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The Effect of Performance Management System on Organizational Effectiveness in the Case of Caritas Switzerland-Ethiopia

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DECLARATION

I, **Checolat Abebe**, hereby declare that this Master's thesis titled "The Effect of Performance Management System on Organizational Effectiveness in the Case of Caritas Switzerland-Ethiopia" is my original work. I have carried out the present study independently with the guidance and support of my research advisors **Seifu Mamo (Ph.D.)**. Any other research or academic sources used here in this study have been duly acknowledged. Moreover, this study has not been submitted for the award of any Degree or Diploma Program in this or any other institution.

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STATEMENT OF CERTIFICATION

I certify that **Checolate Abebe** has carried out her research work under my guidance on the topic of "The Effect of Performance Management System Organizational Effectiveness in the Case of Caritas Switzerland-Ethiopia" This work is suitable for submission as a partial fulfilment requirement for the award of Master's Degree in Human Resource Management.

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STATEMENT OF APPROVAL SHEET

This is to confirm that the thesis research conducted by **Checolate Abebe** on "The Effect of Performance Management System on Organizational Effectiveness in the Case of Caritas Switzerland-Ethiopia", which was submitted in partial fulfilment of Master Arts in Human Resource Management, complies with the university's regulations and recognized standards for originality and excellence.

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Name of External Examiner	Signature	Date

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LIST OF ABBREVIATIONS AND ACRONYMS

- CO: Country Office
- HR: Human Resources
- HRM: Human Resource Management
- KPI: Key Performance Indicator
- LSR: Local Staff Regulation
- NGO: Non-Governmental Organization
- PMS: Performance Management System
- SPSS: Statistical Package for the Social Sciences
- WASH: Water, Sanitation, and Hygiene
- SD: Standard Deviation
- CACH: Caritas Switzerland (Caritas Switzerland Ethiopia)

ABSTRACT

This study intends to examine The Effect of Performance Management System on organizational effectiveness – case organization- Caritas Switzerland Ethiopia. Specifically, the study assesses the effect of five PMS (goal setting and planning, performance appraisal, performance development, reward and recognition and performance improvement) on organizational effectiveness. The study used an explanatory and descriptive methods approach: The quantitative data were gathered from 117 respondents through structured questionnaire. Descriptive, reliability, correlation, test of assumptions and regression analysis were conducted using SPSS version 27 to test the relationship between dependent and independent variables. The descriptive analysis revealed positive employee perception of the PMS, with a grand mean ranging from 2.906 to 3.90. The correlation results also revealed that all independent variables have positive relationships with the organizational effectiveness ($p<.01$), with performance reward and recognition showing the strongest relationship with organizational effectiveness ($r=.666$). The regression model also shows statistically significant effect ($F=24.610$, $p<.001$), with PMS collectively explaining 52.6% variance in organizational effectiveness ($R^2=.526$). Among the hypotheses, performance reward and recognition ($\beta = .422$, $p < .001$), performance appraisal ($\beta = .211$, $p=.014$), performance development ($\beta = .198$, $p=.023$) had positive and statistically significant effect on organizational effectiveness. The study finally concludes that the PMS of Caritas Switzerland Ethiopia are contributing to the organizational effectiveness, but this effect largely depends on integrated implementation of the practices instead of individual practices in isolation.

Keywords: Performance Management System, Organizational Effectiveness, Non-Governmental organizations.

CHAPTER ONE

1. INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Performance Management System (PMS) is a continuous and systematic process by which an organization sets goals, monitors performance, provides feedback, evaluates results, and develops employees to ensure that individual performance aligns with organizational objectives. Armstrong, M. (2020)

The evolution of Performance Management Systems (PMS) represents a significant paradigm shift from traditional, administrative annual appraisals to integrated, strategic frameworks designed to align individual efforts with organizational goals (Aguinis, 2019). Modern PMS is conceptualized as a continuous process involving goal setting, ongoing coaching, feedback, development, and recognition, all aimed at enhancing both employee performance and organizational success (DeNisi & Murphy, 2017). This strategic alignment is crucial for creating a direct linkage between employee objectives and the primary mission of the organization in the case of non-profits, mission advantage (Pulakos et al., 2019).

Organizational effectiveness (OE) is the extent to which an organization achieves its goals and objectives while efficiently utilizing its resources and adapting to changes in its external and internal environment. It reflects the overall ability of an organization to fulfil its mission, maintain high level of performance, satisfy stakeholders and sustain long term success. According to Armstron (2013), organizational effectiveness is closely linked to the organization's ability to align employee performance with strategic objectives and achieve desired results. Similarly, Aguinis (2019) emphasizes that effective organizations are those that consistently achieve their goals through well managed human resources and performance management.

Organizational effectiveness can be measured through key dimensions of the performance management system (PMS), including goal setting and planning, performance

appraisal, performance development, performance reward and recognition and performance improvement. Goal setting and planning enhance organizational effectiveness by ensuring that individual and team objectives are aligned with organizational goals, thereby providing clear directions and focus (Armstrong, 2023). Performance appraisal contributes to effectiveness by evaluating employee performance against established standards and providing feedback that supports accountability and improved performance (Aguinis, 2019). Performance development includes training, coaching and career development activities, helps employees acquire the knowledge and skills needed to perform effectively and contribute to organizational success (Dessler, 2020). Performance reward and recognition system promote motivation, commitment, and productivity by acknowledging and rewarding employee achievements which positively influence organizational outcomes (Armstrong and Taylor, 2023). Furthermore, performance improvement such as continuous feedback, performance monitoring and corrective action plans help address performance gaps and encourage continuous learning and improvement within the organization (Aguinis, 2019). Therefore, the effectiveness of an organization can be studied by examining how well these performance management dimensions support the achievement of organizational goals and overall performance.

Goal setting and planning highly contribute to organizational effectiveness by ensuring that employees' efforts are aligned with organizational objectives. When employees clearly understand performance expectations and organizational priorities, they are more likely to direct their efforts toward activities that support organizational success. Effective planning also facilitates coordination, resource allocation, and performance monitoring, which enhance productivity and goal achievement. Research has consistently shown that organizations with clear performance goals experience higher levels of effectiveness due to improved employee focus and commitment (Armstrong, 2023). The relationship is primarily explained by the Goal-Setting Theory, which argues that specific and challenging goals lead to higher performance than vague or easy goals. The theory suggests that clear goals improve motivation, effort, persistence, and task performance, thereby enhancing organizational effectiveness (Locke & Latham, 2002).

Performance appraisal enhances organizational effectiveness by evaluating employee performance against predetermined standards, identifying strengths and weaknesses, and providing feedback for improvement. Through systematic appraisal processes, organizations can make informed decisions regarding promotions, training, and performance improvement interventions. Effective appraisal systems increase accountability and help ensure that employee performance contributes to organizational goals (Aguinis, 2019). The relationship can be explained by Control Theory, which suggests that individuals compare their actual performance with established standards and adjust their behavior when discrepancies are identified. Performance appraisal provides the feedback necessary for this self-regulation process, leading to improved performance and organizational effectiveness (Carver & Scheier, 1982).

Organizations that invest in employee development benefit from improved knowledge, skills, innovation, and adaptability. As employees become more capable and productive, organizational performance and effectiveness improve. Studies indicate that employee development is a critical driver of organizational competitiveness and long-term success (Dessler, 2020). The relationship is best explained by Human Capital Theory. The theory proposes that investments in employee knowledge, skills and abilities increase individual productivity, which subsequently enhances organizational performance and effectiveness (Becker, 1964).

Effective reward systems contribute to improved productivity, employee retention, and organizational effectiveness (Armstrong & Taylor, 2023). This relationship is commonly explained by Expectancy Theory, which posits that employees exert greater effort when they believe that high performance will lead to valued rewards. The stronger the perceived connection between effort, performance, and rewards, the greater the motivation and organizational effectiveness (Vroom, 1964).

Performance improvement focuses on continuously identifying performance gaps, providing feedback, implementing corrective actions, and fostering continuous learning. Organizations that actively manage performance improvement can respond more

effectively to challenges, enhance service quality, and achieve strategic objectives. Continuous performance improvement contributes directly to organizational effectiveness by promoting adaptability and sustained performance excellence (Aguinis, 2019). The relationship is supported by Continuous Improvement Theory and the PDCA Cycle developed by W. Edwards Deming. These theories emphasize ongoing monitoring, feedback, learning, and corrective action as mechanisms for improving organizational processes and outcomes.

In the non-governmental organization (NGO) sector, this alignment is particularly critical. NGOs operate in environments characterized by competitive funding, high accountability demands from diverse stakeholders (donors, beneficiaries, communities), and the imperative to demonstrate tangible social impact (Lewis, 2014). An effective PMS serves as a vital strategic tool to ensure that human resources often an NGO's most valuable asset are effectively engaged and managed to achieve this mission (Walk et al., 2016). For organizations like Caritas Switzerland Ethiopia, where staff performance is directly linked to program quality, efficient resource utilization, community impact and donor satisfaction, PMS is not only an HR function but a core component of organizational effectiveness and sustainability (Bennett & Barkensjo, 2021). The humanitarian and development context adds layers of complexity, including remote management, high stress environments, and the need to balance quantitative donor metrics with qualitative, community-driven outcomes (Hailey & James, 2019).

Background of the Organization

Caritas Switzerland is an international development and humanitarian organization; a nongovernmental aid agency. Currently it has 135 employees including staffs at Addis Ababa (Country Office). It has a structured Human Resource (HR) system that integrates performance management as a central component of organizational operations. The HR function is responsible for recruitment, training, performance management, and staff development, ensuring alignment with organizational goals and donor expectations. The Performance Management System (PMS) is designed as a comprehensive and

developmental framework that includes key components such as performance planning, monitoring, appraisal, development, and feedback. It follows an annual performance cycle supported by standardized tools and guidelines, including SMART objective setting, appraisal forms, and performance review processes that are applied consistently across both country and field offices. The system is centrally coordinated by the HR department, which provides technical guidance and oversight, while line managers are responsible for day-to-day implementation, feedback, and evaluation. The PMS is intended to promote accountability, improve individual and team performance, support capacity building, and align employee performance with organizational priorities; however, its effectiveness depends largely on consistent implementation, managerial capability, and the integration of feedback, development, and reward mechanisms.

1.2 STATEMENT OF THE PROBLEM

In current highly changing organizational environment, the success of institutions heavily depends on how well they utilize and leverage their human capital. An effectively structured Performance Management System (PMS) is fruitful in aligning employee performance with the objective of the organization, increase productivity and create accountability. Both private sector and non-governmental organizations are increasingly accepting performance management as an important and game changer tool for enhancing organizational effectiveness. However, despite the rising significance of performance management systems, numerous organizations continue to encounter difficulties in executing effective and transparent performance evaluation methods. Organizational effectiveness refers to an organization's capacity to meet its mission, objectives, and long-term goals by using available resources efficiently (Armstrong & Taylor, 2020).

In Ethiopia many organizations have introduced PMS to improve staff performance and organizational results. Nevertheless, numerous studies and practical observation shows that performance management system in many organizations are often affected by problem such as lack of clear performance standards, inadequate employee participation, weak feedback mechanism unfair evaluation process, insufficient training and limited linkage

between performance result and rewards. These challenges may reduce employee commitment, lower productivity and have negative impact on overall organizational effectiveness (Taye, 2018).

Caritas Switzerland Ethiopia is implementing a formal Performance Management System (PMS). However, staff feedback indicates that the system is not being practiced properly. In addition, inconsistency in PMS implementation across departments and geographical locations is observed. The strategic alignment is another concern that this study is aiming to examine because individual performance objectives do not always appear to be aligned with the Organization's strategic priorities. Performance appraisal outcomes are not consistently linked to professional development plans, and the culture of consistent feedback should be implemented. There is also lack of clarity regarding the relationship between performance outcomes and the organization's reward and recognition mechanisms, including both monetary and non-monetary incentives.

The findings of this study are expected to contribute to the existing body of knowledge by providing practical and context-specific evidence on the relationship between performance management systems and organizational effectiveness within the non-governmental sector in Ethiopia.

1.3 RESEARCH QUESTIONS

This study aims to address the following questions by providing an evidence-based diagnosis of the PMS and offering actionable recommendations for its improvement.

What is the effect of performance planning and goal setting on organizational effectiveness?

What is the effect of performance appraisal on organizational effectiveness?

What is the impact of performance development on organizational effectiveness?

What is the influence of performance reward and recognition on organizational effectiveness?

What is the impact of performance improvement on Organizational Effectiveness?

What is the effect of performance management system in aggregate on organizational effectiveness?

1.4 OBJECTIVE OF THE STUDY

1.4.1 General Objective

The general objective of the study is to examine The Effect of Performance Management System (PMS) on organizational effectiveness of Caritas Switzerland – Ethiopia.

1.4.2 Specific Objectives

The study intends;

- To examine the effect of Goal setting and planning on organizational effectiveness in Caritas Switzerland Ethiopia.
- To examine the effect of Performance appraisal on Organizational Effectiveness in Caritas Switzerland Ethiopia.
- To examine the effect of Performance development on Organizational effectiveness in Caritas Switzerland Ethiopia.
- To examine the effect of Performance reward and recognition on Organizational effectiveness in Caritas Switzerland Ethiopia.
- To examine the effect of Performance Improvement on Organizational effectiveness in Caritas Switzerland Ethiopia.
- To examine the effect of Performance management system in aggregate

on organizational effectiveness in Caritas Switzerland Ethiopia.

1.5 SIGNIFICANCE OF THE STUDY

Theoretical Significance:

First, it is significant to address gaps in empirical literatures. While PMS is well studied in Western corporate contexts, there is limited rigorous research on its application within Ethiopian international NGOs (Gebremariam, 2023). This study can contribute context rich data to this underexplored area. Secondly, it can provide understanding about the use of

PMS systems like 360-degree PMS and provide an example how these are being functioned in NGOs. Third, it offers an opportunity to test and potentially extend established organizational theories such as Goal Setting Theory, Social Exchange Theory, and Equity Theory in a unique, mission-driven, cross-cultural setting, thereby enriching the theoretical discourse (Aguinis, 2019).

Practical Significance:

For Caritas Switzerland Ethiopia, this research will provide an evidence-based report on the strength and weakness of the current PMS and its effect on Caritas's success in general. It will also provide quantitative data that can be evidence about the linkage between individual performance and organizational strategy, the feedback, monitoring and coaching, appraisal and evaluation, reward and recognition cultures that are being practiced in Caritas Switzerland Ethiopia. In addition, it can offer a benchmarking data and case study for similar organizations. It also gives insights for policy makers and stakeholders about PMS challenges faced by International NGOs.

1.6 SCOPE OF THE STUDY

The study focused on the Performance Management System (PMS) of Caritas Switzerland Ethiopia. It examined the full PMS cycle, including performance planning, performance appraisal, performance development and the performance rewards and recognition. The study included all staff categories (senior management, mid-level managers, technical/program staff, and administrative/support staff). The study used quantitative research approach and explanatory and descriptive research design. The theoretical and conceptual framework concentrated on theories that support the independent variables (Goal Setting and Planning, Performance Appraisal, Performance Development, Performance Rewards and Recognition and Performance Improvement) and the dependent variable (Organizational Effectiveness).

1.7 LIMITATIONS OF THE STUDY

The study focused specifically on the internal processes and perceptions within Caritas Switzerland Ethiopia. While findings may be found from similar organizations, generalizability is limited without further similar study.

The study concentrated on internal stakeholder perspectives (staff and management). External stakeholder views (e.g., donor or beneficiary perceptions of organizational performance) were considered only indirectly through organizational effectiveness indicators.

The research examined the reward system in terms of its perceived linkage to performance and motivational impact but did not conduct a detailed financial analysis of compensation structures.

1.8 OPERATIONAL DEFINITION OF TERMS

Performance Management System (PMS): A continuous and systematic process by which an organization sets goals, monitors performance, provides feedback, evaluates results, and develops employees to ensure that individual performance aligns with organizational objectives (Armstrong, M. 2020).

Performance Appraisal: A formal and periodic process of evaluating an employees job performance and productivity against predefined criteria and standards, usually for the purposes of feedback, promotion, rewards, or development decisions (Dessler, G. 2020).

Organizational Effectiveness: Organizational effectiveness are to the extent to which an organization achieves its goals efficiently and sustainably through optimal use of resources, satisfied stakeholders, and the ability to adapt to internal and external environmental changes (Robbins, S. P., & Judge, T. A. 2022).

Strategic Alignment: the process of ensuring that organizational structures, systems, processes, and employee activities are consistent with and support the organization mission, vision and strategic goals (Schuler, R. S., & Jackson, S. E. 2007).

Implementation Consistency: The uniformity and adherence to standard procedures in applying the PMS across different departments, job levels and geographical locations within the organization.

1.9 ORGANIZATION OF THE RESEARCH

This research is organized into five chapters. Chapter one is introduction of the study including background of the study, problem statements, research questions, objectives, significance, scope and limitations. Chapter two is literature reviews while chapter three is about research methodology. Chapter four analyzes and interprets findings from the quantitative data. Finally, chapter five summarized findings and provided valuable recommendations.

CHAPTER TWO

2. INTRODUCTION

2.1 LITERATURE REVIEW

This chapter covers about the theoretical and empirical foundation for the study. It reviewed the evolution of PMS, meaning, nature and characteristics of PMS, Its Importance for organizational effectiveness, its process and components, review of theoretical and empirical studies and conceptual framework.

2.2 MEANING AND NATURE OF PMS

Performance Management System is a continuous and systematic process by which an organization sets goals, monitors performance, provides feedback, evaluates results, and develops employees in order to ensure that individual performance aligns with organizational objectives. Armstrong, M. (2020)

2.3 EVOLUTION OF PMS

The concept of managing performance has evolved significantly from Frederick Taylor's scientific management in the early 20th century, which focused on optimizing discrete tasks, to Peter Drucker's Management by Objectives (MBO) in the mid-century, emphasizing goal alignment (Drucker, 1954). The late 20th and early 21st centuries saw a shift from annual, top-down "performance appraisal" focused on past evaluation and control, toward "Performance Management" a continuous, future-oriented, and developmental process integrated with strategic human resource management (Aguinis, 2019; DeNisi & Murphy, 2017). This modern view frames PMS as a holistic cycle of planning, coaching, reviewing, and rewarding, designed to improve both individual and organizational performance (Pulakos et al., 2019).

2.4 IMPORTANCE OF PERFORMANCE MANAGEMENT SYSTEM

Importance of PMS is to enhance employee skills and competencies through training, coaching and career development opportunities. It increases accountability. PMS is used

to link performance outcomes to rewards and recognitions, thereby promoting high performance and contributing to overall organizational effectiveness.

2.5 PROCESS AND STAGES OF PERFORMANCE MANAGEMENT SYSTEM

There are seven commonly known stages of Performance Management Systems. Namely, Performance Planning and Goal setting which is used to translate organizational goal into departmental and individual objectives, Performance Monitoring and Coaching which is an on-going and continuous observation and regular feedback, Performance Measurement and Appraisal which is the actual performance against objectives, Performance Review and Feedback, and Performance Improvement and Development which involves scheduling trainings, capacity building, coaching, mentoring and job rotation, Reward Recognition and Performance Improvement which involves salary increment, bonuses promotion and corrective measures for poor performance and System Review and continuous Improvement which is to evaluate the effectiveness of the PMS, collecting employee feedback ensuring fairness, consistency and relevance.

2.6 KEY COMPONENTS OF AN EFFECTIVE PERFORMANCE MANAGEMENT SYSTEM

Scholars generally agree on several core components that constitute an effective PMS cycle:

Performance Planning: Joint setting of specific, measurable, achievable, relevant, and time-bound (SMART) goals that are aligned with organizational strategy (Locke & Latham, 2019).

Performance Assessment and Appraisal: A formal, periodic evaluation of performance against the set goals, ideally incorporating multiple perspectives (e.g., 360-degree feedback) for fairness (DeNisi & Smith, 2014).

Performance Development: Using appraisal outcomes to create individualized development plans, linking performance to training, coaching, and career growth opportunities (Aguinis, 2019).

Performance Rewarding and Recognition: Ensuring a clear and perceived link between performance outcomes and both monetary (pay, bonuses) and non-monetary (praise, opportunities) rewards to reinforce desired behaviors (Rynes et al., 2021).

Performance Improvement: Structured processes for addressing underperformance, focusing on identifying root causes and providing support to close capability gaps (Pulakos et al., 2019).

2.7 THEORETICAL LITERATURE REVIEW

2.7.1 Goal Setting Theory

Goal-Setting Theory was developed by Edwin Locke (1968) and later extended by Locke and Latham (1990) to explain how goal characteristics influence individual motivation and performance. The theory posits that conscious goals play a central role in directing attention, mobilizing effort, increasing persistence, and encouraging the development of task-relevant strategies. Rather than viewing motivation as a general disposition, Goal-Setting Theory emphasizes the regulatory function of specific performance targets.

A core proposition of the theory is that specific and challenging goals lead to higher levels of performance than vague or easy goals, provided that individuals are committed to the goals and possess the necessary ability and resources (Locke & Latham, 1990).

Goal commitment is identified as a critical moderating variable within the theory. Locke and Latham (2002) argue that individuals are more likely to commit to goals when they perceive them as important and attainable and when they believe that goal attainment will lead to valued outcomes. Feedback also plays a central role by allowing individuals to monitor progress, adjust effort, and refine strategies. Without feedback, goals have limited motivational impact because individuals are unable to evaluate their performance relative to expectations.

Goal Setting Theory further acknowledges the influence of individual differences and contextual factors, such as task complexity and self efficacy. For complex tasks, overly difficult goals may hinder performance if individuals lack the necessary knowledge or skills. In such cases, learning goals or developmental objectives may be more effective than strict performance goals (Locke & Latham, 2002).

Goal setting theory has a strong theoretical foundation for PMS. This theory underlines the importance of clear performance objectives, regular feedback and alignment between individual goals and organizational goals. When performance goals are perceived as achievable and fare they can enhance motivation and will be improve employee performance. However, when it is poorly designed there will be goal conflicts.

2.7.2 Social Exchange Theory

Social Exchange Theory explains social behaviour as the result of an exchange process in which individuals seek to maximize benefits and minimize costs within relationships (Homans, 1958; Blau, 1964). The theory is grounded in sociology and social psychology and assumes that workplace relationships develop over time through reciprocal interactions that generate mutual obligations. In organizational contexts, these exchanges typically occur between employees and their organization or supervisors.

According to Homans (1958), social exchange is based on the principle of reciprocity, whereby favourable actions by one party create an expectation of future returns by the other. Blau (1964) expanded this perspective by distinguishing social exchange from economic exchange, emphasizing that social exchanges involve unspecified obligations, long-term orientations, and trust rather than explicit contractual terms. As a result, individuals engage in relationships with the expectation that positive treatment will eventually be reciprocated, even if the exact nature or timing of the return is uncertain.
Within organizations, Social Exchange Theory suggests that employees form perceptions about the extent to which the organization values their contributions and cares about their wellbeing. When employees perceive high levels of support, fairness, and recognition, they are more likely to reciprocate through positive attitudes and behaviours, such as increased effort, commitment, and discretionary performance. Conversely, when employees perceive imbalance or neglect in the exchange relationship, they may reduce their contributions or withdraw from the relationship altogether (Blau, 1964).

2.7.3 Equity Theory

Equity Theory was developed by J. Stacy Adams (1963, 1965) to explain employee motivation in terms of perceived fairness in social and organizational exchanges. The

theory suggests that individuals are motivated by comparisons between the ratio of their inputs (e.g., effort, skills, experience, time, and commitment) and outcomes (e.g., pay, recognition, promotions, and other rewards) relative to those of relevant referent others. Motivation, satisfaction, and performance are influenced not only by the absolute level of rewards received but also by the perceived fairness of reward distribution.

According to Adams (1965), individuals evaluate equity by comparing their own input outcome ratio with that of others, such as coworkers, peers in similar roles, or even individuals within different organizations. When these ratios are perceived as equal, a state of equity exists, leading to feelings of fairness and balance. However, when individuals perceive inequity either under-reward (negative inequity) or over-reward (positive inequity) psychological tension arises, which individuals are motivated to reduce.
Equity Theory suggests that individuals may respond to perceived inequity through various behavioural or cognitive adjustments. These responses can include reducing effort, increasing effort, seeking changes to outcomes (e.g., requesting a raise), cognitively redefining inputs or outcomes, changing the comparison referent, or ultimately withdrawing from the organization (Adams, 1965). As a result, perceptions of unfairness can lead to reduced motivation, lower job satisfaction, and diminished performance, whereas fair treatment can reinforce positive work behaviours.

2.7.4 Human Capital Theory (Becker)

Human Capital Theory was most prominently developed by Gary Becker (1964), who conceptualized education, training, skills, and knowledge as forms of capital that enhance an individual's productive capacity. The theory is grounded in economic principles and argues that investments in human capital such as formal education, on-the-job training, and health yield returns in the form of increased productivity, higher earnings, and improved organizational performance.

According to Becker (1964), individuals and organizations make rational decisions regarding human capital investments by weighing the costs of investment (e.g., training expenses, time, and foregone earnings) against expected future benefits. These benefits may accrue to individuals through higher wages, career advancement, and improved

employability, and to organizations through enhanced employee performance, efficiency, and competitive advantage. Human capital is therefore viewed as a critical asset rather than a cost, distinguishing it from traditional views of labour as a purely variable expense.

Becker (1964) further differentiated between general human capital and firm-specific human capital. General human capital consists of knowledge and skills that are transferable across organizations and industries, such as formal education and broadly applicable competencies. In contrast, firm-specific human capital refers to skills and knowledge that are valuable primarily within a particular organization, such as familiarity with internal processes, systems, or organizational culture. This distinction has important implications for organizational investment decisions, as firms may be more willing to invest in firm-specific human capital due to lower risks of employee mobility.

Human Capital Theory has been widely applied in organizational and management research to explain differences in individual and organizational performance. It suggests that systematic investment in employee development contributes directly to improved productivity and long-term organizational outcomes. From this perspective, performance management systems play a key role in identifying skill gaps, evaluating returns on human capital investments, and aligning employee development with organizational objectives (Becker, 1993).

2.7.5 Expectancy Theory

Expectancy Theory was developed by Victor Vroom (1964) as a cognitive theory of motivation that explains how individuals make decisions regarding the level of effort they exert at work. According to Vroom (1964), motivation is a function of three key components: expectancy, instrumentality, and valence.

Expectancy refers to an individual's belief that a certain level of effort will lead to successful performance. This belief is influenced by factors such as self-efficacy, past experience, perceived task difficulty, and the availability of resources and support. When employees believe that their effort is likely to result in effective performance, expectancy

is high; conversely, if they perceive little connection between effort and performance, expectancy is reduced (Vroom, 1964).

Instrumentality describes the perceived relationship between performance and outcomes or rewards. It reflects the extent to which individuals believe that achieving a desired level of performance will lead to specific outcomes, such as pay increases, promotions, recognition, or other valued rewards. Instrumentality is strengthened when performance appraisal systems are transparent, consistent, and trusted, and weakened when reward decisions are perceived as arbitrary or unrelated to actual performance (Vroom, 1964).

Valence represents the value or attractiveness that an individual places on the anticipated reward. Valence can be positive, negative, or neutral, depending on personal preferences, needs, and goals. Importantly, rewards that are meaningful to one individual may hold little value for another, highlighting the subjective nature of motivation within Expectancy Theory (Vroom, 1964).

Vroom (1964) conceptualized motivation as the multiplicative interaction of these three components, suggesting that motivation will be low if any one of expectancy, instrumentality, or valence is weak. This formulation emphasizes the importance of aligning individual effort, performance measurement, and valued outcomes.

2.8 EMPIRICAL LITERATURE REVIEW

Empirical studies provide quantitative evidence that performance management systems (PMS) have a statistically significant impact on organizational effectiveness although the magnitude of this effect varies depending on system design and implementation quality. A comprehensive meta-analysis conducted by Gerrish (2016), based on 49 empirical studies and 2,188 effect sizes in public organizations, found that PMS had a positive average correlation with organizational performance of approximately $r = 0.14$. Importantly, when performance management systems incorporated best-practice features such as clearly defined targets, active managerial use of performance data, and feedback mechanisms the average effect size increased to $r \approx 0.28$. This indicates that organizations with well-implemented PMS experienced performance improvements of roughly 20-30 percent compared to those with weak or symbolic systems.

Empirical research at the organizational level further demonstrates that structured PMS frameworks improve effectiveness through strategic alignment and operational coordination. De Geuser, Mooraj, and Oyon (2009), in a survey of 76 business units that had adopted the Balanced Scorecard, reported that PMS usage was significantly associated with enhanced organizational performance ($\beta = 0.36$, $p < 0.01$). Their findings showed that organizations experienced an average improvement of approximately 21 percent in strategic alignment and 18 percent improvement in internal process coordination. These quantitative improvements indicate that PMS contributes to organizational effectiveness by translating strategic objectives into measurable and actionable performance indicators.

At the employee and unit levels, empirical studies show that PMS positively influences productivity, which aggregates into broader organizational effectiveness. A large-scale public-sector study conducted in Kenya involving 425 employees found a strong positive relationship between performance appraisal practices and employee productivity ($\beta = 0.392$, $p < 0.001$). Even when controlling other human resource practices, performance appraisal frequency and clarity remain a significant predictor of productivity ($\beta = 0.112$, $p = 0.003$). These findings suggest that systematic performance evaluation strengthens individual effort and task performance, contributing measurably to organizational outcomes.

Empirical evidence from efficiency-focused studies further supports the effectiveness of PMS, particularly in public-sector organizations. Abbasov (2025), analysing data from 75 government agencies across the United States, Australia, and the United Kingdom over a ten-year period, found that the introduction of PMS was associated with a 15.7 percent reduction in budget variance. The study also reported an average reduction of 11 percent in service delivery costs and a 25 percent increase in performance reporting frequency. These results demonstrate that PMS enhances organizational effectiveness not only through improved performance outcomes but also through increased efficiency, accountability, and resource utilization.

Overall, empirical literature provides consistent numerical evidence that performance management systems positively influence organizational effectiveness. While the average

effect of PMS may appear modest, the findings indicate that effectiveness increases substantially when systems are actively used, strategically aligned, and perceived as fair and developmental. The empirical evidence therefore supports the view that PMS plays a significant role in improving organizational performance, efficiency, and goal attainment when effectively implemented.

2.8.1 Global Studies On PMS Effectiveness

PMS analyses consistently show a positive correlation between well-implemented PMS and organizational performance outcomes though the strength differs across studies (e.g., profitability, productivity) in corporate settings (DeNisi & Murphy, 2017). Studies highlight critical success factors: top management support, clear communication, training for evaluators, and linking results to development/rewards (Pulakos et al., 2019). However, failure rates are high when systems are seen as bureaucratic, unfair, or disconnected from strategy (Aguinis, 2019).

2.8.2 African And Ethiopian Context Studies

Research in Africa highlights contextual challenges: cultural factors (e.g., high power distance affecting feedback), resource constraints limiting system sophistication, and the importation of Western models without adequate adaptation (Nzuve & Njeru, 2017; Kamoche et al., 2021).

In Ethiopia, studies are emerging but limited. Research conducted in public and private sectors point out different challenges such as lack of top management commitment, poor feedback culture, and weak linkage between appraisal and rewards (Mengesha, 2020; Yalew, 2021). A recent study conducted on an international NGO in Ethiopia by Tarekegn (2022) found that PMS effectiveness was hampered by high workload, inadequate manager training, and perceived bias in evaluations. However, comprehensive studies focusing on the full PMS cycle in complex, multi-site international NGOs like Caritas Switzerland are notably absent, representing a significant gap.

2.9 CONCEPTUAL FRAMEWORK

Performance Management

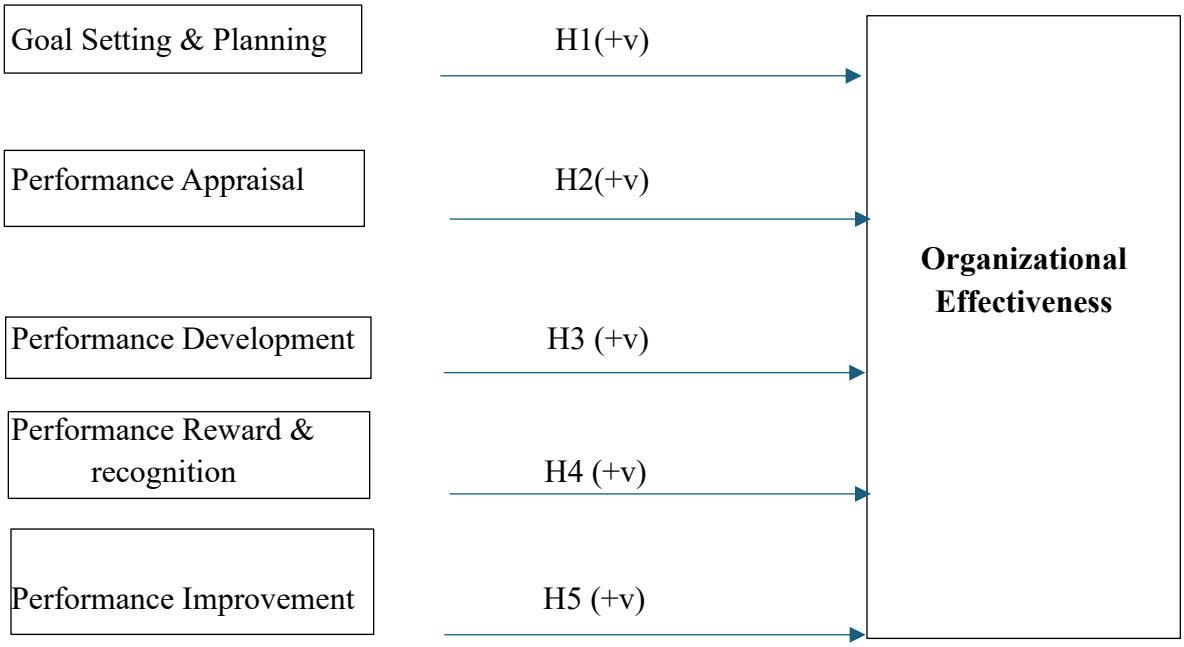


Figure 1: Conceptual Framework - **Adapted from Aguinis (2019**

2.10 RESEARCH HYPOTHESIS

Considering the above conceptual framework of the study, the following research hypothesis has been proposed;

H_1: Goal setting and planning have a significant positive effect on organizational effectiveness.

H_2: Performance appraisal has a significant positive effect on organizational effectiveness.

H_3: Performance development has a significant positive effect on organizational effectiveness.

H_4: Performance reward and recognition have a significant positive effect on organizational effectiveness.

H_5: Performance improvement have a significant positive effect on organizational effectiveness.

H_6: Performance management system in aggregate have a significant positive effect on organizational effectiveness

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter is about the research methodology, employed to identify the effect of performance management system on organizational effectiveness in Caritas Switzerland Ethiopia. It includes research approach, research design, target population, sampling techniques, sample size determination, source of data, method of data collection, data analysis procedure, validity and reliability of the instruments and ethical consideration.

3.2 RESEARCH DESIGN

Research design denotes the comprehensive plan or structure utilized for the collection and analysis of data within a research study (Kothari, 2004). This investigation adopted descriptive and explanatory research design.

The explanatory and descriptive research design is suitable because the study is explore the connection between performance management system and organizational effectiveness at Caritas Switzerland Ethiopia and to assess the effect of PMS on organizational effectiveness. Explanatory research helps researchers in analyzing the relationship between independent and dependent variables, thereby examine how one variable impact another (Saunders, Lewis, & Thornhill, 2019).

In this research, the explanatory design allowed the researcher to evaluate how various dimensions of the performance management system, including, goal setting and planning, performance appraisal, performance development, performance reward and recognition, performance improvement influence organizational effectiveness. Furthermore, the design assisted in clarifying the degree and direction of the relationship between the study variables through statistical analysis techniques such as correlation and regression analysis.

3.3 RESEARCH APPROACH

This study used quantitative method to get good understanding of PMS and its effect on Organizational effectiveness. The quantitative method allowed the researcher to gather

numerical data and statistically analyze the relationship between the independent and dependent variables. Mean and standard deviation were used in its descriptive statistics and the regression analysis were used in its inferential statistics.

3.4 TARGET POPULATION OF THE STUDY

The target population denotes the complete set of individuals or elements that the researcher aims to investigate (Cooper & Schindler, 2014). In this study, the target population comprised all permanent staff members of Caritas Switzerland-Ethiopia employed across various departments.

Research Approach

The study employed a census method to collect the data needed for this study. Since the total population of the organization is manageable, census method was preferred. Unlike other sampling methods, census considers all members of the target population in the study. This method enables the researcher to get complete information from all employees of the organization.

The structured questionnaire was distributed to 135 total employees and 117 valid responses received. However, Consultants, Interns, Donors, and Beneficiaries are excluded as they are not fully integrated into the formal staff PMS. The study included all staff categories (senior management, mid-level managers, technical/program staff, and administrative/support staff).

3.5 DATA TYPE AND SOURCES OF DATA

Data Type

Primary quantitative data were used to examine the effect of PMS on organizational effectiveness in Caritas Switzerland Ethiopia.

Sources Of Data

The study used Primary sources of data. Primary data were gathered through questionnaires.

BASELINE REGRESSION MODEL

The empirical model is specified as follows:

$OE = \beta_0 + \beta_1 GS + \beta_2 PA + \beta_3 PD + \beta_4 PRR + \beta_5 PI + \varepsilon$

Where;

OE = Organizational effectiveness

GS= Goal Setting and Planning

PA= Performance Appraisal

PD= Performance Development

PRR= Performance Reward and Recognition

PI= Performance Improvement

- β_0 = Intercept term
- $\beta_1 \ldots \beta_5$ = Coefficients of the explanatory variables
- ε= Error term

3.6 METHODS OF DATA ANALYSIS

Descriptive Data Analysis

Descriptive statistical measures like mean, standard deviation, minimum value, and maximum value will be calculated to describe the characteristics of the variables employed in this study (Gujarati & Porter, 2009).

Inferential Data Analysis

For enhancing the robustness of the regression results, diagnostic test for multicollinearity was done (Wooldridge, 2016). The test will be employed to test for multicollinearity since high correlation among explanatory variables may distort estimates of the coefficients (Gujarati & Porter, 2009).

3.7 VALIDITY AND RELIABILITY

Reliability

As proclaimed by (Bhattacherjee, 2012), reliability is the degree to which the measure of a construct is consistent or dependable. Reliability test was conducted using Cronbach's Alpha

using SPSS version 27 to check the internal consistency of the measurements used in the study.

Table 1: Reliability Test

S/N	Variables	Cronbach's Alpha	Number of Items
1	Performance Planning & Goal Setting	.822	5
2	Performance Appraisal and Evaluation	.827	5
3	Performance Development	.888	5
4	Performance Reward and Recognition	.926	5
5	Performance Improvement	.902	5
6	Organizational Effectiveness	.907	8

The reliability analysis results indicated that all Performance Management System (PMS) are with Cronbach's Alpha values ranging from 0.822 to 0.926 across the five PMS dimensions. These values exceed the recommended threshold of 0.70, confirming that the items within each PMS scale reliably measure their respective constructs. In addition, the organizational effectiveness scale produced an acceptable Cronbach's Alpha of 0.907, indicating satisfactory internal consistency for exploratory analysis. Overall, the reliability results confirm that the research instruments were dependable and suitable for further subsequent statistical testing.

Validity

Validity is the extent to which a test measures what it intended to measure (Creswell J. W. 2009). In this study, both content and construct validity were ensured. Content validity was maintained through extensive review of relevant literature and adapting items from previous validated instruments. The questionnaire items for training & development, performance appraisal, extrinsic reward, intrinsic reward, career development and perceived organizational performance were adopted from different prior studies. Further the questionnaire was validated by different experts to ensure clarity, relevance and representativeness. Accordingly necessary adjustments were made.

3.8 ETHICAL CONSIDERATIONS

The study will follow the following ethical standards:

Informed Consent: A two-stage process. First, organizational permission from Caritas Switzerland Ethiopia management. Second, informed consent from each individual. It includes: purpose, procedures, risks, benefits, confidentiality, and the right to withdraw.

Confidentiality & Anonymity: All quantitative data will be anonymous.

Justice: Fair and non-discriminatory participant selection. Findings will be shared with the organization to ensure benefits are distributed.

Approvals: Required from; University Research Ethics Committee, and Caritas Switzerland Ethiopia Management.

CHAPTER FOUR

4. DATA ANALYSIS AND INTERPRETATION

4.1 INTRODUCTION

This chapter deals with presentation, analysis and interpretation of data which has been obtained through questionnaire. The objective of the study is to investigate the effect of PMS on organizational effectiveness in Caritas Switzerland. The data were collected and interpreted by using statistical software SPSS version 27. This chapter was organized and analyzed as Respondent's response-rate, demographic characteristics of the respondents, descriptive statistics, correlation analysis, test of assumptions and regression analysis.

4.2 RESPONSE RATE

The data for this study was collected in the month of March & April 2026, using survey questionnaire to the 135 employees of Caritas Switzerland Ethiopia and 117 questionnaires were successfully completed and returned to the researcher.

Table 2: Response Rate

Sample Size	Number of Responses	Response Rate (%)
135	117	86.67

4.3 DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS

The first part of the questionnaire consists of seven items about demographic information of the respondents. It covers the personal data of respondents such as gender, age, educational level, Job position, location, service year and PMS cycle.

Table 3: Demographic characteristic of respondent

Item	Categories	Frequency	Percentage
Gender	Male	37	31.62
	Female	80	68.38
	Total	117	100.00
Age	20-29 years	13	11.11
	30-39 years	64	54.70
	40-49 years	29	24.79
	50 years and above	11	9.40
	Total	117	100.00
	Bachelor's Degree	38	32.48

Educational Level	Master's Degree	79	67.52
	Total	117	100.00
Job	Administrative/Support Staff	22	18.80
	Mid-level Management/Department Head	36	30.77
	Senior Management	3	2.56
	Technical/Program Staff (Officers, Specialists)	56	47.86
	Total	117	100.00
Location	Adama Field Office	1	0.85
	Addis Ababa Country Office	56	47.86
	Adigrat Field Office	12	10.26
	Bale Field Office	35	29.91
	Mega Field Office	13	11.11
	Total	117	100.00
Service Year	1-3 years	82	70.09
	4-6 years	12	10.26
	7-10 years	9	7.69
	Less than 1 year	1	0.85
	More than 10 years	13	11.11
	Total	117	100.00
PMS Cycle	1 cycle	7	5.98
	2-3 cycles	55	47.01
	4-5 cycles	40	34.19
	6-10	4	3.42
	More than 10 cycles	11	9.40
	Total	117	100.00

Gender Distribution

The responses were mostly dominated by women with 68.38%. This means that the remaining 31.62% respondents were men.

Age Distribution

Most of respondents (54.70%) are under 30-39 years old age category. Then there are 24.79% who are between 40 and 49 years old. Some respondents, 11.11% are between 20 and 29 years old and 9.40% are 50 years old or above. This means that the organization has a lot of people in the middle of their careers. These people have a lot of experience, and they are still working for the organization. This is important because it means that the people who answered the questions have been working for a while and have seen how performance management works. They have an understanding of the organization and how it manages performance.

Educational Level

Majority of respondents 67.52% have a Master's degree. The rest, 32.48% have a Bachelor's degree. This means that the people in the organization are well educated. The fact that most people have a Master's degree suggests that they are very qualified and understand performance management well. This is also because the organization likes to hire people who're very educated.

Distribution Based on Job Position

In terms of job position of respondents, 47.86% are program staff, while 30.77% of them are in mid-level management and 18.80% are in administrative or support roles. The remaining 2.56% are in senior management. This means that the respondents are mostly the ones who are doing their work and managing programs. Therefore, what they think about performance management is based on their experience of doing their work.

Location Distribution

Regarding the location where the respondents are working, majority of them 47.86% are from the Addis Ababa Country Office followed by 29.91% from the Bale Field Office and 11.11% from the Mega Field Office. The remaining 10.26% were from the Adigrat Field Office and 0.85% from the Adama Field Office.

Distribution in terms of Service Year

Regarding tenure of participants in the organization, most of them (70.09%) have been working for 1-3 years, followed by 11.11% who have worked for more than 10 years. Additionally, 10.26% of participants have worked for 4-6 years, while 7.69% have been working for 7-10 years and the remaining 0.85% of respondents have worked for less than one year.

Distribution in terms of PMS Cycle

As shown on the above table, 47.01% of the respondents participated in 2-3 PMS cycles, 34.19% of respondents participated in 4-5 PMS cycle, 5.98% only in one PMS cycle and 3.42% participated for 5-10 PMS cycles and 9.4% of respondents were appraised for more than ten times. This indicates that, majority of respondents have repeated exposure to the PMS.

4.4 DESCRIPTIVE ANALYSIS

This section of the analysis describes which PMS variable is best practiced based on mean values. The questionnaire filled based on the five-point Likert scale is interpreted as follows:

Table 3: Descriptive Statistics Interpretation Scale

Mean Score Range	Interpretation
1.00 -1.80	Very Low
1.81- 2.60	Low
2.61- 3.40	Moderate
3.41- 4.20	High
4.21-5.00	Very High
Adapted from Rensis Likert's five-point Likert scale interpretation approach.	

Table 4: Results of Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean		Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
GSP_MEAN	117	1.80	5.00	**3.9009**	.06212	**.67191**
PA_MEAN	117	1.00	5.00	**2.9060**	.07836	**.84754**
PD_MEAN	117	1.00	5.00	**3.7504**	.08063	**.87214**
PRR_MEAN	117	1.00	5.00	**3.3043**	.09591	**1.03744**
PI_MEAN	117	1.00	4.80	**2.9521**	.09701	**1.04935**
OE_MEAN	117	1.63	5.00	**3.8301**	.06612	**.71515**
Valid N (listwise)	117					

Goal Setting and Planning

The overall quantitative findings of goal setting and planning indicate that employees have relatively positive perception towards goal setting and planning practices of Caritas Switzerland Ethiopia. As per the Likert scale standard, it has **higher** mean value of **3.9009** and SD **.67191**. Majority of respondents agreed that they clearly understand their performance expectations, actively participate in goal setting and recognize the linkage between individual and departmental goals.

Performance Appraisal

The descriptive findings of performance appraisal revealed that employees hold **moderate** and inconsistent perception, with a grand mean of **2.906** and SD **.84754** as per the Likert scale standard. Though some respondents acknowledged that the performance appraisals are conducted objectively, many participants expressed concerns regarding unclear evaluation criteria and inconsistency across appraisal periods. The high standard deviation values further indicate differing experiences among employees regarding the fairness and transparency of the appraisal system., communication, consistency and evaluator capacity to enhance employees' trust and effectiveness of PMS.

Performance Development

The quantitative finding highlighted that employees generally perceive performance development practices positively. As per the Likert scale standard **higher** mean sore of 3.75 and SD of .87214 were found.

Performance Reward & Recognitions

As per the Likert scale standard, grand mean of 3.**30** and SD **1.03744** revealed **moderately** positive perceptions regarding the organization's reward and recognition programs. Employees generally agreed that there is some linkage between employee performance and reward programs in the organization and non-monetary reward programs are used to motivate employees. However, significant proportion of respondents remained neutral or dissatisfied regarding the fairness, motivational effect and consistency of reward programs of the organization.

Performance improvement

With a grand mean value of 2.95 and SD **1.04935**, the descriptive findings indicate that performance improvement perceived as **moderate** by the organization's employees as per the Likert scale standard. Many respondents disagreed that there is clear and consistent process for addressing underperformance or taking appropriate corrective action when employees perform below standard.

Organizational Effectiveness (Dependent Variable)

As per the Likert scale standard, a high grand mean score of **3.83** and SD **.71515**, Caritas Switzerland Ethiopia employees generally perceive the organization as effective. Most respondents agreed that the organization is consistently meeting program objectives, quality service delivery that satisfy donors and beneficiaries, aligns daily activities with strategic plan and maintain positive level of employee satisfaction and retention.

4.5 CORRELATION ANALYSIS

Pearson Correlation measures the strength and direction of two quantitative variables. It helps to determine whether change in one variable is associated with change in another variable.

Table 5: Correlation Result

Correlations							
		GSP	**PA**	**PD**	**PRR**	**PI**	**OE**
GSP	Pearson Correlation	1					
	Sig. (2-tailed)						
	N	117					
PA	Pearson Correlation	.378**	1				
	Sig. (2-tailed)	.000					
	N	117	117				
PD	Pearson Correlation	.504**	.445**	1			
	Sig. (2-tailed)	.000	.000				
	N	117	117	117			
PRR	Pearson Correlation	.580**	.559**	.595**	1		
	Sig. (2-tailed)	.000	.000	.000			
	N	117	117	117	117		
PI	Pearson Correlation	.490**	.579**	.532**	.646**	1	
	Sig. (2-tailed)	.000	.000	.000	.000		
	N	117	117	117	117	117	
OE	Pearson Correlation	.523**	.519**	.554**	.666**	.445**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	117	117	117	117	117	117
**. Correlation is significant at the 0.01 level (2-tailed).							

Goal Setting and Planning and Organizational Effectiveness

There is a very positive connection between Goal Setting and Planning and Organizational Effectiveness (r = .523, p= .000). This relationship indicates that a clear and well-structured performance goal setting significantly enhance the overall organizational effectiveness. It implies that when employees are clear about expectations, the organization is more likely to achieve its operational and strategic objectives.

Performance Appraisal and Organizational Effectiveness

There is positive and statistically significant relationship between Performance Appraisal and Organizational Effectiveness (r = .519, p= .000). This suggests that consistent, fair and transparent performance appraisal systems are positively associated with improved organizational effectiveness. This implies that effective performance appraisal of employees' performance can enhance the productivity of an organization.

Performance Development and Organizational Effectiveness

Performance Development has positive and statistically significant relationship with Organizational Effectiveness in the case organization (r = .554, p= .000). This highlights that formal and well-organized training, coaching and development programs play vital role in enhancing the overall organizational effectiveness. This implies that when the organization heavily invest in the development of its employees, it is highly likely to attain better organizational effectiveness.

Performance Reward & Recognition and Organizational Effectiveness

Performance Reward & Recognition also have a positive and statistically significant relationship with organizational effectiveness (r = .666, p=.000). This shows that effective reward and recognition systems of the organization can be resulted in enhanced organizational effectiveness. This implies that motivating employees through developing tailored reward and recognitions of employees improves commitment and productivity thereby enhances organizational effectiveness.

Performance Improvement and Organizational Effectiveness

The correlation between Performance Improvement and Organizational Effectiveness was positive and significant (r = 0.445, p=.000). This shows that well-organized performance improvement plans can greatly contribute to organizational success. It implies that addressing gaps of underperforming employees and supporting their growth can lead to higher organizational effectiveness.

Overall, all independent variables demonstrated very strong and statistically positive relationships with the dependent variable (organizational effectiveness). This implies that all variables can play important role in enhancing organizational effectiveness. Among the independent variables, performance development (r=.554) and performance reward and recognition (r=.666) shows the strongest relationship with organizational effectiveness. This suggests that employee growth and reward programs are the most influential factors that can improve organizational performance.

As per the results, the relationship between PMS and Organizational Effectiveness is to be tested using regression analysis.

4.6 REGRESSION ANALYSIS

Diagnostic Test of Regression

4.6.1 Normality Test

Normality test is used to determine whether the error term is normally distributed or not. The histogram and normal probability plots are employed as shown below.

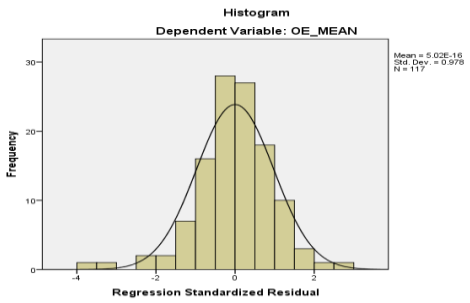


Figure 4.1: Histogram and P-P plot

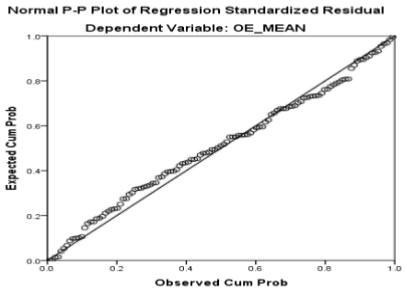


Figure 4.1: Normal probability

As shown in 4.1 figure, the result shows that the test result indicates that almost the residual is close to normal distribution. The histogram is bell-shaped implying that residuals are normally distributed. Thus, there is no violation of the assumption normality of distributed error term. The regression results below can be considered reliable for further interpretations. So, the normality assumption of regression model is satisfied.

4.6.2 Skewness and Kurtosis

The normality test was also conducted using skewness and kurtosis values. The skewness value is ranging from -1.071 to -0.040 and kurtosis value ranging from -0.971 to 1.214, which fall within the acceptable range of -2 to +2 for skewness and -7 to +7 for kurtosis. Hair et al. (2019). Therefore, from this result it is possible to conclude that the data are normally distributed, and the assumption of normality is satisfied for all variables.

Table 6. Skewness and Kurtosis

Skewness & Kurtosis

	N	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
GSP_MEAN	117	-.653	.224	.823	.444
PA_MEAN	117	-.040	.224	-.235	.444
PD_MEAN	117	-1.071	.224	1.214	.444
PRR_MEAN	117	-.484	.224	-.377	.444
PI_MEAN	117	-.146	.224	-.971	.444
OE_MEAN	117	-.408	.224	.099	.444
Valid N (listwise)	117				

4.6.3. Multicollinearity

Table 7: Multicollinearity Test

Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	GSP_MEAN	.613	1.630
	PA_MEAN	.601	1.665
	PD_MEAN	.577	1.732
	PRR_MEAN	.423	2.363
	PI_MEAN	.485	2.060

a. Dependent Variable: OE_MEAN

Based on the above table, the multicollinearity test results show that the tolerance value ranged from 0.423 to 0.613, all of which are above the minimum acceptable threshold of 0.10 and the VIF ranged from 1.630 to 2.363, which are below the critical value of 10. Hair et al. (2019). These results confirms that there is no multicollinearity among the independent variables. Thus, the assumption of multicollinearity is satisfied. Therefore, the independent variables are not highly correlated with each other and can be reliably included in the regression model of this study.

4.6.4 Model Summary

Table 8: Model Summary

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.725[a]	.526	.504	.50347

a. Predictors: (Constant), PI_MEAN, GSP_MEAN, PA_MEAN, PD_MEAN, PRR_MEAN

b. Dependent Variable: OE_MEAN

The model summary demonstrates that the performance management system in aggregate have very strong explanatory power on the variance in organizational effectiveness. The R^2 value of 0.526 suggests that around 52.6% of the change in organizational effectives can be explained by the combined effect of the independent variables considered in this study. The R value of 0.504 further confirms a very strong positive relationship among dependent and independent variables, imping that the model still remains as strong explanatory of organizational effectiveness even after adjusting for the number of predictors included in this study.

Table 9: ANOVA Result

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	31.190	5	6.238	24.610	.000[b]
	Residual	28.137	111	.253		
	Total	59.327	116			

a. Dependent Variable: OE_MEAN

b. Predictors: (Constant), PI_MEAN, GSP_MEAN, PA_MEAN, PD_MEAN, PRR_MEAN

The ANOVA (Analysis of Variance) result demonstrated that the regression model statistically significant in predicting organizational effectiveness. Specifically, the F value of 24.610 with significance value of p= .000, which is in the accepted threshold of .05. (Field , 2018, Sekaran & Bougie, 2019)

This implies that the independent variables (goal setting, performance appraisal, performance development, performance reward and recognition, and performance improvement) collectively have a significant effect on organizational effectiveness.

Furthermore, when the regression sum of squares (31.910) is compared with the residual sum of squares (28.137) suggests that a substantial part of organizational effectiveness is explained by the included five predictors.

Table 10: Coefficients result

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.332	.298		4.473	.000
	GSP_MEAN	.175	.089	.164	1.971	.051
	PA_MEAN	.178	.071	.211	2.498	**.014**
	PD_MEAN	.162	.071	.198	2.302	**.023**
	PRR_MEAN	.291	.069	.422	4.201	**.000**
	PI_MEAN	-.092	.064	-.135	-1.440	.153

a. Dependent Variable: OE_MEAN

The effect of Performance Appraisal on Organizational Effectiveness is statistically significant (P=.014) and positive (Beta Coefficient=.211). This implies that the more the case organization improves the Performance Appraisal system the more the Organizational Effectiveness. Therefore, the H_2 (Performance appraisal has a significant positive effect on organizational effectiveness) is supported.

This finding is also supported by existing literature. A formal, periodic evaluation of performance against the set goals, ideally incorporating multiple perspectives (e.g., 360-degree feedback) for fairness (DeNisi & Smith, 2014).

The effect of Performance Development on Organizational Effectiveness is statistically significant (P=.023) and positive (Beta Coefficient=.198). This implies that the more the case organization invest on Performance Development the more the Organizational Effectiveness. Therefore, the H_3 (Performance development has a significant positive effect on organizational effectiveness) is supported.

This finding is also supported by existing literature. Using appraisal outcomes to create individualized development plans, linking performance to training, coaching, and career growth opportunities (Aguinis, 2019).

The effect of Performance Reward and Recognition on Organizational Effectiveness is statistically significant (P=.000) and positive (Beta Coefficient=.422). This implies that the more the case organization invest on Performance Reward and Recognition the more the Organizational Effectiveness. Therefore, the H_4 (Performance reward and recognition have a significant positive effect on organizational effectiveness) is supported.

This finding is also supported by existing literature. Ensuring a clear and perceived link between performance outcomes and both monetary (pay, bonuses) and non-monetary (praise, opportunities) rewards to reinforce desired behaviors (Rynes et al., 2021).

Among these variables having significant effect, performance reward and recognition has the strongest effect on organizational effectiveness as indicated by the highest standardized beta coefficient of (Beta=0.422).

However, the remaining two independent variables have not statistically significant effect on the organizational effectiveness. Specifically, goal setting and planning shows positive but marginally not significant effect (Beta=.164, p=.051), as its significance value is slightly above the .05 threshold. This suggests that it may contribute to the effectiveness of the organization and only may be the evidence is not enough to confirm a significant effect at the 5% level.

Similarly, performance improvement has a negative and statistically not significant effect (Beta= -.135, p=.153), indicating that this variable does not have statistically significant influence on the organizational effectiveness.

4.7 SUMMARY OF HYPOTHESIS TEST

Table 11: Hypothesis Testing

No	Hypothesis	Result	Decision	Beta	Sig.	F value
H1	Goal Setting and planning have a significant positive effect on organizational effectiveness	Not significant But positive	Rejected	.164	.051	-
H2	Performance appraisal has a significant positive effect on organizational effectiveness.	significant and positive	Supported	.211	.014	-
H3	Performance development has a significant positive effect on organizational effectiveness	significant and positive	Supported	.198	.023	-
H4	Performance reward and recognition have a significant positive effect on organizational effectiveness	significant and positive	Supported	.422	.000	-
H5	Performance improvement has a significant positive effect on organizational effectiveness	Not significant And Negative	Rejected	-.135	.153	-
H5	Performance management system in aggregate have a significant positive effect on organizational effectiveness	significant and positive	Supported	-	.000	24.610

4.8 MODIFIED MODEL

Based on the results, the regression model used in this study is rewritten as follows:

OE= 1.332 + .164 GS + .211 PA+ .198 PD + .422 PRR + -.135PI + ε

Where;

OE = Organizational effectiveness

1.332 is Intercept

GS= Goal Setting and Planning

PA= Performance Appraisal

PD= Performance Development

PRR= Performance Reward and Recognition

PI= Performance Improvement

- .164 , .211, .198, .422, and -.135 are coefficient of independent variables of GS, PA, PD, PRR and PI
- E is Error term

CHAPTER FIVE

5. CONCLUSION AND RECOMMENDATIONS

5.1. INTRODUCTION

This chapter presents the summary of findings, conclusions and recommendations of the study conducted on the effect of performance management system (PMS) on organizational effectiveness in the case of Caritas Switzerland Ethiopia. The chapter presents major findings obtained from quantitative data analysis, draw conclusions from the research questions, objectives and hypotheses and provide practical recommendations improving PMS of the organization. In addition to these main topics, limitations of the study and direction for future researchers are also presented.

5.2. SUMMARY OF FINDINGS

The study broadly intends to examine the effect of performance management system on organizational effectiveness in Caritas Switzerland Ethiopia. Specifically, the study examined the effect of goal setting, performance appraisal, performance development, reward and recognition, and performance improvement on organizational effectiveness.

The study employed quantitative research design using questionnaire survey. Quantitative data were gathered from 117 participants. Analysis was conducted using SPSS version 27, including descriptive statistics and explanatory, correlation analysis, assumption tests and regression analysis.

Regarding the descriptive analysis of this study, employees generally perceive the PMS of Caritas Switzerland Ethiopia positively.

Correlation analysis showed that all independent variables had positive and statistically significant relationship with organizational effectives. Among the independent variables, reward and recognition with r=.666 and performance development with r=.554 showed the strongest relationship with the organizational effectiveness. This suggests that employee recognition and developmental programs are critical contributors to the organizational performance.

The regression analysis further revealed that the PMS variables collectively explained 52.6% of variation in organizational effectives (R^2=.526). The ANOVA result further confirmed that the regression model was statistically significant with F=24.610 and p=.000, implying PMS in aggregate have significant effect on organizational effectives.

Regarding hypotheses, performance appraisal (β = .211, p = .014), performance development (β = .198, p = .023) and performance reward and recognition (β = .422, p = .000), have positive and statistically significant effect on organizational effectiveness.

However, goal setting and planning (β = .164, p = .051), and performance improvement (β = -.135, p = .153), showed statistically not significant effect on organizational effectiveness. Therefore, hypothesis related to these two hypotheses was rejected.

5.3. CONCLUSION

Based on the findings of this study, it can be concluded that the performance management system of Caritas Switzerland Ethiopia generally contributes positively to organizational effectiveness. The organization has established PMS components including participatory goal-setting, formal performance appraisal system, development initiatives, and reward and recognition initiatives. Participants generally hold positive perception toward these PMS, particularly performance development and reward systems.

The study further confirms that performance appraisal; performance development and performance reward and recognition programs significantly enhance the organizational effectiveness. These results suggest that transparent performance appraisal systems, continuous employee development and tailored reward and recognition programs can enhance the motivation and commitments of employees and ultimately improve organizational effectiveness. Among the independent variables, reward and recognition were found to have strongest impact on organizational effectiveness.

The study further concludes that the effectives of PMS is hindered by inconsistencies in implementation across different departments and field offices. Although goal setting and planning perceived positively by respondents, their effect on organizational performance was not significant, possibly it can be due to inconsistences in strategic alignment and follow-up practices. Similarly, performance improvement did not significantly affect

organizational effectiveness due to inconsistent corrective action procedures, accountability systems and poor follow-up mechanisms.

Generally, the study concludes that investing in transparent performance appraisal, continuous employee development and reward and recognition programs can significantly improve the organizational effectiveness of Caritas Switzerland Ethiopia.

5.4. RECOMMENDATIONS

The case organization shall strengthen the alignment between individual performance goals and strategic objectives through continuous communications. The consistent implementation of planning programs shall be ensured by the management. Additionally, people leading supervisors also should provide continuous clarification regarding the organizational priorities and performance expectations.

Caritas Switzerland Ethiopia should improve transparency, objectivity, fairness and consistency of its performance appraisal process so as to improve organizational effectiveness. The organization should provide formal training programs to its evaluators (supervisors)regarding the criteria used in evaluation, evaluation standards and feedback mechanisms.

For better organizational effectives, Caritas Switzerland Ethiopia should continue to invest in employee development programs such as formal training, mentoring, coaching and leadership development programs. Equal access to developmental programs should be ensured across different departments and locations. Furthermore, the development programs should be in alignment with the performance gaps and long-term objectives of employees.

Since reward and recognition programs are found to have strong effect on organizational effectives, the organization should strengthen performance based recognition systems. To enhance employees trust and motivation, the organizational should clearly communicate the linkage between performance results and rewards. Both extrinsic and extrinsic rewards should be implemented consistently and transparently.

The organization should establish clear procedures and accountability mechanism for addressing underperformance of employees. Supervisors should provide continuous feedback, coaching and document performance improvement plans for employees require support.

5.5. LIMITATION OF THE STUDY

Despite its invaluable contribution, the study has several limitations. Initially, it was limited to only one organization (Caritas Switzerland Ethiopia), which may hinder the generalizability of the findings. Secondly, the study's cross-sectional nature limits the ability to establish causal relationship over time. Third, the study focused on self-reported data, which may be subject to response bias.

5.6. CONTRIBUTION OF THE STUDY

The study contributes theoretically relevant information to HRM and practically it gives a lot of information to Caritas Switzerland Ethiopia regarding the relationship between PMS (goal setting and planning, performance appraisal, performance development, performance reward and recognition) with organizational effectiveness. Additionally, the organization can use it as a tool to plan and develop its current PMS.

5.7. SUGGESTIONS FOR FUTURE RESEARCH

This study provides valuable inputs and it also opens door for further research to create deep understanding of the relationship between PMS and organizational effectiveness.

- To increase the generalizability of the findings, future studies should assess other , organizations like financial institutions, manufacturing companies and NGOs.
- This study is cross sectional research design where data was collected at one time. Future studies should use longitudinal approach to examine how these PMS affect organizational effectiveness through time.
- Mediating and Moderating factors are not included in this study. Therefore, it is highly recommended for future studies to get better results.

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APPENDIX

ANNEX 1: QUESTIONNAIRE

Addis Ababa University

College of Business and Economics

School of Commerce

MA in Human Resource Management

Dear participant, I am HRM Master's student in the Human Resource Management Department at Addis Ababa University College of Commerce. As part of my Masters Degree requirements, I am conducting research on The effect of Performance Management System on Organizational Effectiveness

This survey aims to gather data and analyze the effect of performance Management on organizational performance and will take approximately 20 minutes to complete. Your honest answers are crucial, and all information provided will remain completely anonymous and confidential.

Thank you for your willingness to participate voluntarily, for your time and cooperation.

SECTION A: DEMOGRAPHIC INFORMATION

Please tick your answer.

A1.Gender:

Male

Female

A2. Age Group:

20-29 years

30-39 years

40-49 years

50 years and above

A3. Educational Level:

Diploma

Bachelor's Degree

Master's Degree

PhD

Other (please specify): _____

A4. Job Category:

Senior Management

Mid-level Management/Department Head

Technical/Program Staff (Officers, Specialists)

Administrative/Support Staff (Finance, HR, Logistics, Admin)

A5. Work Location:

Addis Ababa Country Office

Adigrat Field Office

Mega Field Office

Bale Field Office

Adama Field Office

A6. Years of Service with Caritas Switzerland Ethiopia:

Less than 1 year

1-3 years

4-6 years

7-10 years

More than 10 years

A7. How many PMS cycles have you participated in?

1 cycle

2-3 cycles

4-5 cycles

More than 5 cycles

SECTION B:

Please indicate/**circle** the extent to which you agree or disagree with the following statements using the scale:

1 = Strongly Disagree (SD) 2 = Disagree (D) 3 = Neutral (N) 4 = Agree (A) 5 = Strongly Agree (SA)

Questionnaire (Close-Ended)

Dimension	Items	SD	D	N	A	SA
Performance Planning & Goal-setting	I clearly understand my performance objectives at the beginning of each performance cycle					
	I participate actively in setting my performance targets					
	My individual goals are clearly linked to my department/team's objectives					
	My goals are aligned with Caritas Switzerland Ethiopia's strategic priorities and mission					
	Performance expectations are communicated clearly and in a timely manner					
Performance Appraisal	The formal performance appraisal is conducted objectively					
	I understand the criteria used to evaluate my performance					
	Appraisal ratings reflect my actual contribution to the organization					
	The appraisal process is transparent					

	My performance is evaluated consistently across different periods					
Performance Development	Performance appraisal results are used to identify my training and development needs					
	The organization provides adequate training opportunities to address identified skill gaps					
	I have access to coaching and mentoring to support my professional development					
	The PMS helps me identify career growth opportunities within the organization					
	Development programs are aligned with my job responsibilities and career aspirations					
Performance Reward and Recognition	There is a clear link between performance ratings and rewards (salary increment, bonus, etc.)					
	High performers are recognized appropriately					
	Non-monetary recognition (praise, acknowledgement, certificates) is used effectively					
	The reward system motivates me to perform better					
	The reward and recognition system encourages teamwork and collaboration					
Performance Improvement	There is a clear process for addressing underperformance in the organization					
	When performance issues are identified, constructive support is provided to improve					
	Performance improvement plans are used effectively to help employees meet expectations					
	The organization takes appropriate action when employees fail to improve performance					
	The performance improvement process is supportive rather than punitive					
Organizational Effectiveness	The organization consistently achieves its program/project objectives					
	The quality of program delivery meets or exceeds donor expectations					
	Employee turnover in the organization is low					
	Staff are generally satisfied with their jobs					
	Day-to-day activities are aligned with the organization's strategic plan					
	Resources are allocated in line with strategic priorities					
	Donors are satisfied with the organization's performance					
	Beneficiaries receive quality services that meet their needs					