. Additionally, if the measure fails to point out an employee's performance problems, it is almost impossible for the employee to correct his performance.

Measuring job performance helps an employer to manage performance. According to Butler (2011), performance management is part of an employer's daily function and should not be a quarterly event that frustrates everyone. In measuring performance, an employer is effectively managing processes and people. It allows an employer to manage with a more structured approach documented in a framework, assisting employers to make a difference.

Performance can be managed by focusing on employee attributes, behaviors, or results. In addition, we can measure performance in a relative way, making overall comparisons among individuals' performance. We can also develop a performance measurement system that incorporates some aspects of the preceding measures, as evidenced by the quality approach to measuring performance. Various techniques use a combination of these approaches. The major approaches to measuring and managing performance are the following:

2.4.1 The Comparative Approach

The comparative approach to performance measurement consists of techniques that require the rater to compare an employee's performance with that of others. This approach uses overall assessment of an individual's performance, and seeks to develop a rank of the employees within a given work group. Ranking, forced distribution and paired comparison techniques fall under this category and each of these techniques are briefly explained as follows:

Ranking: According to Nel et al (2001) ranking involves the ordering of individuals according to overall merit or selected performance factors, from the best to the worst performer. The ranking method compares performance amongst a group of employees, but is not directed at personal development.

Forced Distribution: Categories are chosen to which a certain percentage of workers in a group are assigned. These categories usually range from poor performance through to superior performance (Nel et al, 2001). According to Fletcher (2004) if appraisers, when left to their own devices, do not distribute their ratings effectively, then they may be pressed by the human resource department to adhere to a set distribution.

Paired Comparison: Each worker is compared with every other worker in selected group. The final ranking of each individual is then determined by the number of times he or she was judged to be performing better than the others (Nel et al, 2001).

2.4.2 The Attribute Approach

The attribute approach to performance management focuses on the extent to which employees have certain attributes believed to be desirable for the company's success. The techniques that use this approach tend to define a set of traits believed to be important for success such as initiative, leadership, and competitiveness and evaluate employees on them as the following techniques show:

Graphic Rating Scales: A rating scale is developed by selecting various characteristics that relate to the specific job. The rater makes a choice across a continuum between two poles, usually ranging from strong agreement to strong disagreement, or from exceptional to poor (Nel et al, 2001).

Mixed Standard Scales: Mixed standard scales were developed as a means of overcoming some of the problems with graphic rating scales. To create a mixed standard scale, we must define the relevant performance dimensions, and then develop statements representing good, average, and poor performance along each dimension. These statements are then mixed with the statements from other dimensions on the actual rating instrument. The rater is asked to complete the rating instrument by indicating whether the employee's performance is above (+), at (0), or below (-) the statement. A special scoring key is then used to score the employee's performance for each dimension.

2.4.3 The Behavioral Approach

The behavioral approach to performance management attempts to define the behaviours an employee must exhibit to be effective on the job. The techniques described below define those behaviours, and then require managers to assess the extent to which employees exhibit them. There are five techniques that rely on the behavioral approach:

Critical Incidents: This technique focuses on the continuous recording of actual job behaviours that are typical of success or failure. Incidents reflecting good and bad performance are noted (Nel et al, 2001). Flanagan in Armstrong and Baron (2000) concluded in his research that to

prevent trait assessment and over concentration on output (MBO) appraisers should focus on critical behavior incidents, which are real, unambiguous and illustrated quite clearly how well individuals are performing their tasks. It is suggested by Flanagan in Armstrong and Baron (2000) that managers should keep a record of these incidents and use them as evidence of actual behavior during review meetings, thereby increasing objectivity. Dessler (2005) claims that in this method the supervisor of an employee keeps a log of good and poor performances of a subordinate's work related behavior. Then the supervisor and supervisee sit together to discuss on the lists of desired performances and those which are below expectations periodically. The incidents are used to give specific feedback to employees about what they do well and what they do poorly, and they can be tied to the company's strategy by focusing on incidents that best support that strategy.

Behaviorally Anchored Rating Scales (BARS): Fletcher (2004) points out that the BARS method of assessment represents the most sophisticated approach to improving on the problems inherent in rating scale use. The behaviorally anchored based rating scales method tries to put the appraiser into the role of an objective observer of behavior rather than a judge, and seeks to minimize the scope for subjectivity. The BARS method combines graphic rating scales with examples of critical incidents. These rating scales are job specific and require a high level of participation from supervisors (Nel et al, 2001).

Behavioral Observation Scales: A behavioral observation scale (BOS) is a variation of BARS. A BOS is developed from critical incidents like BARS. However, a BOS differs from BARS in two basic ways. First, rather than discarding a large number of the behaviors that exemplify effective or ineffective performance, a BOS uses many of them to more specifically define all the behaviors that are necessary for effective performance. A second difference is that rather than assessing which behavior best reflects an individual's performance, a BOS requires managers to rate the frequency with which the employee has exhibited each behavior during the rating period. These ratings are then averaged to compute an overall performance rating.

Organizational Behavior Modification (OBM): Organizational behavior modification refers to managing the behavior of employees through a formal system of behavioral feedback and reinforcement. This system builds on the behaviorist view of motivation, which holds that individuals' future behavior is determined by past behaviors that have been positively reinforced. The techniques vary, but most of them have four components. First, they define a set of key behaviors necessary for job performance. Second, they use a measurement system to assess whether these behaviors are exhibited. Third, the manager or consultant informs employees of those behaviors, perhaps even setting goals for how often the employees should exhibit those behaviors. Finally, feedback and reinforcement are provided to employees.

Assessment Centers: The employee is appraised by professional assessors who may evaluate simulated or actual work activities. Assessment centers have the advantage of objectivity, which produces reviews that are not clouded by personal relationships with employees. After World War 11, military psychologists and officers joined private companies where they started assessment centers. It was used by American Telephone and telecommunication (AT&T) in 1956. Based on its research for over 25 years, the company found that managerial skills and competence can be assisted by varied procedures including "in-basket test" manufacturing problems, paper and pencil ability tests, projective tests, interviews, personality inventories and simulations (Olowu, 2013).

2.4.4 The Results Approach

The results approach focuses on managing the objective, measurable results of a job or work group. This approach assumes that subjectivity can be eliminated from the measurement process and that results are the closest indicator of one's contribution to organizational effectiveness. The two major performance management systems that use results are management by objectives (MBO) and the productivity measurement and evaluation system (PROMES). Drucker in Armstrong and Baron (2000: 33) first formulated the term management by objective when he wrote "what the business enterprise needs is a principle of management that will give full scope to individual strength and responsibility and at the same time give common direction of vision

and effort, establish team work and harmonize the goals of the individual with the common will. The only principle that can do this is management by objective and self-control.” MBO is a process that involves setting specific measurable goals with each employee and periodically reviewing the progress made (Dessler, 2005). In an MBO system, the top management team first defines the company’s strategic goals for the coming year. These goals are passed on to the next layer of management, and these managers define the goals they must achieve for the company to reach its goals. The goal-setting process cascades down the organization so that all managers are setting goals that help the company achieve its goals. The goals are used as the standards by which an individual’s performance is evaluated. The main goal of ProMES is to motivate employees to higher levels of productivity. It is a means of measuring and feeding back productivity information to employees.

2.4.5 The Quality Approach

The two fundamental characteristics of the quality approach are a customer orientation and a prevention approach to errors. Improving customer satisfaction is the primary goal of the quality approach. Customers can be internal or external to the organization.

2.5 SOURCES OF PERFORMANCE INFORMATION

According to Noe et al (2000), there are five primary sources for performance information as described below:

Managers: Managers are the most frequently used source of performance information. It is known that supervisors have extensive knowledge of the job requirements and that they have had adequate opportunity to observe their employees on the job and therefore they have the ability to rate their employees. A manager or supervisor appraises the employee’s job performance and delivers the appraisal to the employee. The employee is not involved in the appraisal process resulting in a one-sided view of performance (Hakala, 2008).

Peers: Another source of performance information is the employee's co-workers. Peers are an excellent source of information in some jobs where supervisors do not always have the opportunity to observe employees while doing the job. Peer evaluation can be used when the supervisors are frequently absent or as an additional review to confirm the findings of the supervisors (Reynolds, 2009). Employees also interact with other members of the staff frequently. At times, peers may have a better and clear understanding of what their colleagues are doing since they interact on a daily basis. They are also more directly affected by the employees' actions either in a positive manner or negative manner. In addition peers can also evaluate the ability of their colleagues since they interact individually or in groups.

Subordinates: Subordinates are valuable source of performance information when managers are being evaluated. Subordinates often have the best opportunity to evaluate how well a manager treats and develops employees.

Self: Although self-ratings are not often used as the sole source of performance information, they can still be useful. Individuals have extensive opportunities to observe their own behavior, and usually have access to information regarding their results on the job. The employee appraises his or her job performance, in many instances, comparing the self-appraisal to the manager's appraisal. Self-appraisals can highlight discrepancies between what the employee and management think are important performance factors and provide mutual feedback for meaningful adjustment of expectations (Hakala, 2008).

Customers: The customer is often the only person present to observe the employee's performance and thus is the best source of performance information especially for frontline employees.

2.6 CONDITIONS FOR EFFECTIVE PERFORMANCE MANAGEMENT SYSTEM

2.6.1 Incorporating the Performance Management System in all the Organization's Functions

PMS should promote a holistic approach. Performance management should be integrated with key processes and functions of the business. What employees do should contribute to the achievement of team and organizational objectives.

In the HR department specifically, the system should support and be integrated with the host of other human resource actions such as selection, disciplinary processes, training and retention efforts. This horizontal integration means aligning performance management strategy with other human resource strategies concerned with valuing, paying, involving and developing people.

2.6.2 The PMS Driven by Line Managers and Owned by all the Staff

The line managers play an indispensable role for the smooth implementation and maintenance of the PMS throughout the year and they ensure clarity of goals, expectations and accountabilities for achieving success. For a PMS to be effective, it must be owned, driven and delivered by line managers (Nel, Van, Haasbrack, Schultz, Sono and Werner 2004; Armstrong and Baron, 2005; Rao, 2007). The line manager should set goals and objectives that are flexible so that they are adapted or modified to meet changing priorities and business challenges. They should ensure the system is simple, easy to understand, use and it is efficient. Accountability measures must be built into the system to ensure positive performance related interactions occur and are conducted in a manner that achieves the intended objectives. This creates ownership of the system by all concerned.

2.6.3 Conducting a Performance Improvement Analysis

According to Buchner (2007), successful use of performance management system should include the conduct of cautious study regarding the existing performance management system and the identification of a relevant and strong theoretical support. Such a theoretical base must be in congruent with the circumstances of the organization, or to simply put, the culture of the organization. The integration of a well-founded and valid theory in the performance management system will result surely to the attainment of a highly performing organization. The analysis entails comparing current performance against specific performance standards. The manager

measures the frequency of employee behavior and the physical evidence of completed work produced by those behaviors prior to implementing any type of change. During this analysis, the manager measures present performance, modifies standards if necessary, specifies why behavior is deficient, calculates the net economic value of the improvement by taking into consideration the cost of solutions and places them in priority order. The result of this analysis is the identification of potentially high payoff behaviors and outputs that can be improved, (Burgoyne, 1996).

2.6.4 Performance Measurement is Essential in the PMS

Measuring performance against predetermined standards is essential if the PMS is to have sufficient economic value to an organization. While most organizations measure some performance, there are unfortunately, many key outputs and behaviors that are not measured, (Center for organizations excellence, 2003). According to Nash & Poling (2012) when performance is measured, there must be a reason for the measurement. More importantly, the measurement should tie in with the company's overall strategy for success. Starting at the top of the organisation, key performance indicators (KPIs) are the measurements that set the stage for everything else measured. Key performance indicators should be indicators, not goals or objectives; they should be metrics that show how the company or employee is performing.

Furthermore, there should only be a few vital measurements that are used at this level (Nash & Poling, 2012). The remaining metrics used throughout the organisation should tie into the key performance indicators, or should show individual progress or success.

2.6.5 Continuous Improvement

Performance management system is not a onetime activity but it needs continuous review to ensure its effectiveness and actions should be taken as required to improve the system. Experience in various commonwealth countries has shown that they may require major updating after five years (De Bruijn, 2002). Most performance management systems, while well-

intentioned, are fraught with numerous challenges that impact on its implementation. This range from lack of regular system review, lack of training on performance management, shortage of resources in organizations, abuse of the system as well as lack of reward. These impediments need to be addressed with a sense of urgency if at all the performance management system is to remain credible in the eyes of the stakeholders (Robbins, 2007).

2.6.6 Performance Appraisal

Performance appraisals are an essential part of the PM process (Fletcher 2004). Performance appraisals should be purely for performance improvement. Numerical ratings and forced distributions of performance measures work against the primary goals of performance and should be avoided as far as possible. Kuvaas (2006) states that there is a positive relationship between satisfaction felt by employees with regards to the appraisal and their results in the form of work performance which in turn will affect the organisational commitment and turnover. Pilbeam and Corbridge (2006) suggest that the main aim of the performance appraisal is to measure an individuals or teams achievement against specified objectives which were agreed upon.

2.6.7 Staff Training and Development

The PMS process should provide for individual development and career planning. Line managers work together with staff to prepare, implement and review individual performance development plans (PDP's). PDP's should be forward looking and integrate job goals and learning plans. Training has been found to play an important role in ensuring the success in the performance management implementation (Tobin, 2008). Managers should use feedback sessions as foundations for providing further training, coaching and counseling. Line managers are also expected to mentor their staff. Performance related training philosophy involves relating training specifically to performance and competence requirements. According to Chiaburu and Tekleab (2005) training is designed to enhance employees' job performance in an organization and helps employees to improve their ability. Mullins (2005) claimed that training may reduce frustration or anxiety of employees who are not familiar with skills for their jobs. After training, employees learn more and may improve their confidence and performance. Consequently, Harrison (2000)

also made a similar conclusion that training contributes to the positive performance of an organization.

Some of the benefits of employee training and development which can be identified during the appraisal are as follows (Armstrong & Baron, 2004);

- Increased employee motivation
- Increased job satisfaction
- Develops the employee
- Better morale amongst employees
- Increase efficiencies, better productivity results from employees
- Ability to adapt to new practices and new technologies with ease

McMahon (1999) states that ongoing training and development will motivate the employee to strive to reach organisational objectives.

2.6.8 Providing Objective Support to Compensation Decision

Individual performance is one factor in determining pay and it is important to communicate a pay philosophy that clarifies the relationship between pay and performance. Typical features of performance are:

Pay progression and performance- the rate and limits of progression through the pay brackets are determined by performance ratings.

Decelerated progression- pay progression relating to performance is typically planned to decelerate through the grade because it is in line with the learning curve theory that pay increases should be higher during earlier period in a job when learning is at its highest rate (Armstrong, 1994).

2.7 MAJOR CHALLENGES OF PMS IMPLEMENTATION

The major challenges in implementing an effective PMS are explained briefly hereunder:

2.7.1 Poor Integration and Alignment

Aligning organizational goals with individual goals is one of the most essential areas in performance management practices. According to Panda (2011) the organizational objectives and measures taken at the strategic levels have to be cascaded from the top level to the lower level. Nel, Gerber, Van Dyk, Haasbroek, Schultz, Sono and Werner (2001:37) indicate that the individual and the organisation are thus in constant interaction with each other, with the aim of attaining their mutual goals. Performance management has to be approached from an integrated perspective. Synergy has to be created between the PMS and strategic planning, human resource management processes, organisational culture, structure and all other major organisational systems and processes. Individual, team and organisational strategic objectives must be harmonised (Saravanja, 2010: 258). Performance management has to be approached holistically. There should be integration among the PMS, strategic planning and other systems and processes. Integration should also be maintained among different levels of strategic objectives. In the absence of integration, PMS cannot succeed no matter how good the performance management system may be (Saravanja, 2004).

2.7.2 Complexity Issues of the System and the Tool

Performance management system should operate flexibly to meet different circumstances of the organization; it has to be accepted by all staff as a natural component of good management and work practice; it should be transparent and operate fairly and equitably (Armstrong and Baron, 2002). The system has to be also flexible enough to include core competencies which are the common attributes, type, level and quality of skills and behaviors that employees are expected to demonstrate so that the organization can meet its objectives (Common Wealth Secretariat, 1996). Moreover, for a system to be easily implemented and to produce the intended result it has to be clear, simple (as much as possible), and requires the necessary skills for effective and efficient implementation of the system.

2.7.3 Leadership Support

The implementation of the performance management system has to be supported and driven by top leadership and management. Leadership has to be committed to implementing the performance management system, (Saravanja, 2010:259). Leaders should be encouraged to develop the capacity to create a shared vision, inspire staff and build a performance management system that drives the entire organisation towards a common purpose in order to attain its goals.

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. The absence of commitment from senior and line management can further complicate matters as employees from lower levels will certainly not take PMS seriously (Ochurub, Bussin and Goosen, 2012).

Effective change in an organization's culture comes from able, strong and committed leaders. The PMS needs to be driven by the strategy and senior management of an organization without which the effective implementation of the system will face difficulty and lack of the required support throughout the hierarchy of the organization. Senior management must do more than simply articulate the need for effective PMS, they must be role models of effective performance management behaviour which is the critical element in their leadership with respect to the performance management system (Carter et al, 2001).

2.7.4 Resistance to Change

According to (Reynolds, 2004) the only constant business in life is change that could be large or small, rapid or slow, planned or unplanned, controlled or not controlled from implementation of a new system. Change in an organization can be introduced by internal forces like new strategy, new technology, employee attitude and behaviors and external forces like technological environment, the economic environment, the political and legal environment, social conditions, and competitive environment.

Some features of successful change in organisations include having clear change architectures (Carnall, 2007), the buy-in and acceptance of stakeholders (Keet, 2005), clear overviews of the goals and directions of the change processes and the roles people will play (Hale, 2004). It is also essential to be open to hearing frustrations, engaging in dialogue and managing expectations (Ainsworth, Smith and Miller, 2002). Leaders must create a sense of urgency in their organisations, build teams that can guide the change processes, continually communicate the need for change and then empower people to carry out the required change efforts (Allio, 2005; Amanto, 2009; Bennis, 2006; Stensgaard, 2007). Poor leadership during the change process can mean that organisations become dysfunctional (Stacey, 2003).

2.7.5 Skills Gaps

The people involved in the performance management system should have the relevant information, attitudes and expertise to utilize the system. According to Armstrong, (2010) the desired behaviors skills needed comprise; developing of measures of performance, basic results areas, essential management skills and performance agreements, measuring performance indicators, communicating outcome and response, monitoring and evaluating the management system performance. The implementation of dynamic development and training interventions are required to make sure that system users get continually developed, and particular emphasis on soft skills and the behavioral dimension in performance (Saravanja, 2004). Reynolds (2004) makes the point that improvement and learning are casually related. All those involved in the performance management system must possess the required competencies for the smooth implementation of the system. The existing skills gaps should be identified, trainings should be designed and conducted for filling the gaps.

Competence is required from supervisors as they are required to have appropriate knowledge, attitudes and skills to utilize the PMS. The following are the major skills required; development of performance indicators, key results areas, core management competencies and performance agreements; measurement of performance indicators; communication of results and feedback and monitoring and evaluation of the performance management system (Saravanja, 2010:260).

2.7.6 Managing Rewards

According to Concharuk and Monat (2009:767) the organisation must keep an effective rewards system to improve their behaviours. A system that rewards high performance and dejects low and average performance must be put in place. A comprehensive and holistic reward system, which includes various rewards such as financial rewards, public acknowledgments, merit awards, promotions, greater work responsibilities, learning and study opportunities, should be developed and communicated to staff. Armstrong, (2001) is of the opinion that a reward system should be holistic and comprehensive comprising of promotions, opportunities for learning and exploring, financial rewards and greater work responsibilities. Much greater emphasis must be given to non-monetary rewards. Mechanisms must be put in place to take corrective action against low performers.

Ajila and Abiola (2004) showed that a good reward package can have a positive impact on performance of employees, while Allen and Kilmann (2001) argue that reward strategies are essential in increasing the performance of employees and to achieve the aims of the organisation. A well designed benefit package serves to reduce turnover, to build loyalty and commitment and to build sustainable competitive advantages (Dessler, 2004).

2.7.7 Communication Challenges

To alleviate misconceptions and to ensure that the benefits and implementation of PMS are well understood, organisations should communicate contentiously until all employees are aware of and become part of the implementation process (Dressler, 2004). Whittington-Jones (2005:12) argues that Performance Management System provides a communication channel that can motivate staff and improve their attainment of objectives through the use of the reward based system. A clear process and strategy for communication must be realized throughout the implementation of the PMS. Communication plays a critical role for the successful implementation of a performance management system. An effective PMS actively involves employees throughout the performance cycle, hence Kotter (2007) asserts that continuous

communication is very much important to reinforce the message so that there is no delusion as to what brought about the need for PMS.

2.7.8 Organizational Culture

The most critical and frequently experienced challenge in the development, implementation and maintenance of PMS within organisations is probably organisational culture (Markus, 2004). The traditional organisational culture is a significant obstacle to effective performance management. Cultural challenges are typically the result of people's inherent resistance to change. Employees may feel threatened by new system being implemented, or may have become paranoid as a result of the failure of previous system. Performance management systems are mainly manifestations of and powerful mechanisms for supporting the organization's work culture. It is, therefore, logical that any discussion of performance management system would be incomplete before exploring the meaning/context of culture and its impact on performance management system enabling one to suggest the type of culture that supports the identification and development of an appropriate culture to an organization.

2.8 PERFORMANCE MANAGEMENT PRACTICE IN ETHIOPIA

In this sub-section the performance management practices of some Ethiopian organizations as found out by research will be described.

(Abate, 2016) In his assessment on performance management practices and its challenges in case of Commercial Bank of Ethiopia in Addis Ababa area Branches came up with the following findings: lack of transparency and continuous feedback to show the progress of the employees towards the desired performance are the major problems facing the bank; raters do not have adequate training and skill to seriously undertake the issue and they are not also motivated or negligent to perform the job; there is no alignment between performance management system and employee benefit packages; and most of the respondents agreed that the performance management system (i.e., BSC) has helped the bank to integrate the individual objectives with

the bank's objectives and it helped them to integrate their day to day activity with the overall objective of the organization.

(Ayanaw, 2017) In his research paper on the assessment of the performance management practices of Commercial Bank of Ethiopia found out the following: there is no effective goal communication and PMS doesn't play great role for company success; there is lack of alignment between individual and organizational goals; performance assessment is not conducted based on written evidences; there is no clear mechanism to address underperformance; PMS is not aligned to company's business strategy; there are no meaningful incentives to encourage employees to develop or deploy sufficient capabilities to achieve the goals; PMS is not integrated with other HR functions; top management is not striving to create a positive work environment; and performance management processes are not done free of bias and objectively.

Gedamu (2016) made an assessment of employees' performance management practice at Self Help Africa Ethiopia Office and found out the following: all of the respondents understand Self Help Africa's mission, strategies, objectives and values as well of the objectives of their respective departments; majority of the respondents have stated that they have actively participated in the formulation of their annual performance plan; the majority employees have been getting timely feedback from their supervisors on their performances; most employees agreed that they let their supervisors know whenever they face challenges to implement their plans and they have been provided with the necessary resources to execute their plans; the majority of the respondents claim that their performances are measured against the pre-set objectives and that they have been given with chances to explain the reasons whenever they are unable to accomplish according to their plan and the salary related rewards and pay rises are not decided based on the outputs of the performance management system.

Girma (2016) In assessing employees' performance management system of Hilton Addis Ababa Hotel, stated the following findings: the majority of employees in Hilton Addis Hotel are well aware of corporate, functional as well as team goals of the hotel; most participants understand the linkage between the individual goal to organizational objectives and values; the Hotel's performance management process is not well communicated to all employees; getting ongoing

positive and constructive feedback about the progress of performance on timely manner is minimal, there are no clear criteria and standards on which evaluation is based and assessments are not based on results and behaviors agreed in the planning stage; and formal feedback is given to employees in relation to objectives but supervisors don't identify what the subordinate has done well and poorly by citing specific positive and negative behaviors.

Sefani (2017) while analyzing the effect of performance management system on employee performance in Justice for All-Prison Fellowship Ethiopia, identified the following findings: performance feedback has significant relation with employee's performance; performance planning also has significant and positive relationship with employee performance; and reward system has a significant and positive relationship with performance.

Sertsu (2016) In her thesis concerning the assessment of the performance management practice of World Vision Ethiopia arrived at the following findings: the majority of staff have clear understanding of and commitment to WV's mission, strategy and objectives and they have obtained orientation and training on performance management; the majority of employees have participated in planning process and there exists participatory performance management environment; the majority of staff in higher position is relatively better satisfied with the performance management practice as compared to staff in lower positions; the majority of respondents revealed that performance results have helped staff to improve performance; and the practice of using performance management for training need assessment is not prevalent.

Yilma (2014) carried out the assessment of the performance management practice and challenges in Ethiopian Management Institute and identified the following findings: the departmental and individual goals were not fully aligned with organizational goal; there is limited participation of employees in performance planning which leads to negative attitude for the plan; most of the respondents did not have a chance to jointly agree on the standards of performance measures with their supervisors which help them to know with what rate they are going to be assessed; there is no room for respondents to set an individual development plan in consultation with their supervisors; employees are not equally informed when there is a change in organizational goal which affect their work unit and individual goal and their goal is not adjusted too according to

the new organizational goal; majority of the respondents did not get a chance to assess their own performance and have a discussion with their supervisors to see where they stand in their own eyes; and there is a high level of bias from supervisors while rating employees' performance which will affect the actual performance of an employee.

CHAPTER THREE

RESEARCH METHODOLOGY

In this section of the study, the research approach utilized in the course of the study, the research design, the population and sample size covered by the study, the types and sources of data used, the procedures followed during data collection, data analysis techniques and ethical considerations of the study are presented.

3.1 RESEARCH DESIGN AND APPROACH

In this study descriptive survey research design was used by using both qualitative and quantitative method. This design was particularly important for the study because it helps to describe and interpret the actual events that exist now and existed in the past and that have influences on the present performance management system of AACCSA.

This study has applied both qualitative and quantitative approach (mixed method approach). The core argument for a mixed methods approach is that the combination of both forms of data provides a better understanding of a research problem than either quantitative or qualitative data by itself. Mixed methods designs are procedures for collecting, analyzing, and mixing both quantitative and qualitative data in a single study or in a multiphase series of studies (Creswell, 2012). Hence, by applying the mixed method the researcher has tried to ensure the strength of the findings towards being more objective.

3.2 POPULATION OF THE STUDY

As discussed in the scope of the study this research focuses on Addis Ababa chamber of Commerce and Secotral associations (AACCSA). The total number of permanent staff when this study is conducted was 52. Among them, only 42 have been with the organization at least for one

performance period. The remaining ten staff is new and is excluded from the study due to the fact that they are not acquainted with the performance management practices of AACCSA and they are not familiar with the full cycle of the PM process. As the number of the population is small to manage for the study purpose, a census approach is assumed.

3.3. METHOD OF DATA COLLECTION

In order to gather data from relevant sources, both primary and secondary data collection instruments were used. Primary data was conducted in the form of questionnaire and interviews to gather data from employees and managers. Whereas secondary data was collected from written documents on PMS, different books, journal articles, unpublished researches and manuals. The information that was obtained by using both instruments was integrated during data presentation and analysis phase.

Questionnaire is a research instrument consisting of a series of questions for the purpose of gathering information from respondents. It has advantages over some other types of surveys in that it is cheap, do not require as much effort from the respondent and often have standardized answers that make it simple to compile data. The study used questionnaires as the main instrument for the collection of primary data. The questionnaire includes both closed-ended and open ended questions to elicit the respondents feeling about practices and challenges of PMS in AACCSA freely.

Interview was the other type of data collection instrument used in the study. This helped the researcher to get reliable information from the target population on how they feel and think about issues. Consequently, the purpose of the interview was to substantiate the results obtained from the questionnaire thereby to get a greater depth of information. The interview questions were prepared in a semi structured type consisting of a total of 6 questions to be used as an instrument for the collection of further information from managers and employees of AACCSA that is selected through purposive sampling.

3.4 METHOD OF DATA ANALYSIS AND PRESENTATION

Once the raw data was on hand, quantitative and qualitative methods of data analysis was used. Particularly with the quantitative data collected via the questionnaire, a descriptive statistical analysis method and SPSS was used to tabulate the data and present it in tables. Particularly statistical tools like frequencies, percentage method, mean and standard deviation was used to analyze data. Moreover, to analyze the data obtained through interview qualitative method of data analysis was employed. Perhaps, the data gained through this method was used to back the information gathered via the main tool of the research, which is the questionnaire.

3.5. RELIABILITY TEST RESULT OF THE INSTRUMENT

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.997	.997	31

SPSS Output

The main data collection instrument for this study is the questionnaire and in order to test the reliability of the instrument the responses obtained were used for calculating the cronbach alpha. A cronbach alpha value of 0.997 was obtained after inputting the data into SPSS application as shown in the table above. According to Tavako (2011) cronbach alpha result ranging from 0.70 to 0.95 implies acceptable level of internal reliability. The result, therefore, indicates that the questionnaires of the study were internally consistent by 99.7 percent.

3.6 ETHICAL CONSIDERATIONS

When questionnaires were distributed the researcher informed respondents on the introduction part of the paper about the title and objective of the study. In addition to this, in order to develop respondents' confidence they were informed that their responses will be kept confidentially and the information is used only for academic purpose. To avoid misunderstanding and problems related with questionnaires in acquiring information from the employees, the researcher designed the questionnaire in a clear and understandable manner.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

In this chapter data collected through questionnaire, interview and document review will be presented, analyzed and interpreted in a brief and organized way. The response rate was 81%.

4.1 DEMOGRAPHIC INFORMATION OF RESPONDENTS

In this section, the general background the respondents of the study is summarized by focusing on their gender, age group, educational status and years of service in AACCSA.

Table 1: Gender Distribution of Respondents

Category	Frequency	Percent
Male	17	50.0
Female	17	50.0
Total	34	100.0

Table 2: Age Distribution of Respondents

Category	Frequency	Percent
20 – 29 years	2	5.9
30 – 39 years	10	29.4
40 – 49 years	14	41.2
50 years and above	8	23.5
Total	34	100.0

Table 3: Work Experience of Respondents

Category	Frequency	Percent
1 – 3 years	9	26.5
3 – 6 years	7	20.6
6 – 9 years	7	20.6
More than 9 years	11	32.3
Total	34	100.0

Table 4: Education Level of Respondents

Category	Frequency	Percent
College Diploma		
BA/BSc Degree	12	35.3
MA/MSc Degree	22	64.7
PhD		
Total	34	100.0

Source: Own Survey (2020)

Among the total respondents i.e. 34, 17 (50.0%) of them were male and the remaining 17 (50.0%) were female. This shows that there is gender balance in AACCSA unlike many organizations in the country and the participation of women in the workforce is commendable.

The larger portion of the respondents that is 14 (41.2%) falls within the age group of 40 to 49. The age group from 30 to 99 and above 50 hold 10 (29.4%) and 8 (23.5%) number of respondents respectively. Age group 20 to 29 contains the least number of respondents, which are 2 (5.9%). From this we can say that the majority of AACCSA employees are matured and stable and they are in a better position to align themselves with the mission and vision of the organization. Concerning educational status of the respondents, staffs who have master's degree have the largest portion which is 22 (64.7%) among the total respondents and the rest of the respondents which is 12 (35.3%) are degree graduates. From the above table we can see that no one from the respondents have certificate, college diploma or PhD. All of the respondents are either degree or master's degree graduates and it is believed that their educational qualification would help them to understand the questionnaire easily as desired by the researcher. Based on the data collected through questionnaire, the large portion of respondents i. e. 11 (32.3%) have more than 9 years of service in AACCSA, the second highest percent i. e. 9 (26.5%) of the respondents fall within 1 to 3 years of experience, 7 (20.6%) of the respondents have 3 to 6 years of experience and the rest 7 (20.6%) have from six to nine years of experience in AACCSA. It can therefore be concluded that the majority of the respondents have extensive experience in AACCSA and they are in a good position to evaluate the practices and challenges of AACCSA's performance management system. Moreover, the profile of the respondents in terms of higher educational qualification and extensive experience increases the quality of data gathered and the validity of the findings.

4.2 DATA ANALYSIS ON PERFORMANCE MANAGEMENT PRACTICE

As indicated in the preceding chapter, the practice of performance management of AACCSA has been investigated in terms of the specific practices of performance planning, execution, assessment and review. The data collected from the respondents has been analyzed and discussed below.

Table 5: Performance Planning and Execution

No.	Statements	SD		D		NAND		A		SA		Mean	STD
		F	%	F	%	F	%	F	%	F	%		
1	I know the strategic objective of AACCSA	4	11.8			4	11.8	13	38.2	13	38.2	3.91	1.264
2	I am well clear about my work unit's strategic objective	4	11.8			5	14.8	12	35.2	13	38.2	3.88	1.274
3	My work unit's goal is aligned with the strategic mission of AAACCSA	4	11.8			5	14.8	12	35.2	13	38.2	3.88	1.274
4	My individual goal is aligned with the strategic objective of my work unit as well as AACCSA	4	11.8	2	5.8	4	11.8	14	41.2	10	29.4	3.71	1.292
5	My work unit's objective is realistic and attainable	3	8.9	5	14.7	5	14.7	13	38.2	8	23.5	3.53	1.261
6	I am clear about what my job responsibilities are and what is expected from me	4	11.8	3	8.9			11	32.3	16	47	3.94	1.391

7	In AACCSA, goal setting is carried out with discussion between the employee and the supervisor	4	11.8	2	5.9	6	17.6	13	38.2	9	26.5	3.62	1.280
8	While setting a goal my supervisor clearly tells me the expectation he/she has from my performance			6	17.6	6	17.6	16	47.2	6	17.6	3.65	.981
9	I am informed and reach on an agreement with my supervisor about the standards that will be used to evaluate my work	2	5.9	2	5.9	7	20.6	17	50	6	17.6	3.68	1.036
10	My supervisor and I reach to an agreement about my development plan to enhance my performance	7	20.6	2	5.9	8	23.5	14	41.2	3	8.8	3.12	1.297
11	The goals set for me support to achieve the strategic objective of the work unit as well as AACCSA	3	8.8	3	8.8	9	26.6	13	38.2	6	17.6	3.47	1.161

12	AACCSA provides me sufficient resources to execute my job properly	3	8.8	3	8.8	16	47	5	14.8	7	20.6	3.29	1.169
13	I have received feedback regularly about my performance from my supervisor			7	20.6	10	29.4	13	38.2	4	11.8	3.41	.957
14	My supervisor keeps regular records on my performance and gets additional feedback from colleagues	5	14.7	5	14.7	11	32.4	10	29.4	3	8.8	3.03	1.193
15	I always get support from my supervisor while I face challenges in performing my day to day activities	4	11.8			9	26.4	14	41.2	7	20.6	3.59	1.184
16	There is a midterm review between my supervisor and me regarding my performance in the past months	5	14.7	5	14.7	9	26.4	10	29.5	5	14.7	3.15	1.282

17	Where the performance has not met minimum standards, my supervisor and I discuss the reason for this and way for improving performance	4	11.8	6	17.6	7	20.6	12	35.3	5	14.7	3.24	1.257
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Source: Own Survey (2020)

Performance management system should align individual objectives with work unit objectives and strategic objectives of the organization for its effectiveness. In the questionnaire, the first four questions deal with the issue of alignment. For the first question, the majority of the respondents (76.40) either agree or strongly agree that they know the strategic objectives of AACCSA. The remaining 11.8% neither agree nor disagree and 11.8% strongly disagree with the statement. This shows that most of the respondents have a good knowledge of the strategic objectives of the organization, which is a major step in the creation of alignment among the hierarchy of objectives. The majority of respondents (73.4%) also agree or strongly agree that they are clear about their work unit’s strategic objectives, which can be considered as a second step in the formation of alignment among objectives. Regarding the statement about the alignment of the work unit’s goal with strategic mission of the organization, 73.4% of the respondents agree or strongly agree that there is alignment and the remaining 14.8% and 11.8% neither agree or disagree and strongly disagree with the statement respectively. This analysis depicts that a good percentage of the respondents believe in the presence of alignment between work unit goals and the strategic mission of AACCSA. Most respondents (70.6%) agree or strongly agree that there is alignment among the strategic objectives of the individual, work unit and AACCSA and the rest 11.8%, 5.8% and 11.8% neither agree nor disagree, disagree and strongly disagree about the statement on the presence of alignment among the three levels of

objectives respectively. AACCSA has extensive experience in the implementation of strategic plan and the preparation of annual operational plan by cascading from the strategic plan as the current strategic plan is the fourth one in the history of the organization. Therefore, it can be concluded that the issue of alignment is well addressed in AACCSA.

The majority of the respondents (61.7%) either agree or strongly agree with statement five that states that their work units' objectives are realistic and attainable and the rest 14.7%, 14.7% and 8.9% of the respondents neither agree or disagree, disagree and strongly disagree with the statement respectively. Concerning the statement that respondents are clear about what their job responsibilities are and what is expected from them, the majority of respondents (79.3%) either agree or strongly agree and the remaining 8.9% and 11.8% of the respondents disagree and strongly disagree with the statement respectively. We can infer from these analyses that the majority of the respondents believe that their work units' objectives are realistic and achievable and they are clear about their job responsibilities and what is expected of them. Interviewees have further explained that employees have clear job descriptions and work units' objectives are set by cascading from organizational objectives through discussion of all concerned, which makes it easy to prepare personal objectives as it is a major step for the implementation of the PMS. They also explained that employees were not adequately involved in the preparation of both the strategic plan and the PMS but their involvement in the implementation starting from the cascading process is commendable.

Regarding the statement that goal setting is carried out with discussion between the employee and the supervisor, the majority of the respondents (64.7%) agree or strongly disagree with the statement and the remaining 17.65%, 5.9% and 11.8% neither agree or disagree, disagree and strongly disagree with statement respectively. The majority of the respondents (64.8%) further agree or strongly agree with the statement that their supervisor clearly tells them the expectation he/she has from their performance while setting a goal and the rest 17.6% and 17.6% of the respondents neither agree or disagree with the statement respectively. More than half of the respondents (55.8%) agree or strongly agree with the statement that the goals set for them support to achieve the strategic objectives of their work units as well as AACCSA and the

remaining 26.6%, 8.8% and 8.8% of the respondents neither agree or disagree, disagree and strongly disagree with the statement. This shows that most of the employees believe that there is joint goal setting between the supervisor and the employee, the supervisor clearly communicates his/her expectations to the employee during goal setting and the objectives at different levels in the hierarchy of the organization are interlinked. The involvement of employees in the goal setting process is also commendable according to interviewees. These findings further support the existence of alignment among the hierarchy of objectives in AACCSA and the presence of fertile ground for the successful implementation of the PMS.

The majority of the respondents (67.6%) either agree or strongly agree with statement that they are informed and reach on an agreement with their supervisors about the standards that will be used to evaluate their work and the other 20.6%, 5.9% and 5.9% of the respondents neither agree or disagree, disagree and strongly disagree with the statement respectively. This shows that most respondents believe that standards used to evaluate employee performance in AACCSA are jointly set and clear and it is not a controversial issue unlike the practices of other organizations.

Half of the respondents (50%) agree or strongly agree with the statement that their supervisors and they reach to an agreement about their development plans to enhance their performance and the remaining 23.5%, 5.9% and 20.6% neither agree or disagree, disagree and strongly disagree with the statement respectively. It is stated in the literature that one of the major purposes of any performance management system is development and half of the respondents believe that AACCSA's PMS is not appropriately serving one of its major purposes and a lot remains to be improved in this area. The interviewees also stated that the PMS is not serving its administrative purposes properly as ratings are not linked with pay and other motivational instruments.

Less than half of the respondents (35.4%) agree or strongly agree with the statement that AACCSA provides them sufficient resources to execute their job properly and the majority of the respondents with a percentage of 47.5%, 8.8% and 8.8% neither agree or disagree, disagree and strongly disagree with the statement respectively. We can infer from this analysis that a significant percentage of the respondents believe that AACCSA is not providing sufficient

resources for the accomplishment of their jobs and employees cannot be held accountable for failure to execute their planned activities and achieve their objectives as AACCSA provides them an excuse of lack of sufficient resources. Interviewees especially managers have highlighted that this is a serious issue and top management should give it due consideration in the upcoming performance periods.

Half of the respondents (50%) either agree or strongly agree with the statement that they have received feedback regularly about their performance from their supervisors and the rest 29.4% and 20.6% neither agree or disagree and disagree with the statement respectively. This shows that the practice of giving timely feedbacks to employees by the supervisors, which plays a great role for performance improvement, is not as widely practiced as expected and this has a negative impact on the overall effectiveness of the system. Less than half of the respondents (38.2%) also agree or strongly agree with the statement that their supervisors keep regular records on their performance and get additional feedback from colleagues and the majority of the respondents with a percentage share of 32.4%, 14.7% and 14.7% neither agree or disagree, disagree and strongly disagree with the statement respectively. This is an indication that there is a serious gap in following up the performance of subordinates and keeping regular records on the part of supervisors for defending their ratings during year end appraisals. This finding also shows that PMS in AACCSA is not treated as a continuous activity or cycle.

The majority of the respondents (61.8%) either agree or strongly agree with the statement that they always get support from their supervisors while they face challenges in performing their day to day activities and the remaining 26.4% and 11.8% of the respondents neither agree or disagree and strongly disagree with the statement respectively. This depicts that most of the respondents don not have a problem of getting support or guidance from their supervisors while performing their regular duties and there is good subordinate-employee relationship.

Regarding midterm review, less than half of the respondents (44.2%) either agree or strongly agree with the statement that there is a midterm review between their supervisors and themselves regarding their performance in the past months and the rest 26.4%, 14.7% and 14.7% neither

agree nor disagree, disagree and strongly disagree with the statement. The PMS manual of AACCSA clearly states that midterm review should be carried out for checking performance progress and taking corrective actions if there are deviations but this analysis shows that midterm review is not widely practiced in AACCSA at present. This finding also agrees with the above finding, which states that PMS in AACCSA is not treated as continuous process.

Half of the respondents either agree or strongly agree with the statement that where their performances have not met minimum standards, their supervisors and they discuss the reasons for these discrepancies and way for improving performance and the rest 20.%, 17.6% and 11.8% neither agree nor disagree, disagree and strongly disagree with the statement. This analysis of the respondents' response shows that discussing performance disparities between supervisors and subordinates and taking corrective actions for improvement is not adequately practiced as required and stipulated in the PMS manual. Interviewees have also mentioned that performance improvement through continuous discussion and feedback is not ingrained as a culture in AACCSA and HRD & Logistics Department is currently trying to some extent to bring about this culture through awareness creation, follow up and technical support given to work units about effective implementation of PMS. Both supervisors and employees consider PMS as an annual event instead of a continuous process as confirmed by the interviewees and this wrong perception is the root cause of the problem for the absence of continual performance discussion and feedback. Moreover, this wrong perception is an impediment for the continual improvement of the system and upgrading the performance of AACCSA through the implementation of an effective PMS.

Table 6: Performance Assessment and Review

No.	Statements	SD		D		NAND		A		SA		Mean	STD
		F	%	F	%	F	%	F	%	F	%		
1	I have been given a chance to assess my performance (self-appraisal method) based on the agreed plan	9	26.5	5	14.7	13	38.2	5	14.7	2	5.9	2.59	1.209
2	My supervisor always gathers information about my performance from my peers or subordinates while assessing my performance	6	17.6	6	17.6	12	35.4	6	17.6	4	11.8	2.88	1.250
3	When my supervisor assesses my performance he/she is biased by different reasons	7	20.6	7	20.6	10	29.4	6	17.6	4	11.8	2.79	1.298
4	After assessment have been done I always had a discussion meeting	3	8.8	6	17.6	9	26.5	9	26.5	7	20.6	3.32	1.249

	with my supervisor to review my performance												
5	The discussion I had with my supervisor is focused on the contribution I made, the capability I have and on my continuous development	2	5.8	9	26.5	5	14.7	9	26.5	9	26.5	3.41	1.305
6	In my opinion the objective of performance review in AACCSA is to motivate employees, to encourage development and to serve as a two way communication about the roles and expectations	4	11.8	7	20.6	11	32.3	5	14.7	7	20.6	3.12	1.297
7	My supervisor rates me in the middle of the scale even when my performance clearly warrants a substantially higher or lower rating	4	11.8	8	23.5	7	20.6	10	29.4	5	14.7	3.12	1.274

8	Minor events that have happened recently have more influence on the rating than major events of many months ago	5	14.7	6	17.7	8	23.5	10	29.4	5	14.7	3.12	1.297
9	Performance management system at AACCSA has provision for appeal in case there is disagreement with supervisor	4	11.8	10	29.4	9	26.4	7	20.6	4	11.8	2.91	1.215
10	I believe that there is no intervention by senior management to dictate the performance review rating.	8	23.5	5	14.7	4	11.8	11	32.3	6	17.7	3.06	1.476
11	Performance Management System in AACCSA brings massive work and consumes much time	9	26.4	5	14.7	10	29.4	6	17.7	4	11.8	2.74	1.355
12	The existing Performance	6	17.7	7	20.6	8	23.5	5	14.7	8	23.5	3.06	1.434

	Management System in AACCSA is a tiresome process so it's better to have other simple tool.												
13	Performance Management System is important for the success of me and AACCSA, thus it is good to have.	3	8.8	3	8.8	5	14.7	13	38.3	10	29.4	3.71	1.244
14	Senior management is committed to the successful implementation of the performance management system.	7	20.6	4	11.8	13	38.2	8	23.5	2	5.9	2.82	1.193

Source: Own Survey (2020)

A low percentage (20.6%) of the respondents either agree or strongly agree with the statement that they have been given a chance to carry out assessment of their performance (self-appraisal method) based on the agreed plan and the remaining 38.2%, 14.7% and 26.5% of the respondents neither agree nor disagree, disagree and strongly disagree with the statement. It can, therefore, be inferred that self-appraisal is not widely practiced in AACCSA. In the same way as self-appraisal, a low percentage (29.4%) of the respondents either agree or strongly agree with the statement that their supervisors always gather information about their performance from their peers or subordinates while assessing their performance and the rest 35.4%, 17.6% and 17.6% of the respondents neither agree nor disagree, disagree and strongly disagree with the statement.

This shows that peer appraisal and subordinate appraisal are not that much practiced in AACCSA. Interviewees have also proposed that AACCSA should adopt a 360 degree appraisal method in order to gather performance information about employees from different sources. Regarding bias in performance assessment only 29.4% of the respondents either agree or strongly agree with the statement that when their supervisors assess their performance he/she is biased by different reasons and the other 29.4%, 20.6% and 20.6% of the respondents neither agree or disagree, disagree or strongly disagree with the statement. This depicts that bias is not a significant problem in the performance assessment process in AACCSA as perceived by respondents. A little less than half of the respondents (47.1%) either agree or strongly agree with the statement that after assessment have been done they always had a discussion meeting with their supervisors to review their performance and the remaining 26.5%, 17.6% and 8.8% of the respondents neither agree nor disagree, disagree and strongly disagree with the statement respectively. This analysis clearly shows that the practice of holding fruitful discussions for future performance improvement after assessments needs further improvement. A little more than half of the respondents (53%) either agree or strongly agree with the statement that the discussion they had with their supervisors is focused on the contribution they made, the capability they have and on their continuous development and the rest 14.7%, 26.5% and 5.8% of the respondents neither agree or disagree, disagree and strongly disagree with the statement respectively. This also shows that the focus of review discussions in AACCSA needs to address the above-mentioned three areas if performance is to improve. In addition, these analyses depict that a culture of performance discussion and taking timely corrective actions is not that much developed in AACCSA and a lot remains to be done to bring about this culture.

Regarding the objective of performance review, only 35.3% of the respondents either agree or strongly agree with the statement that in their opinion the objective of performance review in AACCSA is to motivate employees, to encourage development and to serve as a two way communication about the roles and expectations and the other 32.3%, 20.6% and 11.8% of the respondents neither agree or disagree, disagree and strongly disagree with the statement respectively. It can be inferred from this analysis that the objective of performance review is not clearly understood and practiced in AACCSA. Interviewees have further explained that this

problem has a lot to do with lack of continuous training on PMS in general and the importance of midterm review and checking performance on a continuous basis.

From the respondents, 44.1% either agree or strongly agree with the statement that their supervisors rate them in the middle of the scale even when their performance clearly warrant a substantially higher or lower rating and the remaining 20.6%, 23.5% and 11.8% of the respondents neither agree or disagree, disagree and strongly disagree with the statement respectively. Though more than half of the respondents do not agree or strongly agree with the statement, a significant percentage believe that supervisors rate in the middle of the scale instead of rating at the appropriate level. 44.1% of the respondents either agree or strongly agree with the statement that minor events that have happened recently have more influence on the rating than major events of many months ago and the rest 23.%, 17.7% and 14.7% of the respondents neither agree or disagree, disagree and strongly disagree with the statement respectively. This also shows that more than half of the respondents do not agree or strongly agree with the statement but a significant percentage believe in the presence of recency error during performance review. Interviewees have elaborated that recency error is related with the failure of evaluators to hold performance records throughout the year.

Concerning appeals in the PMS process, only 32.4% of the respondents agree or strongly agree with the statement that performance management system at AACCSA has provision for appeal in case there is disagreement with supervisor and the rest 26.4%, 29.4% and 11.8% of the respondents neither agree nor disagree, disagree and strongly disagree with the statement respectively. It can, therefore, be inferred from this that there is no clear appeals procedure in the performance management system of AACCSA.

Half of the respondents either agree or strongly agree with the statement that they believe that there is no intervention by senior management to dictate the performance review rating and the remaining 11.8%, 14.7% and 23.5% of the respondents neither agree nor disagree, disagree and strongly disagree with the statement respectively. This shows that a significant percentage of the respondents have belief in the intervention of senior management in dictating performance

review rating. Interviewees have also mentioned some instances of interference by top management in dictating performance rating.

A little percentage of the respondents (29.5%) agree or strongly agree with the statement that Performance Management System in AACCSA brings massive work and consumes much time and the other 29.4%, 14.7% and 26.4% of the respondents neither agree nor disagree, disagree and strongly disagree with the statement respectively. Therefore, the majority of the respondents believe that PMS in AACCSA does not bring massive work and does not consume much time. Only 38.2% of the respondents also agree or strongly agree with the statement that the existing Performance Management System in AACCSA is a tiresome process so it is better to have other simple tool and the rest 23.5%, 20.6% and 17.7% of the respondents neither agree nor disagree, disagree and strongly disagree with the statement respectively. This shows that the majority of the respondents do not want the existing PMS to be replaced by a simple tool. Moreover, interviewees elaborated that AACCSA's current PMS can serve its purpose if its implementation is strengthened through further training and various awareness creation programs based on the analysis of the needs of all concerned parties.

A significant majority of the respondents (67.7%) either agree or strongly agree with the statement that Performance Management System is important for the success of themselves and AACCSA, thus it is good to have and the remaining 14.7%, 8.8% and 8.8% neither agree nor disagree, disagree and strongly disagree with the statement respectively. This indicates that most of the respondents believe in the importance of PMS for their own success and the success of the organization. This finding brightens the prospect of the system as belief in the system for both personal and organizational success plays a great role for success of the PMS.

A few percentage of the respondents (29.4%) either agree or strongly agree with the statement that senior management is committed to the successful implementation of the performance management system and the remaining 38.2%, 11.8% and 20.6% of the respondents neither agree nor disagree, disagree and strongly disagree with the statement respectively. The role of top management is very crucial for the effectiveness of PMS and the analysis shows most of the

respondents do not believe top management is committed to the successful implementation of the performance management system. The interviewees further stressed that top management is not giving the required attention for the successful implementation of the system and any system that do not get the support of top management cannot succeed.

Referring to the analysis and interpretation done in the previous chapter, summary, conclusions and recommendations for the study are presented as follows.

5.1 SUMMARY OF MAJOR FINDINGS

The main objective of this study was to investigate the practices and challenges of performance management system in Addis Ababa Chamber of Commerce and Sectoral Associations and to draw lessons learned by having the following basic questions to be addressed.

1. How is performance management practiced in Addis Ababa Chamber of Commerce and Sectoral Associations (ACCSSA)?
2. How is AACCSA's performance management system implemented and what were the respective roles of managers and employees in the development and implementation of the system?
3. How effective was the overall implementation of the performance management system and what lessons can be learnt?
4. What is being done to address the challenges related to the performance management system in AACCSA?
5. What are the prospects of the performance management system?

In order to address the above basic questions, descriptive survey research design was employed by using mixed research approach which comprises both quantitative and qualitative methods of data gathering. Data was gathered through questionnaire, interviews and also document review were made to triangulate and increase the validity of the data obtained. To collect representative

data, 42 questionnaire copies were distributed out of which 34 of the questionnaires were collected. Furthermore, interview was also conducted with selected staffs that were not incorporated in the questionnaire for triangulation.

The data collected from target respondents through questionnaire was compiled and summarized by using SPSS statistical software. The variables were analyzed by using frequency counts, percentages, mean values, and standard deviation. Finally, information obtained through open ended questionnaire, interview and document review were analyzed and interpreted. According to the data analysis presented in previous chapter, there were both positive and negative findings concerning AACCSA's performance management system. Overall the major findings are presented below in relation to the responses gathered from the respondents.

- Most of the respondents confirmed that the departmental and individual goals are aligned with organizational goals and the objectives at individual, work unit and organizational levels are interlinked. This was also supported by the interviewees who claimed that AACCSA has a relatively long history of implementing strategic plans and preparing both work unit and individual annual performance plans by cascading from the strategic plan. This finding is similar to Sertsu's (2016) finding in her thesis concerning the assessment of the performance management practice of World Vision Ethiopia as she identified the majority of staff have clear understanding of and commitment to WV's mission, strategy and objectives. Girma (2016) also found out in assessing employees' performance management system of Hilton Addis Ababa Hotel that the majority of employees in Hilton Addis Hotel are well aware of corporate, functional as well as team goals of the hotel and most participants understand the linkage between the individual goal to organizational objectives and values.
- The majority of the respondents believe that their work units' objectives are realistic and attainable and they are clear about their job responsibilities and what is expected of them. Interviewees further elaborated that work units' annual objectives are prepared by cascading from the strategic plan and every employee has a clear job description that details the duties and responsibilities of the position.

- Goals are set with discussion between the employee and the supervisor and the supervisor clearly communicates his/her expectation during goal setting. Gedamu (2016) in his assessment of employees' performance management practice at Self Help Africa Ethiopia Office found out that respondents have actively participated in the formulation of their annual performance plan.
- The standards used to evaluate employee performance in AACCSA are jointly set by the supervisors and employees and they are clear.
- Half of the respondents believe that AACCSA's PMS is not serving its developmental purposes appropriately. Interviewees further added that AACCSA's PMS is not being used as a tool for identifying the training needs of employees and planning for development based on the analysis. It is not also serving its administrative purpose related with reward. Sertsu (2016) in her assessment of the performance management practice of World Vision Ethiopia also found out that the practice of using performance management for training need assessment is not prevalent.
- The majority the respondents believe that AACCSA is not providing sufficient resources for the accomplishment of their jobs. This issue was elaborated during the interview and the main problem in AACCSA is not planning but providing sufficient resources during the execution phase. In contrast to this finding, Gedamu (2016) in his assessment of employees' performance management practice at Self Help Africa Ethiopia Office found out that employees have been provided with the necessary resources to execute their plans.
- Half of the respondents believe that there is no practice of giving timely feedbacks and the majority of the respondents believe that supervisors do not keep regular records of employee performance. Most of the interviewees also confirmed that supervisors do not give feedback to employees on a continuous basis once the planning phase is over and they do not keep records of employee performance. Girma (2016) also found out that getting ongoing positive and constructive feedback about the progress of performance on timely manner is minimal in Hilton Addis Ababa Hotel.

- The majority of the respondents confirmed that they always get support from their supervisors while they face challenges in performing their day to day activities.
- Midterm review for checking performance progress and taking corrective action in case of deviations is not widely practiced in AACCSA.
- Half of the respondents do not believe there is a practice of discussing performance disparities between supervisors and subordinates and taking corrective action for improvement.
- According to the majority of the respondents, self-appraisal, peer appraisal and subordinate appraisal are not widely practiced in AACCSA.
- Supervisor bias is not a significant problem in the performance assessment process in AACCSA.
- The practice of holding fruitful discussions for future performance improvement after assessment is not adequately practiced.
- Performance review is not used to motivate employees, to encourage development and to serve as a two way communication tool.
- The majority of the respondents believe that there is no clear appeals procedure in the PMS of AACCSA.
- Half of the respondents have doubts about the intervention of senior management in dictating performance review rating.
- The majority of the respondents do not want the existing PMS to be replaced by a simple tool and they believe in the importance of PMS for their own success and the success of AACCSA.

- Most of the respondents do not believe top management is committed to the successful implementation of AACCSA's PMS. Interviewees also agreed that senior management do not give the required attention to the PMS and it is negatively affecting the effectiveness of the system.

5.2 CONCLUSION

Performance management is a systematic process which a manager can use to get the team members achieve team objectives and targets, improve overall team effectiveness, develop performance capabilities, review and assess team and individual performance, and reward and motivate extraordinary performance. Effective performance management requires the identification of tasks and accountabilities, definition of competencies necessary to be successful in a position, ensuring that team members have the required capabilities, putting in place a system to develop competencies, providing timely feedback on how effectively the team members are applying their respective abilities to accomplish their tasks and achieve goals based on which employee efforts are rewarded and motivated through career development and empowerment. In the event that performance does not meet established requirements, the manager must understand the correct processes and methods that can help improve employee performance. In order to establish a performance management process and implement it with full capacity, there must be organizational will, established need, skill, commitment and organizational culture and value orientation that bind all together. Performance management is based on the premise that individuals and their managers are jointly accountable for results and therefore jointly involved in agreeing what needs to be done and how it needs to be done. A good performance management system needs to be underpinned with good objective setting. Individuals need to be clear on what the key results areas are for each position and what is expected of them. Steps need to be taken to ensure that the strategic goals are cascaded down to individual or team goals. Goal setting must also facilitate a bottom-up process, whereby individuals are given the opportunity to agree the goals through open dialogues, and to formulate their own goals within the overall performance management framework.

The major findings of AACCSA's PMS do not fully conform to the above-mentioned good features of an effective performance management system. Some of the weaknesses identified by the study regarding AACCSA's PMS are the following:

- One of the main purposes of an effective PMS is to serve as a source of development but AACCSA's PMS is not currently serving its developmental purposes appropriately.
- According to the respondents, AACCSA is not providing sufficient resources for the accomplishment of employees' duties.
- Timely feedbacks help employees to develop further and improve their performance but most of the respondents have expressed that there is a lack of practice of giving timely and continuous feedbacks to employees concerning performance.
- Most respondents believe that supervisors do not keep regular records about employees' performance for defending their ratings in case of employee complaints as stated in the literature and best practice.
- As per AACCSA's PMS manual, midterm review should be conducted to check employees' progress and to take corrective action in case of negative deviations but it is not widely carried out in AACCSA. Moreover, the practice of discussing performance disparities between supervisors and subordinates in an ongoing manner and taking corrective actions for improvement is also not satisfactory.
- In the literature, using various appraisal methods improves the validity and acceptability of the rating. However, self-appraisal, peer appraisal and subordinate appraisal are not that much practiced in AACCSA.
- The practice of holding fruitful discussions for future performance improvement after assessments is not adequate.

- Performance review is not used to motivate employees, to encourage development and to serve as a two way communication tool as stated in the literature and therefore it is not serving its purpose.
- Any PMS should have an appeals procedure for lodging complaints if employees have grievances concerning their ratings but most of the respondents have expressed that there is an absence of clear appeals procedure in the PMS of AACCSA.
- The role of top management is very crucial for the successful implementation of PMS. Most of the respondents, however, believe that there is lack of commitment on the part of top management to the successful implementation of the PMS in AACCSA. Most employees have also doubt about the intervention of senior management in dictating performance review rating.

5.3 RECOMMENDATION

In this section an attempt is made to forward some recommendations that are believed to help AACCCSA to reap the benefits of performance management system by taking into consideration the major findings of the study and the conclusions drawn. The major recommendations are the following:

- One of the major purposes of an effective PMS is development and therefore AACCSA should use its PMS as a source for the identification of developmental needs of employees and planning and executing various developmental activities as a result.
- If employees are not provided with sufficient resources for the accomplishment of their respective duties, they can't be fully held accountable for negative deviations in their performance. Therefore, AACCSA should try its best to provide employees with the necessary resources for carrying out their activities.

- Evaluators in AACCSA should be trained about the importance of ongoing and timely feedbacks for the development of employees and avoiding unnecessary conflicts during year end appraisals.
- Midterm review is a good tool for checking overall progress of employee performance and taking corrective actions in case of deviations before it is too late. It is, therefore, recommended that an awareness creation program should be designed and conducted about the importance of midterm review and on how it should be practiced.
- Instead of depending only on one source of appraisal, i.e. supervisor appraisal, it is better to use multiple sources of appraisal for increasing the validity of the appraisal rating. AACCSA is advised to use self-appraisal, peer appraisal and subordinate appraisal in addition to the existing appraisal method. It can also use member (customer) appraisal as an additional method since it is a business membership organization.
- Performance review should be reintroduced in AACCSA to properly serve its purposes of motivating employees, encouraging development and serving as a two way communication tool for performance improvement.
- AACCSA should redesign and implement a clear appeals procedure for addressing complaints about performance ratings as part of its PMS for improving the transparency of the system.
- Top management should depict its commitment for the effective implementation of the PMS as it is stated in the literature that the commitment of top management plays a crucial role for the success of any PMS.
- AACCSA's top management should try all its best to implement the recommendations in order to improve the prospects of the PMS and reap the benefits of the system.

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Addis Ababa University
College of Business and Economics
Department of Management
Questionnaire to be Filled by Staff of AACCSA

Challenges and Prospects of Performance Management System: Lessons from Addis Ababa Chamber of Commerce and Sectoral Associations (AACCSA)

Name of the Student Researcher: Assefa Kassa Belete

Dear Respondent,

Thank you very much for being a volunteer and for taking your time in completing this questionnaire. The questionnaire is to be filled by AACCSA staff members and is distributed to you to get your highly valued inputs. Performance Management is a formal and explicit process where by an organization involves its employees, both as individuals and members of a team, in improving overall effectiveness and the accomplishment of its strategic goals. Filling up the questionnaire will take only a few minutes. The questions are designed in a five point likert scale. Please indicate your opinion by selecting the appropriate number. If you have strong opinion and agree strongly on the points raised, please select number five. If you strongly disagree with the points raised, please select number one. If your opinion is not very strong, please select the middle numbers between two and four that reflect your opinion.

The purpose of this questionnaire is to collect primary data for conducting a study on the topic, “Challenges and Prospects of Performance Management System: Lessons from Addis Ababa Chamber of commerce and Sectoral Associations (AACCSA)” as partial fulfillment to the completion of Executive Masters of Business Administration at Addis Ababa University. In this regard I kindly request your time to provide me with reliable information so that the findings of this study would meet the intended outcome. I strongly

assure you for the confidential treatment of your answers. I would like to thank your voluntary participation for the success of my research study.

Directions

- No need to write your name,
- If you have any question, please contact me on 0913-249766.

Part I – General Information (Please circle your choice and write your answer in the space provided)

1. Gender:

(A) Male (B) Female

2. In which age group do you fall?

(A) Less than 20 (B) 20-29 (C) 30-39 (D) 40- 49 (E) 50 and above

3. What is your highest educational status?

(A) Certificate (B) College Diploma (C)BA/BSC Degree (D) Masters (E) PHD

4. Years of service in AACCSA:

(A) Less than 1 year (B) 1 to 3 years (C) 3 to 6 years (D) 6 to 9 years (E) More than 9 years

5. In which work unit are you currently working?

6. To which category does your position fall?

(A) Managerial (B) Supervisory/Team Leader (C) Professional (D) Other support staff

Part II: Purpose of Performance Management System

7. Are you clearly aware of the purpose of Performance Management System which is implemented by AACCSA?

(A) Yes (B) No

8. If yes, what is the purpose of having Performance Management System in AACCSA?

9. Do you think Performance Management System is clearly defined in AACCSA?

(A) Yes (B) No

10. If No, what do you think is the reason?

11. The purpose of Performance Management System applied in AACCSA is to:

(More than one answer is possible)

- (A) To get better result
- (B) To establish a culture in which individuals and groups take responsibility for the continuous improvement of AACCSA
- (C) To provide employees with information about how they are perceived in the organization and where they stand
- (D) To determine who gets promotion and salary increment
- (E) To facilitate layoff or downsizing
- (F) Other

12. Based on my performance

- (A) I have received salary increment or promotion
- (B) I have been demoted from the job I used to work
- (C) Trainings have been given to me to improve my poor performance

Part III: Performance Planning and Execution

Note: Performance Planning is a stage where the supervisor and the employee meet together to discuss and agree on what will be done for the future and how it should be done and Performance Execution is getting the job done by achieving the objectives. Therefore having this in mind please rate your level of agreement or disagreement for the following questions by putting a tick (√) mark in the box that best reflects your answer.

No.	Statements	1	2	3	4	5
1	I know the strategic objective of AACCSA					
2	I am well clear about my work unit's strategic objective					
3	My work unit's goal is aligned with the strategic mission of AAACCSA					
4	My individual goal is aligned with the strategic objective of my work unit as well as AACCSA					
5	My work unit's objective is realistic and attainable					
6	I am clear about what my job responsibilities are and what is expected from me					
7	In AACCSA, goal setting is carried out with discussion between the employee and the supervisor					
8	While setting a goal my supervisor clearly tells me the expectation he/she has from my performance					
9	I am informed and reach on an agreement with my supervisor about the standards that will be used to evaluate my work					
10	My supervisor and I reach to an agreement about my development plan to enhance my performance					
11	The goals set for me support to achieve the strategic objective of the work unit as well as AACCSA					
12	AACCSA provides me sufficient resources to execute my job properly					

13	I have received feedback regularly about my performance from my supervisor					
14	My supervisor keeps regular records on my performance and gets additional feedback from colleagues					
15	I always get support from my supervisor while I face challenges in performing my day to day activities					
16	There is a midterm review between my supervisor and me regarding my performance in the past months					
17	Where the performance has not met minimum standards, my supervisor and I discuss the reason for this and way for improving performance					

Part IV Performance Assessment and Review

Note: Performance assessment is conducted with the interaction of employee and supervisor for evaluating the extent to which the desired behavior and results are met during the specific period of performance review. Based on these purposes please rate your level of agreement or disagreement for the following questions by putting a tick (√) mark in the box that best reflects your answer.

No.	Statements	1	2	3	4	5
1	I have been given a chance to assess my performance (self-appraisal method) based on the agreed plan					
2	My supervisor always gathers information about my performance from my peers or subordinates while assessing my performance					
3	When my supervisor assesses my performance he/she is biased by different reasons					

4	After assessment have been done I always had a discussion meeting with my supervisor to review my performance					
5	The discussion I had with my supervisor is focused on the contribution I made, the capability I have and on my continuous development					
6	In my opinion the objective of performance review in AACCSA is to motivate employees, to encourage development and to serve as a two way communication about the roles and expectations					
7	My supervisor rates me in the middle of the scale even when my performance clearly warrants a substantially higher or lower rating					
8	Minor events that have happened recently have more influence on the rating than major events of many months ago					
9	Performance management system at AACCSA has provision for appeal in case there is disagreement with supervisor					
10	I believe that there is no intervention by senior management to dictate the performance review rating.					
11	Performance Management System in AACCSA brings massive work and consumes much time					
12	The existing Performance Management System in AACCSA is a tiresome process so it's better to have other simple tool.					
13	Performance Management System is important for the success of me and AACCSA, thus it is good to have.					
14	Senior management is committed to the successful implementation of the performance management system.					

Part V: Open Ended Questions

1. Which of the steps of performance management system do you find challenging and what makes it challenging?

2. What are the major challenges faced by AACCSA in the implementation of Performance Management System?

3. If you have any comment or suggestions you would like to add, please write on the space provided below.

Thank You!!!

Interview Guide

1. What are the main purposes of PMS in AACCSA?
2. What are the major challenges in implementing PMS in AACCSA?
3. Is there a clear linkage between the jobs performed by employees with the strategic objective of AACCSA?
2. Were employees of AACCSA adequately communicated about PMS and its importance during implementation?
3. Could it be possible to say that AACCSA has successfully implemented Performance Management System?
4. Does Performance Management System bring the desired outcome to AACCSA? If yes, discuss how tangible results were observed?
5. Do you have any other comments or suggestions regarding Performance Management System at AACCSA?