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Impact of performance management system (PMS) on employee's performance in the case of CBE Kirkos district

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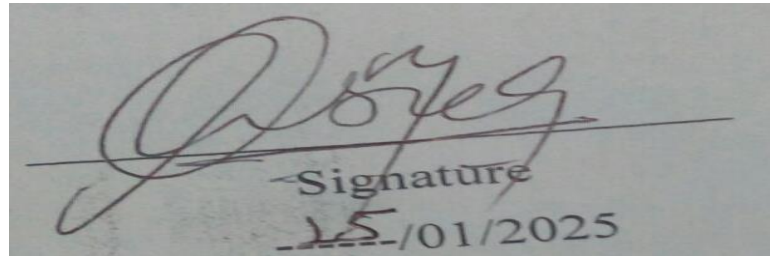
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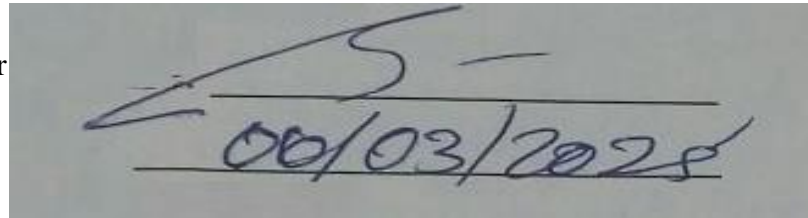
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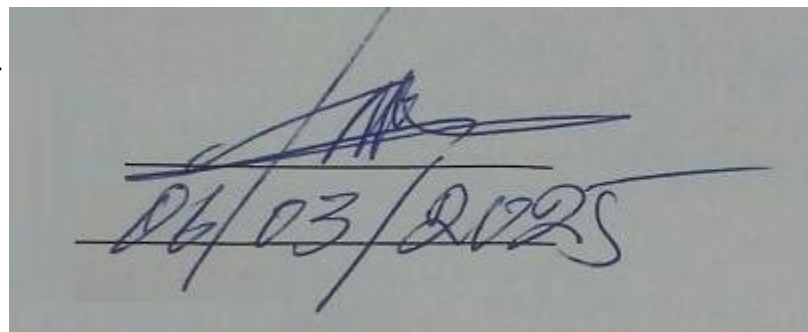
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This thesis has been submitted to Addis Ababa University, School of Graduate Studies, Department of MBA, for examination with my approval as the university advisor.

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Abstract

This study examines the impact of the Performance Management System (PMS) at the Commercial Bank of Ethiopia's Kirkos District on employee performance (EP). The research focuses on four key components of PMS: performance planning, performance monitoring, performance review, and performance rewarding. Data was collected from a sample of 161 employees across 12 randomly selected branches and the district office. A combination of regression analysis and correlation tests was used to explore the relationships between these PMS components and employee performance. The study employed a descriptive and explanatory research design, incorporating both quantitative data from structured questionnaires and qualitative insights from open-ended responses. Secondary data was also gathered through document reviews of internal reports and external literature on PMS in the banking sector. The analyses were performed using SPSS (Version 27). The results indicate significant positive relationships between all four PMS components and employee performance, with performance rewarding showing the strongest correlation ($r = 0.712$, $p = 0.000$). The regression model explains 87.4% of the variance in employee performance ($R^2 = 0.874$), confirming the positive influence of PMS practices. Statistical tests for normality, homoscedasticity, and autocorrelation confirmed the reliability of the findings. This study highlights the crucial role of a well-structured performance management system enhancing employee performance at the Commercial Bank of Ethiopia's Kirkos District. The findings offer valuable insights for refining PMS practices in the banking sector and suggest avenues for future research.

Keywords: Performance Management System, Employee Performance, Commercial Bank of Ethiopia, Kirkos District, Performance Planning, Performance Monitoring, Performance Review, Performance Rewarding.

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Acronyms and Abbreviations

CBE commercial bank of Ethiopia

KPI Key performance indicator

SIS Staff Incentive Scheme

CRO Costumer relation officer

ROI return on investment

BSC Balance score card

HR human resource

HRM human resource management

EP employee performance

PM performance management

PMS performance management system

RM relation management

Chapter one

1.1. Back ground of the study

When a company's distinctive core skills are successfully acquired, bundled, and leveraged to seize opportunities in the external environment in ways that add value for customers, it generates above-average returns and strategic competitiveness (Hitt, Ireland, and Hoskisson, 2007). Modern firms rely on the performance and competitiveness of their workforce, claims Anguini's (2009). He described a performance management system as an ongoing procedure for determining, evaluating, and improving team and individual performance as well as coordinating performance with the organization's strategic goals (Anguini's, 2009). If the system is inconsistent, fails to identify important indicators, fails to assess expected performance, and is unable to develop performance in a way that aligns with the organization's strategic goals, it is clear that the performance management system will become dysfunctional (Anguini's, 2009).

So, a comprehensive and integrated strategy, performance management helps firms achieve long-term success by enhancing employee performance and enhancing the capacities of both teams and individual contributors. Accordingly, HRM is a system that prioritizes both the development of human resources and efficient personnel management in order to ensure that workers are treated with dignity at work (Deshpande, 2009). The phrase was coined in the 1980s, when quality performance and comprehensive quality management reached a higher level of significance. It is the most important system for the success of a company's human resource and business policies. Performance management is to improve poor and unsatisfactory performance and reward individuals who perform well. Employees that fall short of expectations will be trained to improve their performance. The methodical process through which an organization engages its workers as both individuals and group members in enhancing organizational effectiveness in the pursuit of the organization's mission and objectives is known as performance management Tippins and Coverdale (2009). firms say that performance evaluations are necessary, and managers frequently state that they have done them, but many employees in these same firms claim that they have never gotten a review, according to Tippins and Coverdale (2009). Systems for managing performance must direct employees' actions. A key requirement of successful systems since the establishment of formal performance management systems has been an explanation of what constitutes good performance. It is doubtful that employees will meet the objectives set for them if the employer cannot effectively convey expectations Smith,

A. (2019). CBE is one of the state-owned commercial banks in the country established in 1942. Currently, CBE has 1,592 branches, 30 districts, and 10 regions, with each region containing 10 districts. CBE vision is to becoming a leading global commercial bank, playing a key role in shaping Ethiopia's financial future. Its mission is to effectively meet the needs of its stakeholders through improved financial services globally, while supporting national development objectives by utilizing a team of exceptionally driven, competent, and disciplined employees, along with cutting-edge technology.

Gaining the trust of the public is essential to success, according to the Commercial Bank of Ethiopia. The bank works to fulfill its vision and mission, develop a high-performance culture, and accomplish its strategic goals by continuously putting in place a competency-based performance management system that encourages staff development and outstanding performance (CBE, 2013). In order to rate employee performance, CBE's employee performance management system combines the balanced scorecard with core and leadership abilities. An efficient method of obtaining a comprehensive look at an employee's work performance rather than a partial one is through the use of a balanced scorecard approach to employee performance appraisal.

The performance framework and the metrics used in employee performance plans are balanced to ensure effectiveness. This study was conducted to better understand how the performance management system impacts employee performance in the Commercial Bank of Ethiopia's Kirkos district.

1.2. Statement of the problem

The effectiveness of a performance management system depends on everyone engaged having a clear awareness of both the system's goals and the organization's objectives Smith, A. (2019). Currently, commercial bank Ethiopia' makes use of a performance management system. The primary query is how to invest employees, and the answers may lie in properly implementing performance management. Performance management is primarily about the alignment of an organization's objectives with the employees' skill set, competency and development needs, and coupled with the delivery on jointly agreed upon measures. (Gold et al,2010) The discussions range from the competence of the evaluator to the extent of the significance of the System. Most managers are often heard of their difficulty in convincing their fellow employees with respect to how their performance is being managed and its importance in their development Macky and Johnson (2000). According to Deadrick and Gardner (1997), employee performance depends on

a specific time frame. According to their perspective, performance is defined as a dispersion of achieved results that can be quantified using a range of criteria that account for the trends in employee performance over a specific time frame. Darden and Babin (1994), on the other hand, view workers as part of a ranking system used to evaluate various performances. Employers assess workers' productivity and skills, and according to Zhang (2012) and Ying (2013), strong staff performance enhances the perception of consumer quality. Conversely, poor performance leads to more customer complaints and brand switching. Given these factors, employee performance can be defined as the tasks employees are required to perform and the quality with which they execute these tasks.

Selamawit Abera (2016) examined the impact of performance appraisals on employee performance at the Commercial Bank of Ethiopia. She concluded that the primary goal of an appraisal system should be to improve employee performance, which, in turn, contributes to the organization's success. The system must closely assess employees, recognizing them as the company's most valuable asset. Performance appraisal, in this context, refers to evaluating past performance rather than comparing it to preset goals. Through performance management, the focus shifts from being an annual event to a continuous process.

The study by Netsanet Nega (2022) investigates how Performance Management Systems (PMS) influence employee motivation at Ethiopian Airlines. The research identifies key factors, such as inclusivity, communication, fairness, acceptability, and performance rewards, as elements that positively impact employee motivation within the organization. Although these factors were found to have a significant relationship with motivation, their overall effect on motivation was moderate. The study suggests that enhancing these factors could improve PMS effectiveness and lead to a noticeable increase in employee motivation. Furthermore, it recommends the systematic implementation of PMS across the organization, ensuring that all employees, regardless of demographic background, have a consistent understanding of its purpose and processes.

Micah Adamu (2020) also explores the impact of PMS on employee productivity. His study finds that performance management practices significantly improve employee productivity by enhancing operational efficiency, customer satisfaction, and overall performance.

Similarly, Yonatan Tilahun (2022) examines the Employee Performance Management System and finds that employee participation in various PMS stages—planning, execution, assessment, and review is limited. While previous research has focused on the general influence of PMS on

employee attitudes, behaviors, performance appraisals, motivation, satisfaction, perception, and productivity, there remains a gap in understanding how the full implementation of each PMS phase affects employee performance (EP).

Taylor and Pierce (1999) explore how the performance management system influences employees' attitudes and efforts, thereby impacting their overall performance. They discovered that because PMS fosters greater organizational commitment, employee cooperation, and supervisor satisfaction, it improves employee attitudes. Additionally, their studies show that the use of PMS gives employees quantifiable, clear goals. But according to their findings, the employees' main worries about the implementation of PMS were unjust bonus distributions and evaluations. The primary goal of rating and bonus distribution was to provide performance rewards, and employees believe that PMS is only somewhat effective in doing so. Zhang (2012) investigated the relationship between employee performance and the performance management system (PMS) in current research. The findings showed that employee performance and PMS had a weak but beneficial association. Numerous additional researches have also demonstrated that reward systems improve employee performance (e.g., Mustapha, 2013; Ogedegbe & Bashiru, 2014; Saeed et al., 2013; Kalangulla, 2015; Liu, 2010; Chepkwony, 2014). This emphasizes how crucial it is for companies to prioritize their workers in order to improve performance.

Moreover, PMS systems are not universally applicable or easily transferable between organizations. Their design and administration must be tailored to meet the unique needs of both employees and the organization (Smith, 2018, p. 45). Therefore, further research is needed to explore how the various PMS phases can be effectively implemented to address specific performance challenges and align with organizational goals.

Based on the literature reviewed, this study aims to examine how the full implementation of PMS phase performance planning, performance monitoring, performance reviewing, and performance rewarding directly influences employee performance at the Commercial Bank of Ethiopia, specifically in the Kirkos District.

1.3. Research Questions

To achieve its objectives, the following research questions are addressed:

1. What is the impact of the Performance Management System (PMS) on the planning of employee performance (EP) at the Commercial Bank of Ethiopia, Kirkos District?

2. How does the Performance Management System (PMS) affect the monitoring of employee performance (EP) at the Commercial Bank of Ethiopia, Kirkos District?
3. In what ways does the Performance Management System (PMS) influence the review process of employee performance (EP) at the Commercial Bank of Ethiopia, Kirkos District?
4. How does the Performance Management System (PMS) impact the rewarding of employee performance (EP) at the Commercial Bank of Ethiopia, Kirkos District?

1.4 Objectives of the study

1.4.1 General Objectives of the Study

To examine the impact of the Performance Management System (PMS) on employee performance at the Commercial Bank of Ethiopia, specifically in the Kirkos District.

1.4.2 Specific Objectives of the Study

- ✓ To assess the effect of the Performance Management System (PMS) on the planning of employee performance.
- ✓ To identify the effect of the Performance Management System (PMS) on the monitoring of employee performance.
- ✓ To evaluate the effect of the Performance Management System (PMS) on the review of employee performance.
- ✓ To examine the effect of the Performance Management System (PMS) on the rewarding of employee performance.

1.5 Significance of the Study

The findings of this study will help employees by providing clear objectives and a documented outline of expectations regarding their work performance. It will create awareness among employees about their key tasks, how these tasks relate to the goals of the Commercial Bank of Ethiopia (CBE), supervisors' expectations, and how their performance will be measured. Additionally, it will allow employees to receive constructive feedback on their progress and identify strategies to overcome any challenges.

The findings will also assist management in maximizing employee performance and contributions, ultimately improving the efficiency of CBE. By better directing employees, management can help them achieve the organization's corporate objectives.

The results of this study add to the body of knowledge on the analysis of the connection between employee performance and Performance Management Systems (PMS), according to the researcher. In order to satisfy the necessary requirements, the Commercial Bank of Ethiopia (CBE) will also use it as a reference to update their services. The study will also add to the corpus of information on related subjects and act as a guide for further research.

1.6 Scope of the study

including all districts of the Commercial Bank of Ethiopia was not possible due to the limited time frame and available funds for this research, especially since the researcher is a student. Additionally, the management system across districts is similar, making it unnecessary to study all districts. Therefore, this study is conducted within the **Kirkos district of Addis Ababa**, focusing on the Commercial Bank of Ethiopia's operations within this district. Among the 30 districts of the bank, Kirkos was chosen due to its proximity to the researcher and the central location of its branches near the bank's headquarters. This makes it convenient and cost-effective for data collection, reducing both travel expenses and time constraints.

1.7. Ethical consideration

The study aimed to collect information from all participants while ensuring their anonymity. No personal identifying information, such as names, was recorded to protect their identity and encourage honest responses. The researcher explained the methods used to safeguard data, ensuring that all personal information remained confidential. Participants were provided with information about the study's goals to help them understand its purpose and to encourage thoughtful and responsible responses. Participation was voluntary, and participants could withdraw at any time without consequence.

CHAPTERS TWO

Literature review

2.1. Theoretical review

Wheelen and Hunger (2012) argued that the days when simple financial measures, such as return on investment (ROI), were used alone to assess overall corporate performance are coming to an end. This suggests that one of the important corporate performance measures at stake today is the performance management system for employees, which attempts to measure the level of core intangible assets within organizations, namely human resources. Measuring employee performance is crucial, as mentioned above, and differences in national cultures contribute to variations in the implementation of Performance Management Systems across organizations worldwide Palethorpe (2011). Moreover, Parker (2013) stated that a major setback in evaluating work performance across organizations globally has been determining the performance criteria in relation to the objectives set by their organizations. According to Slavin et al. (2014), it was justifiable to take a broad view or make the assumption that PMS measures for productivity would suit all organizations worldwide. This was because decision-makers were unaware of the repercussions of the objectives until a thorough and careful examination was performed.

2.2. Performance management system

Performance Management System (PMS) refers to the processes and practices the bank uses to set goals, monitor, review, and reward employee performance (Armstrong, 2014). According to Casio (1993), performance management is the entire process of monitoring an employee's performance over time in relation to job requirements, setting goals, clarifying expectations, offering on-the-job coaching, obtaining and filing performance data, and producing an appraisal based on that data. If the organization implements a successful and effective PMS, it can meet its goals and objectives by managing employee performance. Performance management can be seen as a systematic and inductive process. By improving individual employee performance within a team framework, the overall performance of the organization can be enhanced (Sunitha and Sangetha, 2013). Performance management, as referred to by Cook (2003), is the process of achieving organizational objectives by making productive use of people. Other scholars, such as Burgess et al. (2007), argue that performance management includes designing formal systems that ensure the efficient and effective use of human talent to achieve organizational objectives. In general, performance management is an ongoing process of identifying, assessing, and

improving both team and individual performance within a performance management system. It involves coordinating team and individual performance with the organization's strategic goals, rather than merely being an event or performance review. The process involves several key steps to ensure effective performance management. First, it includes clarifying the organizational, unit, and employee performance plans and expectations to ensure alignment. Next, employees are provided with feedback regarding their performance, helping them understand how they are doing. Performance gaps are then identified to pinpoint areas where improvement is needed. Based on these gaps, developmental steps are outlined to enhance employees' skills and performance. The process also focuses on developing and enhancing employees' abilities to perform their roles more effectively. Finally, rewards and benefits are provided to recognize and encourage top performance, ensuring motivation and continued excellence. One of the most important and challenging components of developing a performance management system is successfully putting it into place. Setting objectives, performing performance reviews, giving continuous feedback, and documenting the results are all steps in the PMS implementation process. Performance goals must be established and communicated at the beginning of a successful performance management cycle. These objectives cover both the expected results and the behavior norms for how personnel should perform their duties. When goals are explicit, connected to corporate objectives, inspiring (though challenging), and targeted, they work better. Feedback that is focused on actions rather than personal traits, conversational (open to asking employees' opinions), timely (near to the event), proactive (planning steps to follow), detailed, and supportive (offering resources and aid) is more successful. Feedback should take place continuously, not just at the end of the year. The final performance review should provide feedback for the entire performance management cycle, not be a point in time when employees feel uneasy or "surprised" by their evaluations.

The successful implementation of a PMS requires committed management and staff and implies continual training. Supervisors and team leaders should become competent in communicating effectively, setting goals correctly, measuring employee performance both quantitatively and qualitatively, giving feedback that informs and suggests improvement, coaching, and recognizing a job well done. Implementation benefits also arise from the use of supporting materials (such as handbooks) and automation that reduces paperwork (Anguini, 2009, p. 6).

2.2.1. Purpose of Performance Management System

Performance management systems can be used for different purposes. Anguini's (2009, p. 6) references the work of Cleveland and Murphy (1989), who summarized the basic purposes of performance management systems into six categories, listed as follows:

- 1. Strategic:** It reinforces actions that are in line with achieving company goals by connecting them with personal aspirations.
- 2. Administrative:** It offers reliable and helpful data for decisions about workers, such as pay raises, promotions, employee retention, termination, identifying high-performing employees, identifying low-performing employees, layoffs, and merit increases.
- 3. Communication:** It enables staff members to learn about their performance, get input on certain areas that require development, and comprehend the organization's and the supervisor's expectations, particularly the elements of the job that the supervisor deems most crucial.
- 4. Developmental:** By offering feedback, it enables managers to mentor staff members and support continuous performance improvement.
- 5. Organizational Maintenance:** It provides data on the competencies, aptitudes, prospects for advancement, and past assignments of current staff members. This data can be utilized for workforce planning, evaluating future training requirements, assessing organizational performance accomplishments, and assessing the efficacy of human resource interventions.
- 6. Documentation:** Performance management systems enable businesses to gather pertinent data for a range of documentation needs, which can be especially helpful when defending choices pertaining to performance or in court.

2.2.2 Challenges of performance management system

In the past, performance reviews have always been conducted after the fact. In most organizations, the traditional appraisal is done once a year; however, some organizations conduct appraisals every two years. Setting and reviewing goals typically span several months, with the goals established at the beginning of the year referenced during the assessment period. Lee (2006) states that performance reviews allow the supervisor and the employee to review their goals and targets, determine whether the employee is on track, assess how far they need to go to reach their goals, and identify any potential obstacles they may encounter. Bridger (2014) asserts that skewed ratings may occur in the appraisal process.

2.2.2.1 Top management commitment and leadership

The goal of higher management should be servant leadership, based on the notion that the main goal of leadership is to serve followers, making it ethically correct (Greiner, 2013). Servant leaders possess vision, empathy, selflessness, honesty, humility, dependability, and acceptance by others (Clardy, 2013). Many conceptualizations of the notion demonstrate that the core ideals of a servant leader are to value and serve their followers. When team members perceive that their boss is concerned about their welfare, they tend to be more committed to the organization. One of the difficulties identified as essential to the effective application of performance measures is commitment or leadership (Martin, 2009). Starting at the top and getting the commitment of upper management to make performance management a priority is an important prerequisite for success. In order for any performance management system to be effective, organizational members must be motivated to use it properly. The stronger the commitment, the greater the potential for program success. Without top management support, the system will fail. Top management support means that the highest-level managers follow all parameters of the system themselves and establish clear expectations for all organizational members.

2.2.2.2. Training and Awareness

Since not all employees agree with the changes in their workplace, training and awareness have become significant obstacles in implementing performance metrics. Therefore, for the organization to achieve its intended objective, effective communication between supervisors and subordinates is essential. It has been discovered that awareness and training are crucial to the implementation of performance management (Tobin, 2008).

2.2.2.3. Bias in Performance Appraisal

Being as impartial as possible is one of the most challenging prerequisites for a successful performance management system. It is indisputable that bias plays a role in the decisions people make about performance evaluations. The raters' only option is to reduce the degree of bias as much as possible. Professionalism in the workplace is crucial to the validity of the evaluation process. Tobin (2008) states that there are numerous forms of bias that infiltrate performance management systems, with the most commonly documented being the halo effect, central tendency, prejudice, and recency effect. The fairness of supervisors' evaluation decisions is the primary concern in the performance appraisal process. Raters struggle to accurately assess

performance reviews. Inaccurate measurements of individual employees' performance may cause systemic unhappiness.

2.2.2.4 Objective and Fair Standard of Evaluation

The performance standard is the measuring tool for determining the outcomes of employees' performance. All necessary standards need to be followed and spelled out to the staff. Stipulation of standards is important because it helps the organization to achieve its goals: to motivate individuals, teams, and groups toward higher levels of personal work behavior. Standards reinforce behavior, promote the consistency of employees' performance, and can also be used to weigh and measure the impact of employees' performance (Greiner, 2013). For employees to be optimally productive, there must be knowledge and training to carry out a particular job. Training and development enable employees to provide optimum output and also reduce the chances of them engaging in soldiering or deliberately working slowly to avoid working full hours, as highlighted by Julnes (2008).

2.2.2.5. Feedback System

Employees' engagement behavior should be included in the performance management (Armstrong, 2012). The behaviors of the employees include persistence, the ability to be proactive, role expansion, and adaptability. The main activities of this component are performance appraisals and feedback from supervisors. However, in order to enhance feedback, Julnes (2008) argues that it is important for the employee to feel that there is trust and justice in the system. The competence-based performance appraisal system was designed for higher education institutions by Gilmore and Williams (2009). They found that there were three competencies: core competency, managerial competency, and technical competency. According to Parker (2013), appraisal is 'the process of periodically reviewing one's performance against the various elements of one's job'. His study described the purpose and developmental criteria of a performance management program that assessed the performance of hospital employees on a regular basis. Slavin (2014) examined the effect of performance appraisal politics on job satisfaction. The findings demonstrated that politics surrounding performance reviews were significant predictors of job satisfaction in the organization under study. Martin (2009) investigated how performance reviews affected both individuals and companies. The study's conclusions demonstrated that performance reviews had a discernible impact on both individuals and organizations. Trakoli (2011) emphasizes the necessity of maximizing employee prosperity,

which in turn leads to maximizing organizational success. According to Taylor, paying employees fairly keeps them motivated and improves their effectiveness on the job.

2.2.2.6. Cultural Change Aspect

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

2.2.2.7. Agreement on Performance Metrics

Management and employees depend heavily on the agreement on the performance metrics to be used. Therefore, it is essential for employees, especially at the managerial level, in organizations to understand the metrics before engaging in the implementation process. According to Aguinis (2009), one of the critical success factors in implementing performance metrics is customer satisfaction, with quality characteristics being particularly emphasized. Therefore, organizations should give priority to clients by increasing service quality and improving the work-related attitude among employees. According to Sparrow (2012), performance management system failure can be attributed to several factors. Most of the time, upper management uses and supports the systems, but supervisors do not see the returns on the effort put into making the system function and instead see it as an administrative burden. It is impossible to measure performance objectives because they are written in such a subjective manner. If performance goals are tied to initiatives that weren't thought to be crucial success determinants at the start of the year, they seem less significant by the conclusion of the year. Managers often struggle to provide constructive criticism and resolve conflicts arising from performance reviews of their staff members. Over the last two decades, an increasing number of organizations have

implemented Performance Management Systems based on Critical Success Factors and Balanced Scorecards. Hetty (2008) describes the results of a study confirming that organizations which balance financial and non-financial measures, link strategic measures to operational ones, update their strategic scorecard regularly, and communicate measures and progress to all employees, are better performers. Armstrong (2003) stated that 'Performance management is not static. It will change as performance issues vary, as marketing strategy changes, technologies, and the means to measure and record performance change over time.' Thus, the statement asserts that knowledge of the BSC needs to be disseminated to top management because they are responsible for planning and organizing the company's strategy. Once top management is familiar with the BSC concept, they can utilize the company's financial and operational information to link its mission, vision, objectives, and goals to develop the organization's KPIs (Drewitt, 2013).

2.3. Phase of performance management system

Performance management system goes through four main stages: planning, monitoring, reviewing, and rewarding., according to Schneier, Beatty, and Baird (1987). Every stage is necessary for performance management to be successful.

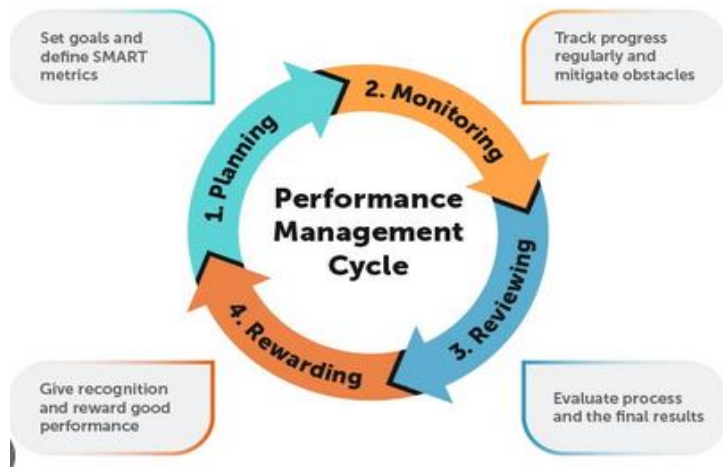


figure 2.3 performance management cycle Source: Sep 10,2024

2.3.1. performance planning

Planning provides the framework for an efficient process and is the initial phase of the performance management system process cycle. The objectives outline performance areas, or all the facets of the job that help achieve the overarching goal, and they are related to the job's overall purpose. After that, goals are established for every performance area. Supervisors and

subordinates participate in a collaborative process during this planning phase, setting both organizational and personal goals. On the other side, objectives also establish the framework for evaluating an individual based on their own performance and output, using predetermined criteria (Nyamwezi, 2009). As summarized by Leanne H. Markus (2004, P. 8 and9): The Performance Plan should clearly start from an organizational objective and clearly relate the individual objective to it. The objective can be written as an activity to be completed, but as with the job description there must be a description of the measure and the expected outcome. These should be written in quantitative terms”

In the performance planning phase, several essential activities take place to ensure that employees are aligned with organizational objectives. The first step involves setting clear goals and targets that outline what the organization aims to achieve. These goals and targets are then communicated to employees, ensuring that everyone understands the expectations and their individual contributions to the overall success. Following this, the goals and targets are cascaded down through the organization, with each level understanding its specific role in achieving the broader objectives. Finally, contractual agreements are signed with employees, formalizing the expectations and commitments between both the organization and its workforce. This phase is crucial for setting a foundation for performance measurement and ensuring alignment across the organization. It is in this step that individuals’ goals and targets are linked with that of the organizations goals and objectives (Schneider et al.,1987; as cited in Zhang,2012).It is also a process that underlines the need for the line manager/supervisor and the employee to work together to set and determine what is expected of the employee in the upcoming performance period, and identifying together the assistance the employee needs from his or her manager, way forwards to overcome good performance barriers (if any), and developing a common understanding of relative recognition of job priorities and authority levels (Bacal, 1999).

Goal and Target Setting

In the performance planning phase, representative employees and supervisors from each process or sub-process come together to define and align their team's goals with the broader corporate strategy. The first step in this collaborative process is to establish the "line of sight" for the specific process or sub-process, ensuring that every team member understands how their work contributes to the organization’s strategic objectives. From this line-of-sight document, SMART (Specific, Measurable, Achievable, Relevant, Time-bound) goals and targets are set for each

individual, taking into account their specific job roles. This approach, as suggested by Armstrong (1999), helps create clear, actionable, and measurable goals. Once the goals and targets are defined, the group agrees on the performance measures and the weight values assigned to each goal, ensuring that priorities are reflected appropriately. The outcome of this process is the production of an operational guideline document, which serves as a reference for how goals and targets will be measured and evaluated. The Balanced Scorecard (BSC) has been the Central Bank of Ethiopia's (CBE) strategic execution and performance measurement tool since 2010, supporting the alignment of individual performance with the organization's strategic goals. The line-of-sight document plays a crucial role in helping employees understand how their personal goals connect with the organization's strategic objectives, while the operationalization guideline provides a structured approach to evaluating performance based on weighted goals and targets.

Roles in Performance Planning

Supervisor's Role: Supervisors are responsible for communicating business goals and targets to employees, ensuring that everyone understands their objectives. Before beginning the cascading process, they must assign employees to their respective positions for the upcoming quarter. They should also identify employee's ineligible for the quarter and justify this in the ERP system. If adjustments to goal weights or values are needed, supervisors must identify these based on the Banking Business Operationalization document. They can request support from HR or PMS staff to amend goals as necessary. Finally, they must ensure that each employee's scorecard is marked as "Published" with the appropriate goals and targets.

Employee's Role: Employees are expected to discuss the cascaded goals and targets with their supervisors and understand how their work contributes to the team's objectives and the overall organization. They must approve the cascaded goals and targets using Employee Self Service within the designated time frame to ensure the objective-setting process is completed.

Challenges During Performance Planning: Some common challenges include supervisors failing to complete change assignments on time, leading to incorrect or unrelated goals being cascaded. Additionally, goals may be cascaded without the correct target values, particularly for quantitative targets like digital banking. Managers may also edit objective weights without following the operationalization document. Employee movement between sectors or branches before the quarter ends, as well as intentional omission of goals and targets, further complicates the process.

2.3.2 Monitoring performance

The process of sustaining employee performance, encouraging an atmosphere of ongoing learning and growth, and improving individual competencies to increase employees' productivity for the company is known as performance monitoring (Aguinis, 2007). A performance management system's second element is performance monitoring. The monitoring phase is when workers actively strive to achieve their objectives. It involves regular check-ins, providing resources and support, and tracking progress (Aguinis, 2007).

Conducting Effective Check-ins:

Regular check-ins, ideally monthly, help monitor progress and address any issues early. These meetings should focus on accomplishments, progress, roadblocks, changes, and support needed. Effective check-ins prevent micromanagement and help ensure that goals remain on track (Aguinis, 2007).

Providing Resources and Support:

In order for employees to accomplish their objectives, managers must make sure they get the tools and assistance they need. Access to resources, training, and any other assistance needed for their growth is part of this. Part of the manager's role is to ensure that support and resources are available, enabling the employee to carry out the work as planned (Aguinis, 2007).

Potential Issues and Their Resolution:

Timely action is made possible by early detection of possible issues. Managers should take the initiative to resolve problems that could impede advancement in order to keep staff members on course to achieve their goals. This stage, which some companies prefer to identify as "Acting" or "Performing," is when staff members actively work toward their objectives as part of their daily responsibilities. Training or other components of the employee's development plan may also be undertaken during this stage of the performance management cycle (Aguinis, 2007).

The purpose of performance monitoring is to ensure the timely and high-quality fulfillment of management tasks and goals. It provides legitimate support to managers, including assistance that was agreed upon during planning and review meetings. Additionally, performance monitoring aims to improve employees' job performance by refining the methods and techniques used for measurement. It also fosters a continuous learning and development process, allowing employees to enhance their skills and contribute more effectively to organizational goals (Aguinis, 2007).

2.3.3. Performance reviewing

Performance review stages involve meetings between the employee and manager to review their assessments. The appraisal meeting is important because it provides a formal setting where the employee receives feedback on their performance. This feedback leads to performance improvement and, ultimately, employee satisfaction with the system (Chen & Kinshuk, 2008). In order for the feedback system to be successful, managers and employees must share responsibilities and have a two-way communication mechanism.

Identifying performance metrics and evaluation criteria, gathering factual information about performance, managers' bias, resolving disputes between reviewers and those they review, and defensive behavior displayed by individuals in response to criticism are the primary issues that arise when conducting performance reviews (Armstrong, 2006).

One suggestion for conducting successful performance reviews is to acknowledge the employee's accomplishments, both positive and negative, by referring to specific behaviors. Requesting feedback from the employee about these behaviors, explaining the implications of changing or not changing the behaviors, and demonstrating how skills used in past achievements can help overcome current performance problems are critical steps. Additionally, agreeing on an action plan and setting up a meeting to follow up on the behaviors, actions, and attitudes to be evaluated is also recommended. Performance assessments should include self-assessment, peer feedback, and manager evaluations. Fletcher (1992) argues that improving internal communication is crucial in the third stage, as it ensures that workers are aware of goals and can actively participate in the organization's future growth.

2.3.4. Rewarding

Performance is rewarded at the end of the performance period. According to McAfee and Champagne (1993), the primary tasks are discussing evaluations with employees and assessing their achievements and abilities. This process also evaluates the overall efficacy of the system and its contribution to the business's performance. It provides feedback to both the organization and individual employees regarding their actual performance. An organization's ability to function effectively depends on the caliber of its workforce. To fill non-entry level positions, wise personnel advancement and training decisions must be made, ensuring that the right individuals are chosen and motivated to work. An efficient personnel performance evaluation system is essential for making these decisions and informing the administrative choices that

support organizational success. Incentives are vital tools for influencing employee behavior and aligning it with the company's goals. By establishing behavioral standards for rewards, pay-for-performance supports the alignment of employee conduct with the company's values.

Consequently, a worker earns a raise if they meet their performance goals. Rewarding employees for achieving specific goals creates a clear relationship between compensation and performance, fostering positive work attitudes like commitment and satisfaction.

Thus, high levels of productivity and positive work attitudes are directly influenced by the effectiveness of pay-for-performance. Personnel development, the final review, and rewarding activities comprise the last stage of performance rewarding."

Types of Rewards:

Financial rewards include direct and indirect payments that contribute to an employee's well-being, such as salary, wages, commissions, incentives, bonuses, and allowances. These rewards are typically monetary and designed to incentivize performance and recognize employee contributions. **Non-financial rewards** are also provided by CBE, aiming to recognize and appreciate employees in ways other than through financial means. These rewards include Employee Recognition, Certificates, Service Pin Awards, and Transfers, all of which acknowledge an employee's efforts, commitment, and achievements within the organization.

2.4 Employee performance

Performance has been defined by Hellriegel, Jackson, and Slocum (1999) as the level of an individual's work achievement after exerting effort. Cummings and Schwab (1973) and Whetten and Cameron (1998) suggest that performance is ultimately an individual phenomenon, influenced by environmental variables primarily through their effect on individual determinants of performance—such as ability and motivation.

Employee performance is typically defined as the amount a worker contributes to the attainment of the organization's objectives, whether through actions taken or not. According to Deadrick and Gardner (1997), employee performance can be defined as the record of outcomes achieved for each job function during a specified period. Viewed this way, performance is represented as a distribution of outcomes achieved, which can be measured using various parameters describing an employee's performance over time. Darden and Babin (1994) argue that employee performance is a rating system used by many corporations to assess an employee's abilities and output. Good employee performance is associated with improved consumer perception of service

quality, whereas poor performance is linked to increased customer complaints and brand switching. In conclusion, employee performance refers to the activities expected of a worker and how effectively these activities are executed. Business personnel directors often assess employee performance annually or quarterly to identify areas for improvement.

2.4.1 Employee performance measurement

The concepts of performance are studied through the evaluation and management of performance. Performance evaluation is the process of classifying specific outcomes within a defined timeframe (Coens and Jenkins, 2002). Moreover, the axiom 'If you can't measure it, you can't manage it' underpins the rationale for an organization having a complete and comprehensive performance measurement system, such as the Balanced Scorecard or total quality performance management. This approach connects measures throughout an organization to translate high-level objectives into lower-level activities. Measures are then imposed on individual employees to monitor their performance of these activities (Platts and Sobotka, 2010). Performance criteria need to be unambiguous, clearly explained, relevant to the work tasks undertaken by employees, and achievable. The criteria should not include factors beyond the control of the individual employee. Supervisors also need to be trained to provide regular, meaningful, and constructive feedback. Employees should be provided with appropriate training and development opportunities to overcome weaknesses in performance identified through the appraisal process. The assessment of individual employee performance should focus on evaluating behavior and work performance, not the personality of the employee (O'Donnell and O'Brien, 1999).

2.4.2. key performance indicators

Key Performance Indicators (KPIs), including productivity, quality of work, goal achievement, time management, team collaboration, flexibility, and creativity, allow organizations to measure individual and organizational goals and assess performance in line with them. In order to improve individual performance and foster organizational success, these KPIs are crucial for determining areas in which staff members might need more assistance, training, or resources.

A. **Efficiency:** One important performance indicator used to assess a person's contribution to the success of the business is productivity. It is the best metric for evaluating an employee's efficacy, productivity, and contribution to the success of the business as a whole. By ensuring that tasks are finished on schedule, maximizing productivity promotes efficiency and competitiveness.

B. Quality of Work: An organization's reputation and success are greatly influenced by the quality of work delivered. This KPI measures the degree of focus and excellence employees exhibit in their work. Delivering high-quality work enhances customer satisfaction, boosts team output, and strengthens the company's reputation.

C. Goal Attainment: Goal attainment reflects an employee's ability to translate objectives into results. Meeting or exceeding goals shows an employee's commitment and effectiveness in contributing to the organization's success.

D. Time Management: Time-based KPIs monitor process efficiency and the speed of issue resolution, helping identify areas for improvement. These metrics are essential in customer service and productivity management.

E. Team Collaboration: Effective teamwork drives customer satisfaction and revenue. KPIs measuring team collaboration focus on sharing ideas, supporting peers, and contributing to a cohesive and productive work environment.

F. Adaptability and Innovation: KPIs assessing adaptability and innovation identify employees who contribute to continuous improvement. In a rapidly changing environment, these traits are crucial for driving organizational growth.

G. Customer Satisfaction: Customer satisfaction serves as a key measure of an employee's performance. It reflects their ability to solve problems, communicate effectively, and provide excellent service.

H. Absenteeism Rate: This KPI reflects how often employees miss work and demonstrates their commitment and reliability.

High absenteeism can disrupt workflow and lower team morale, while low absenteeism ensures smooth operations and a productive work environment. (Aguinis, 2007)

2.5 Relationship Between PMS and the Employees' Performance

Performance has been defined by various scholars as a critical factor for organizational success.

In service-oriented firms, employees are seen as the main source of competitive advantage (Luthans, 1999). A commitment performance approach views employees as valuable assets and highlights the importance of their voice in the organization. Güngör (2011) defines employee performance as encompassing elements like output amount and quality, timeliness, presence at work, and cooperativeness. Macky and Johnson (2000) contend that enhanced organizational success can result from better individual employee performance. Organizations focus on clear,

challenging, and achievable goals to optimize performance, and performance management helps connect individual efforts to the overall organizational mission (Costello, 1994). Supervisors play a significant role in shaping employees' perceptions of the organization (Greenberg and Haviland, 2008). These perceptions are mainly shaped by social interactions rather than just procedures, which is why organizations need to ensure clarity in their processes and regular feedback from managers (Reynolds, 2009).

In light of the changing nature of careers and precarious work, there is a growing belief that individuals should take charge of their career development rather than relying solely on the organization (Greiner, 2013). Graduate employees are encouraged to stay employable and marketable while acquiring transferable skills for long-term career growth (Boyatzis, 2008). According to Cooper (2005), employees are the primary decision-makers in their career paths, and their satisfaction increases when they feel in control of their professional development (Garber, 2011).

2.6. Empirical review

In this section, empirical evidence supporting employee performance management systems has been presented. However, only a few studies have been undertaken, most of which are not in the public sector. Munzhedzi (2011) states that an organization's performance management system is valuable if it is well-established, if there is a common understanding between employees and managers, and if the organization's goals are properly cascaded. The researcher also points out that performance management plays a major role in both private and public sector organizations. Homayounizadpanah and Baqerkord (2012) and Kipsegerwo, Evans, and Kibichii (2016) primarily focus on the effects of performance management on employee productivity. According to them, a performance management system has a positive impact on organizational performance when implemented effectively, as it helps employees align with the organization's goals and clearly understand their roles. The study also indicates that key components of the performance management system, such as performance appraisal, employee training and development, and reward systems, significantly influence employee productivity. In related findings, **Amodt (2007)** has shown that rewarding employees often leads to increased performance. A successful incentive program not only increases profit but also inspires staff loyalty and raises morale. In a study on how performance management systems affect worker performance, Zhang (2012) found that performance is positively impacted by establishing clear objectives and enhancing manager-

employee communication. Similarly, by suggesting focused training for underperforming employees, Amber & Mubashir (2013) discovered that a properly implemented performance management system has a positive impact on employee performance. Similar findings have been made by other researchers who have also looked into this relationship. The findings align with **Armstrong (2006)**, who states that performance management plays a pivotal role in the human resource framework of all organizations. **Cardy & Leonard (2014)** note that performance management is an essential component for attaining effectiveness in organizations.

Prakash (2015) emphasizes that a properly executed performance management system provides valuable data that allows organizations to make sound decisions regarding their human resources. However, Masresha (2014) noted that in Ethiopia, the implementation of performance management systems in banks and other government organizations often lacks employee participation and is not based on recorded evidence. These studies stress the importance of contextualizing the framework to suit local conditions.

Metasebiya Boru and Tesfaye Boru (2016) highlighted key aspects from their study on Ethiopian banks, including the weaknesses of the system in terms of employee involvement and feedback. Armstrong (2009) reinforces this, emphasizing that performance management is all about communication and feedback. It helps managers and employees reach an understanding of what is to be done, how it will be done, and how to measure progress towards achieving organizational goals. This process ensures that feedback is provided regularly, helping employees continuously improve their performance.

Based on the above studies and others, the researcher intends to study the impact of performance management systems on employee performance, particularly in the case of commercial banks in the Kirkos district of Ethiopia.

2.7. Conceptual frameworks

Based on the literature reviewed, the following conceptual framework has been developed. The framework describes the relationships between the performance management system and employee performance. This model focuses on the phase of the performance management system as the independent variable, while employee performance is considered the dependent variable.

Research model Based on the above theoretical concepts the researcher has developed the following model

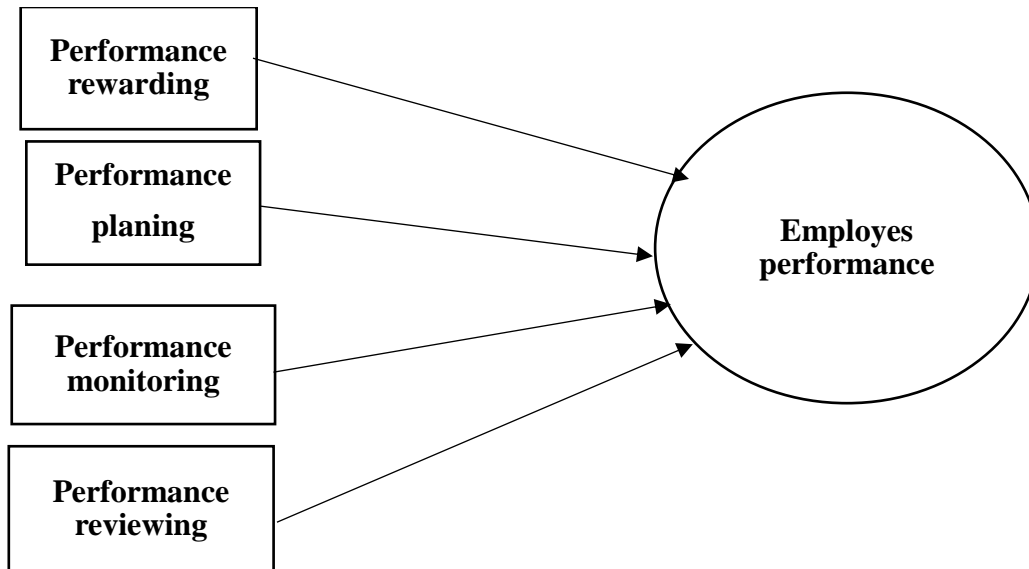


Figure 2.7.1 conceptual frame work

2.8. Research hypotheses

By addressing the gaps identified in various studies on performance management, this research aims to explore the effect of the performance management system on employee performance at the Commercial Bank of Ethiopia, Kirkos District, Addis Ababa. The study will test the following research hypotheses:

1. Ha: Employee performance and performance planning are significantly correlated. Ho: Employee performance and performance planning don't significantly correlate.
2. Ha: Employee performance will improve as a result of performance monitoring. Ho: Employee performance will not improve as a result of performance monitoring.
3. Ha: Performance reviews and employee performance are significantly correlated. Ho: There is no meaningful connection between employee performance and performance reviews.
4. Ha: Performance awards and employee performance are significantly correlated. Ho: Performance awards and employee performance don't significantly correlate.

CHAPTER THREE

3. Research Methodology

The main aims of the study are to demonstrate the effect of performance management on performance of employees on commercial bank of Ethiopia in the case of Kirkos district.

3.1 Research approach

The study adopted a mixed research approach, incorporating both quantitative and qualitative methods. The quantitative approach was employed to quantify respondents' evaluations of the performance management system and employee performance, utilizing structured data collection tools like questionnaires. On the other hand, the qualitative approach was used to gain an in-depth understanding of the challenges faced by respondents and the solutions they provided regarding the current performance management system at the Commercial Bank of Ethiopia, Kirkos District. Strauss et al. (1998, p. 10) suggest that quantitative research design is focused on analyzing numerical data, typically gathered through structured instruments such as questionnaires. In this study, the mixed-methods design was chosen because it allowed the researcher to explore the subject matter comprehensively, addressing both the measurable aspects (quantitative) and the underlying context and perceptions (qualitative) of the respondents.

3.2 Research design

The research uses a descriptive and explanatory research design. The main aim is to understand the impact of the performance management system on employee performance in the Kirkos district. When describing traits or behaviors in a particular group or setting, descriptive research is appropriate. Explanatory research helps explain the causes or reasons behind trends, correlations, or events that have been observed (Creswell, 2017)

3.3. Population

The population for this study consists of employees from 12 randomly selected branches within the district, as well as employees working at the district office, resulting in a total of 400 employees. These branches and the district office were selected to ensure diversity in branch size and operations, while also being feasible within the study's time and budget constraints.

Table 3.3 population of the study

No	Branches	No of employs
1	Mebrat Condominium	8
2	Balcha Abanefso	42

3	Ehel depo	20
4	Temenja Yaj	23
5	Gofa mebrat	15
6	Dil gebeya	42
7	Beklo Bet	12
8	Compo	17
9	Sengatera	48
10	Stadium	16
11	Ayer Tena	35
12	District office	107
13	Hiwot Amba	15
	All Branches & District Office	400

Source from district HRM

3.4 sampling

The researcher selected a sample of 196 employees from a total population of 400 employees across 12 branches and the district office. This sample size is considered adequate for obtaining representative data while ensuring the study remains feasible within the available resources. The sample list was compiled from official records provided by the Commercial Bank of Ethiopia HRM.

3.4.1 Sampling Procedure

By using the recommended sample size calculation formula, which factors in population size, margin of error, and confidence level, the sample size for a population of 400 with a 95% confidence level and a 5% margin of error is approximately 196 respondents. They employed stratified sampling, a kind of probability sampling technique that separates the population into discrete subgroups (called strata) according to shared traits. This ensures that all subgroups, particularly smaller branches with fewer employees, are properly represented in the final sample. Stratified sampling helps capture the diversity across branches, leading to more accurate and reliable findings. As Lenth (2001) suggests, sample size is influenced by various constraints such as time, budget, logistics, and resources. These factors make it essential to select a sample size that balances feasibility with statistical power. Therefore, the sample size formula suggested by Laurentina and Melchor (2006) was adopted to ensure a representative and reliable sample size

without exceeding available resources. The sample size was determined using the following formula below.

$$\text{Sample selected from each branch} = \frac{N1}{NT} \times N2$$

Where:

- $N1$ = number of employees in each branch
- NT = total population (400)
- $N2$ = number of respondents selected (196)

Using above the number of respondents selected for each branch is calculated as follow. Table 3.2.1 selected CBE branches and district for data collection

No	Branches	No of employs	No of respondent selected from Branches & District Office
1	Mebrat Condominium	8	4
2	Balcha Abanefso	42	10
3	Ehel depo	20	10
4	Temenja Yaj	23	11
5	Gofa mebrat	15	7
6	Dil gebeya	42	21
7	Beklo Bet	12	6
8	Compo	17	8
9	Sengatera	48	24
10	Stadium	16	8
11	Ayer Tena	35	17
12	Hiwot Amba	15	7
13	District office	107	52
	All Branches & District Office	400	196

Source Kirkos district of CBE branch list

3.5. Data collection methods

3.5.1. Data Collection Techniques

Data for this study **was** collected using the following methods:

A. Document Review: Secondary data **was** gathered by reviewing existing surveys, reports, and documents related to the Commercial Bank of Ethiopia (CBE). These **included** internal documents (e.g., annual reports, performance reviews) and external sources such as journal articles relevant to performance management systems in the banking sector. This review's objective was to place the study in perspective and pinpoint any important performance management practices used at CBE.

B. Structured Questionnaires: Primary data **was** collected through structured questionnaires administered to employees of CBE's Kirkos district. The purpose of the questionnaires was to collect data regarding how employee performance is affected by the Performance Management System. The questions **included** a combination of Likert-scale items and open questions, allowing for both quantitative and qualitative data analysis.

C. Both secondary and primary data were integrated in this study, with secondary data providing contextual background and primary data offering specific insights into the employees' perspectives. The study **employed** a cross-sectional design, with data **being** collected at a single point in time.

3.6. Data Analysis

The completed questionnaires were reviewed for consistency and completeness, and missing or inconsistent data were handled appropriately (e.g., Exclusion). Data was entered and cleaned using SPSS, where frequency distribution tables were created to summarize responses, and percentages were calculated. While quantitative analysis (such as regression and correlation) was utilized to investigate the relationships between variables, descriptive statistics (such as mean and standard deviation) were utilized to give a summary of the data. Pivot tables in SPSS were used to summarize data and examine relationships between categorical variables. A 5-point Likert scale was used for survey responses. Cronbach's Alpha was calculated to determine whether the survey's items are reliable, with values above 0.7 deemed acceptable. Pearson's or Spearman's correlation was used depending on data type, and multiple linear regression analysis was applied to explore relationships between independent variables and performance outcomes. ANOVA was conducted to compare mean differences across groups and assumptions of normality and homogeneity of variances were checked. Multicollinearity, autocorrelation, and heteroscedasticity were evaluated in regression models where applicable. All analyses were performed using SPSS (Version 27)

3.7. Data Validity and Reliability

Before beginning the analysis, the data were cleaned for completeness and consistency. To ensure the validity of the questionnaire, a criterion-related validity test was conducted, examining the relationship between each item and the overall scale. A pilot test that involved figuring out the relationship coefficients between the items was used to evaluate the questionnaire's internal consistency. The reliability of the questionnaire was evaluated using Cronbach's Alpha, which precisely evaluated each section's internal consistency with respect to the entire questionnaire.

Table 3.7. Data Validity and Reliability result

Reliability Statistics

Variable	Cronbach's Alpha	Number of items
Performance planning	.775	4
Performance monitoring	.712	4
Performance review	.796	4
Performance rewarding	.821	4
Employee's performance	.706	7
Total	.745	23

Source own survey 2024

Cronbach's Alpha is used to estimate reliability in this report. Internal consistency, or the degree to which the items are closely related to one another, is measured by Cronbach's Alpha. It is acceptable to have a Cronbach's Alpha of 0.7 or more on a scale of 0 (no internal reliability) to 1 (highest internal reliability). The table's Cronbach's Alpha for the dependent variable is higher than the benchmark of 0.7, indicating good and acceptable by thumb; as a result, the questionnaire is deemed reliable

3.8. Ethical Consideration

The researcher recognizes the importance of adhering to ethical standards throughout the study. The researcher ensured that participants were properly informed about the study's goal, procedures, and potential dangers, and acquired formal agreement from the organization despite the fact that the study was being undertaken for academic purposes. All information was anonymized and safely preserved, and participants were guaranteed the privacy and confidentiality of their answers. They were also informed of their right to voluntarily participate

or withdraw at any point without consequence. No undue pressure was applied, and the researcher committed to minimizing any risks associated with participation. Transparency and honesty were maintained in all stages of the research, ensuring that all findings were accurately reported.

Chapter four

Data analysis

This study looks at how the performance management system (PMS) affects workers' output in the CBE Kirkos district. Employees of Ethiopia's commercial banks participated in a survey to produce the findings. The study's findings are presented in this chapter after the data gathered from the respondents was analyzed and the findings were discussed in light of the studied literature. The descriptive, correlational, and regression analyses that assessed the relationship between the variables are included in this section. The study was mostly carried out via questionnaires that respondents filled out, as stated in the methods section. 35 surveys were deleted because the data was incomplete, and 161 of the 196 that were distributed were returned. The response rate of the data is calculated to check **reliable** and **representative** of the entire sample as follow.

Response Rate Calculation:

$$\text{Response Rate} = \left(\frac{\text{Number of Completed Questionnaires}}{\text{Number of Distributed Questionnaires}} \right) \times 100$$

$$\text{Response Rate} = \left(\frac{161}{196} \right) \times 100 = 82.2\%$$

An 82.2% response rate is generally considered very good. In most surveys, a response rate above 50-60% is regarded as acceptable, while 70% or more is considered excellent (Groves & Couper, 1998). Therefore, a response rate of 82.2% indicates that a large proportion of the sample has provided feedback, making the data likely reliable and representative of the entire sample.

4.1. Composition of Respondents

Demographic information about respondents is shown below

Table 4.1 demographic information of the respondent

Demography		Frequency	Percent
Sex	Male	91	56.5
	Female	70	43.5
Age	18-25 years	38	23.60%
	26-35 years	82	50.93%
	36-45 years	31	19.25%
	Above 45 years	10	6.21%
Service years	0-2 years	50	31.06%
	3-5 years	72	44.72%
	6-10 years	35	21.74%
	Above 10 years	4	2.48%
Educational level	Diploma or certificate	0	0%
	Degree level	77	47.83%
	Master level	84	52.17%
	Above MA level	0	0%

Source own serve 2024

The above table shows the demographic breakdown of respondents. Among them, 56.5% were male, and 43.5% were female. In terms of age distribution, 23.6% of respondents were in the 18–25 age range, 50.93% were in the 26–35 age range, 19.25% were in the 36–45 age range, and the remaining 6.21% were over 45.

Age can influence performance due to varying levels of experience, career stage, and potentially energy levels. Younger employees (18–25) might have more motivation and flexibility but less experience, while older employees (36–45 and above) may bring more experience but could face challenges in adapting to newer technologies or methods. The 26–35 age group, which is the largest, might represent a workforce that is at its peak in terms of both energy and experience (Shalley & Gilson, 2004).

Regarding educational background, the majority of respondents (52.17%) hold a master's degree in education, while 47.83% hold a BSc or BA. This indicates that the Commercial Bank of Ethiopia employs a highly educated pool of professionals.

In terms of job experience, 31.06% of respondents have worked at the Commercial Bank of Ethiopia for fewer than 2 years. Additionally, 44.72% have worked there for 3 to 5 years, 21.74% have been with the organization for 6 to 10 years, and the remaining 2.48% have been employed for more than 10 years.

4.2. descriptive statics

4.2.1 Analysis of independent variable

4.2.1.1 performance planning

Table 4.2.1.1 mean and standard deviation of performance planning

Descriptive Statistics			
	N	Mean	Std. Deviation
The performance goals set for me are achievable.	161	3.77	.478
The performance management system acknowledges my contributions toward achieving the organization's goals	161	3.78	.443
The performance planning process is participatory	161	3.78	.443
I have a clear understanding of what is expected of me in my role	161	3.68	.598
Valid N (listwise)	161		

Source own survey 2024

The data compiled in table 4.1.1. The average score of 3.14 suggest the means for all four statements range between 3.68 and 3.78, indicating that respondents generally agree with the statements, but there is a slight variation in their perceptions, especially with the statement about clarity of role expectations (mean of 3.68). The standard deviations are relatively small, with most being below 0.60, suggesting that the responses are consistent and not highly dispersed. Overall, the data suggests that employees generally have positive perceptions about the performance management and planning processes, but there may be some areas (like clarity of expectations) where further improvement or communication could be beneficial.

4.2.1.2 performance monitoring

Table 4.2.1.2 mean and standard deviation of performance monitoring

Descriptive Statistics			
	N	Mean	Std. Deviation
I feel supported by my organization in achieving the performance goals set in the PMS	161	3.16	1.022
I am aware of the key performance indicators (KPIs) used to monitor my performance	161	2.94	1.147
I believe that performance monitoring helps to identifies competences that require personal improvement	161	2.96	1.156
The organization monitors the implementation process of its goals and objectives	161	2.83	1.102
Valid N (listwise)	161		

Source own survey of 2024

The mean score of 3.16 indicates a moderate level of agreement, with respondents being somewhat neutral to slightly agreeing that they feel supported by the organization in achieving their performance goals. However, the standard deviation of 1.022 suggests considerable variability in responses, with some employees feeling well-supported and others feeling less supported. The mean score of 2.94 suggests that employees are generally neutral or slightly disagree about being aware of the KPIs used to monitor their performance. The higher standard deviation of 1.147 indicates significant variability in responses, suggesting that while some employees are aware of the KPIs, many others are not. With a mean of 2.96, respondents are again more neutral to slightly disagree with the statement that performance monitoring helps identify competencies requiring personal improvement. The standard deviation of 1.156 also shows considerable variability, implying that while some respondents find performance monitoring beneficial for identifying areas of improvement, others do not.

Finally, the mean score of 2.83 suggests that respondents are somewhat dissatisfied or neutral about the organization's monitoring of its goals and objectives. The standard deviation of 1.102

indicates a moderate spread of responses, reflecting mixed opinions—some employees believe the organization monitors its goals effectively, while others do not.

4.2.1.3 performance reviewing

Table 4.2.1.3 mean and standard deviation *performance reviewing*

Descriptive Statistics

	N	Mean	Std. Deviation
I have opportunities to discuss on my performance during review	161	3.73	.559
My performance is evaluated based on clear and specific objectives of the bank	161	3.83	.490
The performance appraisal system provides constructive feedback that helps to improve my work performance	161	3.74	.531
I feel that the performance ratings given during appraisals are fair and unbiased.	161	3.84	.511
Valid N (listwise)	161		

Source own survey2024

The mean score of 3.73 indicates that respondents generally agree or are moderately positive about having opportunities to discuss their performance during reviews, suggesting that the performance review process includes feedback or discussion. The standard deviation of 0.559 is relatively low, meaning that most respondents share a similar view with little variability in their responses. The mean of 3.83 is quite high, indicating that employees agree that their performance is evaluated based on clear and specific objectives. The low standard deviation of 0.490 suggests strong consistency in responses, with most respondents holding a similar positive perception of the clarity and specificity of performance objectives.

With a mean of 3.74, employees feel moderately positive about receiving constructive feedback that helps improve their performance. The standard deviation of 0.531 is low, indicating little variation in responses and a general agreement that feedback is provided and helps enhance performance.

Finally, the mean of 3.84 is the highest among the statements, suggesting strong agreement with the fairness and objectivity of the performance ratings during appraisals. The standard deviation

of 0.511 is also relatively low, indicating that most respondents share similar views on the fairness and impartiality of the appraisal system.

4.2.1.4 performance rewarding

Table 4.2.1.4 mean and standard deviation of rewarding performance

	N	Mean	Std. Deviation
The company regularly communicates how the rewarding system works	161	3.78	.461
I feel that the reward system promotes healthy competition among employees	161	3.78	.443
I believe that PMS's incentive program motivates me to work harder to meet my performance targets	161	3.77	.478
I am aware of the types of rewards available in the company (e.g., bonuses, promotions, recognition)	161	3.80	.435
Valid N (listwise)	161		

Source own survey 2024

As indicated in Table 4.2.1.4, the mean score of 3.78 suggests that employees generally agree or are moderately positive about the company's communication regarding how the reward system operates. This indicates that employees have a good understanding of the reward system's structure. The low standard deviation of 0.461 shows that responses are fairly consistent, with most respondents sharing similar views on the clarity of communication about the reward system. The mean of 3.78 also suggests that employees generally agree that the reward system encourages healthy competition among employees. The low standard deviation of 0.443 indicates little variability in responses, with most respondents believing that the reward system fosters healthy competition. With a mean score of 3.77, employees generally agree that the incentive program within the performance management system (PMS) motivates them to work harder toward meeting their performance targets. The standard deviation of 0.478 is relatively low, suggesting minimal variation in responses and that most employees feel motivated by the incentive program.

Finally, the mean score of 3.80 is the highest among the four statements, indicating strong agreement or positivity about being aware of the types of rewards available in the company. The standard deviation of 0.435 is low, reflecting a high level of consistency in responses, with most employees sharing a similar understanding of the available rewards.

4.2.2 Analysis of dependent variable

4.2.2.1 Employees performance

Table 4.2.2.1 mean and standard deviation of employee’s performance

Descriptive Statistics

	N	Mean	Std. Deviation
The PMS, in my opinion, is a fair method of assessing worker performance.	161	3.48	.807
I receive timely and actionable feedback through the PMS to improve my performance.	161	3.35	.896
The performance management system has made me feel more accountable for my work and performance.	161	3.30	.929
The administration of the bank, in my opinion, encourages my professional and personal growth through the PMS.	161	3.43	.857
The PMS gives me the chance to acquire new abilities and capabilities	161	3.42	.933
I regularly achieve the performance goals established for my role	161	3.54	.798
The PMS helps me to maintain a high level of productivity in my role	161	3.66	.672
Valid N (listwise)	161		

Source own survey of 2024

According to the data indicated in Table 4.2.2. **Mean 4.18 and Standard Deviation (0.621):**

The low standard deviation indicates strong agreement among employees, with the majority viewing the PMS as fair. **Mean (2.64):** This score is below neutral, suggesting that employees do not strongly agree that they receive timely and actionable feedback. This implies that feedback may be perceived as delayed, vague, or not practical for performance improvement. **Mean (3.12):** The slightly above-neutral score indicates that the PMS has somewhat improved accountability among employees, but it may not be fully effective in this area. **Standard**

Deviation (0.927): The moderate standard deviation reflects varied opinions, with some employees feeling more accountable, while others feel that accountability has not significantly improved. **Mean (2.52):** This below-neutral score suggests that employees do not strongly feel that the PMS supports their personal and professional development. **Mean (4.23):** This high score indicates that employees feel the PMS provides excellent opportunities for skill and competency development. It reflects a positive aspect of the PMS where employees feel they are growing professionally. **Standard Deviation (0.562):** The low standard deviation suggests strong agreement among employees, with few differing opinions. Most employees feel the PMS helps them develop new skills. **Mean (3.14):** The slightly above-neutral mean suggests that employees generally believe they are able to meet the performance targets set for their roles, though not consistently. **Mean (3.80):** This relatively high score indicates that employees feel the PMS is effective in helping them maintain a high level of productivity, positively impacting their work efficiency and performance. **Standard Deviation (0.435):** The low standard deviation shows that responses are consistent, meaning most employees agree that the PMS supports their productivity.

4.3 Relationship between the Independent and Dependent Variable

4.3.2 Correlation of independent variables and the dependent variable

Table 4.3.2 Correlation of independent variables and the dependent variable

		Correlations					Employees Performanc e
		Performanc e Planning	Performance Monitoring	Performance Review	performance Rewarding		
Performance Planning	Pearson	--					
	Correlation						
	N	161					
Performance Monitoring	Pearson	.399	--				
	Correlation						
	Sig. (2-tailed)	.000					
N	161	161					
Performance Review	Pearson	.481	.398	--			
	Correlation						
	Sig. (2-tailed)	.000	.000				
N	161	161	161				
performance Rewarding	Pearson	.388	.365	.331	--		
	Correlation						
	Sig. (2-tailed)	.000	.000	.000			
N	161	161	161	161			
Employee's Performance	Pearson	.703	.685	.647	.712	--	
	Correlation						
	Sig. (2-tailed)	.000	.000	.000	.000		
N	161	161	161	161	161	161	

Source own survey 2024

According to the above correlations table 4.3.2,

Performance Monitoring & Employee's Performance

Correlation: 0.685 and **Sig.:** 0.000 Performance Monitoring also shows a strong positive correlation with Employee’s Performance. A higher level of performance monitoring tends to be associated with better employee performance, and this relationship is statistically significant.

Performance Review & Employee’s Performance

Correlation: 0.647 and **Sig.:** 0.000 There is a moderate to strong positive correlation between Performance Review and Employee’s Performance, suggesting that regular performance reviews contribute to better performance. The relationship is statistically significant.

Performance Rewarding & Employee’s Performance

Correlation: 0.712 and **Sig.:** 0.000 The correlation between Performance Rewarding and Employee’s Performance is the strongest among all the components. This indicates that reward systems have a particularly strong association with employee performance, and this relationship is statistically significant.

Conclusion the analysis indicates a strong and positive relationship between performance management practices (planning, monitoring, review, and rewarding) and employee performance. Among these practices, performance rewarding is the most influential factor.

4.4. Assumptions of the Regression Model

4.4.1. Normality of Residuals

Table 4.4.1. Normality of Residuals

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	Df	Sig.
Unstandardized Residual	.052	161	.200*	.989	161	.214
Standardized Residual	.052	161	.200*	.989	161	.214

*. This is a lower bound of the true significance.

a. Lilliefors Significance Correction

Source own survey 2024

If the sample is drawn from a population that follows a specific distribution, such as a normal distribution, the Kolmogorov-Smirnov test can be used to assess this. The p-value of 0.200 from the Kolmogorov-Smirnov test exceeds 0.05, indicating that there is no significant deviation from

normality in the residuals. Similarly, the Shapiro-Wilk test yields a p-value of 0.214, which is also greater than 0.05, further suggesting that the residuals follow a normal distribution.

4.4.2. Heteroskedasticity

Table 4.4.2 chi square

**Breusch-Pagan Test for
Heteroskedasticity^{a,b,c}**

Chi-Square	Df	Sig.
.006	1	.940

a. Dependent variable: Employee’s Performance

b. Tests the null hypothesis that the variance of the errors does not depend on the values of the independent variables.

Source own survey 2024

Heteroscedasticity is not significantly supported by the Breusch-Pagan test p-value (0.940), which is higher than 0.05. This shows that the assumption of homoscedasticity (constant variance of residuals) is true and that the variance of the residuals is independent of the values of the independent variables. The notion that heteroscedasticity is absent is further supported by the extremely low Chi-Square score (0.006). Thus, the regression analysis is probably accurate in this respect and there is no homoscedasticity problem.

4.4.3. Autocorrelation of Residuals

Table 4.4.3 model summary

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.935 ^a	.874	.870	.90303	1.530

a. Predictors: (Constant), performance Rewarding, Performance Review, Performance Monitoring, Performance Planning

b. Dependent Variable: Employee’s Performance

Source own survey 2024

The autocorrelation (correlation between residuals) is tested using the Durbin-Watson statistic. There is no discernible autocorrelation in the residuals, as indicated by the value of 1.530, which is near to 2. Values below 1 imply positive autocorrelation, values above 3 indicate negative autocorrelation, while values closer to 2 often indicate no autocorrelation. Consequently, a Durbin-Watson score of 1.530 suggests that there is no substantial correlation between the residuals, which is a sign that the regression model is legitimate.

4.5. Multicollinearity Diagnostics

While all the correlations are significant, there might be concerns about multicollinearity because some of the independent variables (Planning, Monitoring, Rewarding, Reviewing) have weak correlations with each other but in a regression model, there could be some overlap in what they explain, potentially making it harder to isolate the individual impact of each predictor on employee’s performance. Test for multicollinearity is required and to check for **multicollinearity** in the model, we need to look at the **VIF (Variance Inflation Factor)** and **Tolerance** values provided in the regression output.

If a VIF is above 5 or 10, it suggests potential multicollinearity. *Tolerance*: Tolerance is the reciprocal of VIF. It shows how much of the variance of a predictor is not explained by the other predictors in the model. A tolerance below 0.2 suggests that a variable might be highly collinear with others according to *Hair, J. F., Black, W. C., Babin, B. J., & Anderson, R. E. (2010)*.

Table 4.3.3. Collinearity Statistics

Coefficients ^a		Collinearity Statistics	
		Tolerance	VIF
1	Performance Planning	.682	1.466
	Performance Monitoring	.749	1.335
	Performance Review	.707	1.414
	performance Rewarding	.785	1.274

a. Dependent Variable: Employee’s Performance

Source own survey 2024

VIF values: All VIF values are below 5, which is a good sign. Typically, a VIF greater than 5 indicates that multicollinearity might be a concern, but none of the values in this model reach that threshold.

Tolerance values: All tolerance values are above 0.2, which means that none of the variables are highly collinear with the others. Higher tolerance values indicate that the variables are not redundant. There for the researcher conclude that multicollinearity is not a major issue in a regression model. The variables Planning, Monitoring, Rewarding, and Reviewing are sufficiently independent from each other in explaining Employee Performance (EP). There for there is multicollinearity does not exist in this model.

4.6. Regression Analysis Results

Table 4.6.1. Regression model summary of the relationship

Model Summary ^b					
Change Statistics					
Model	R Square Change	F Change	df1	df2	Sig. F Change
1	.874 ^a	269.306	4	156	.000

a. Predictors: (Constant), performance Rewarding, Performance Review, Performance Monitoring, Performance Planning

b. Dependent Variable: Employee’s Performance

Source own survey 2024

The regression model has an R-squared value of 0.874, indicating that 87.4% of the variation in employee performance is explained by the independent variables (Performance Planning, Performance Monitoring, Performance Review, and Performance Rewarding). The adjusted R-squared is 0.870, and the standard error of the estimate is 0.90303.

Table 4.6.2 Anova test of the relationships

		ANOVA ^a				
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	878.429	4	219.607	269.306	.000 ^b
	Residual	127.211	156	.815		
	Total	1005.640	160			

a. Dependent Variable: Employee’s Performance

b. Predictors: (Constant), performance Rewarding, Performance Review, Performance Monitoring, Performance Planning

Source own survey 2024

The ANOVA results indicate that the overall regression model is statistically significant:

$F(4, 156) = 269.306, p = 0.000$ Since the p-value is less than 0.05, we can conclude that at least one of the independent variables significantly predicts employee performance.

Table 4.6.3. Regression coefficients

		Coefficients ^a				
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.999	.677		5.911	.000
	Performance Planning	.507	.057	.305	8.845	.000
	Performance Monitoring	.330	.034	.323	9.804	.000
	Performance Review	.303	.043	.241	7.106	.000
	performance Rewarding	.402	.033	.397	12.337	.000

a. Dependent Variable: Employee’s Performance

Source own survey 2024

The results show that all four independent variables (Performance Planning, Performance Monitoring, Performance Review, and Performance Rewarding) have a significant positive effect on employee performance, as all p-values are less than 0.05.

4.6.1 hypothesis testing

H1: Relationship Between Performance Planning and Employee Performance

- **Hypothesis:** There is a significant and positive relationship between performance planning and employee performance.
- **Results:** The regression coefficient for performance planning is 0.507 ($p = 0.000$), indicating a significant positive relationship. We accept this hypothesis.

H2: Relationship Between Performance Monitoring and Employee Performance

- **Hypothesis:** There is a significant and positive relationship between performance monitoring and employee performance.
- **Results:** The regression coefficient for performance monitoring is 0.330 ($p = 0.000$), confirming a significant positive relationship. We accept this hypothesis.

H3: Relationship Between Performance Review and Employee Performance

- **Hypothesis:** There is a significant and positive relationship between performance review and employee performance.
- **Results:** Performance review's regression coefficient is 0.303 ($p = 0.000$), indicating a strong positive correlation. We accept this hypothesis.

H4: Relationship Between Performance Rewarding and Employee Performance

- **Hypothesis:** There is a significant and positive relationship between performance rewarding and employee performance.
- **Results** performance rewarding regression coefficient is 0.402 ($p = 0.003$), indicating a significant positive relationship We accept this hypothesis.

4.7. Findings

Regression Model Validity:

The regression model demonstrated strong validity, explaining 87.4% of the variation in employee performance ($R^2 = 0.874$). All independent variables—performance planning, monitoring, review, and rewarding—were found to significantly predict employee performance. The ANOVA and hypothesis tests confirmed the overall significance of the model, supporting the robustness of the analysis.

Assumptions of the Regression Model:

The regression model met all key assumptions, including normality, heteroscedasticity, and autocorrelation, with no significant issues found in the residuals. Additionally, the absence of

multicollinearity among the independent variables further validated the reliability of the regression results, ensuring the model's credibility.

Performance Planning and Employee Performance:

The study revealed a strong correlation between performance planning and employee performance at the Commercial Bank of Ethiopia (CBE). Proper planning directly influenced employees' effectiveness and their ability to meet organizational goals, highlighting the importance of clear, structured performance plans.

Monitoring of the Performance Management System (PMS):

Monitoring within the Performance Management System (PMS) was shown to have a significant positive correlation with employee performance. This phase helps identify areas for development, enabling the creation of personalized improvement plans. Furthermore, monitoring serves as a foundation for offering training and development opportunities, enhancing employee growth and productivity.

Performance Reviews and Employee Productivity:

Employee productivity was found to improve when performance was acknowledged through regular performance reviews. Feedback provided during these reviews plays a key role in motivating employees and enhancing their performance. Implementing recommendations from these reviews leads to improved departmental services and better overall outcomes.

Rewards and Employee Performance:

The rewards phase in the performance management system was closely linked to employee performance at CBE. Both financial and non-financial rewards are used to recognize and motivate employees. The study highlighted that employee who score below 2.5 are not eligible for career progression, reinforcing the importance of performance outcomes. Additionally, the upcoming annual bonus system, which will begin in July 2024, will reward high performers with higher bonuses than those with lower performance levels, further incentivizing productivity and excellence.

In related findings, **Amodt (2007)** has shown that rewarding employees often leads to increased performance. A successful incentive program not only increases profit but also inspires staff loyalty and raises morale. In a study on how performance management systems affect worker performance, Zhang (2012) found that performance is positively impacted by establishing clear objectives and enhancing manager-employee communication. Similarly, by suggesting focused

training for underperforming employees, Amber & Mubashir (2013) discovered that a properly implemented performance management system has a positive impact on employee performance. Similar findings have been made by other researchers who have also looked into this relationship. The findings align with **Armstrong (2006)**, who states that performance management plays a pivotal role in the human resource framework of all organizations. **Cardy & Leonard (2014)** note that performance management is an essential component for attaining effectiveness in organizations. Metasebiya Boru and Tesfaye Boru (2016) highlighted key aspects from their study on Ethiopian banks, including the weaknesses of the system in terms of employee involvement and feedback. Armstrong (2009) reinforces this, emphasizing that performance management is all about communication and feedback. It helps managers and employees reach an understanding of what is to be done, how it will be done, and how to measure progress towards achieving organizational goals.

Chapter five

5.1 summary

This chapter discusses the main conclusions drawn from Chapter 4, offers suggestions for improving performance management systems to enhance employee performance, and presents inferences based on those conclusions. It organizes the comments, findings, suggestions, and opportunities for further investigation.

The primary objective of the analysis was to assess the impact of the Performance Management System (PMS) on employee performance (EP) at the Commercial Bank of Ethiopia's Kirkos District. The study focused on four key components of PMS: performance planning, performance monitoring, performance review, and performance rewarding. Data was collected from a sample of 161 employees across 12 randomly selected branches and the district office.

A combination of regression analysis and correlation tests was used to explore the relationships between these PMS components and employee performance. The research employed both quantitative data from structured questionnaires and qualitative insights from open-ended responses. Secondary data was gathered through document reviews of internal reports and external literature on PMS in the banking sector.

Statistical tests for normality, homoscedasticity, and autocorrelation, performed using SPSS (Version 27), confirmed the reliability of the findings. The study highlights the critical role of a well-structured PMS—particularly performance rewarding—in enhancing employee performance at the Commercial Bank of Ethiopia's Kirkos District. The findings provide valuable insights for refining PMS practices in the banking sector and suggest avenues for future research.

5.2. Conclusion

This study aimed to examine the impact of the Performance Management System (PMS) on employee performance at the Commercial Bank of Ethiopia, specifically in the Kirkos district. The primary objective was to determine how various components of the PMS—such as performance planning, monitoring, reviews, and rewards—affect employee performance. The findings from the study indicate that performance management practices—specifically performance planning, monitoring, review, and rewarding—are significantly and positively related to employee performance at commercial bank of Ethiopia Kirkos District. Among these practices, performance rewarding showed the strongest correlation with employee performance,

followed by performance monitoring, planning, and review. The regression analysis confirmed that each of these factors has a statistically significant positive impact on employee performance, highlighting the importance of an integrated approach to performance management. The study also found that the assumptions of the regression model, including normality, heteroscedasticity, autocorrelation, and multicollinearity, were met, supporting the validity of the results. These findings suggest that commercial bank of Ethiopia Kirkos District can enhance employee performance by strengthening its performance management practices, with particular emphasis on clear performance planning, regular monitoring, constructive reviews, and a well-structured rewarding system. Implementing these recommendations can lead to improved organizational outcomes and higher employee engagement

5.3. Recommendation

The findings of this study highlight the significant positive relationships between performance management practices (planning, monitoring, review, and rewarding) and employee performance. Based on these results, the following recommendations can be made to improve employee performance at commercial bank of Ethiopia Kirkos District:

A. Strengthen Performance Planning According to the study, performance planning significantly improves worker performance. Commercial bank of Ethiopia Kirkos District should ensure that performance goals and expectations are clearly defined and communicated to employees.

Recommendations:

To enhance performance management, it is crucial to develop and implement clear, SMART (Specific, Measurable, Achievable, Relevant, Time-bound) goals for each employee, ensuring clarity and focus in their objectives. Involving employees in the goal-setting process is also essential, as it increases their commitment and helps them better understand the organization's expectations. Additionally, performance plans should be regularly reviewed and updated to ensure they remain aligned with changing business needs and individual employee development, allowing for continuous improvement and adaptability in the workplace.

B. Enhance Performance Monitoring

Performance monitoring is shown to have a strong positive correlation with employee performance. It is essential to track progress regularly to ensure that employees are on the right path.

Recommendations:

To improve performance management, it is essential to create a systematic performance monitoring strategy that tracks progress toward goals and identifies areas requiring improvement. Using key performance indicators (KPIs) and regular check-ins allows for effective assessment of employee performance and provides opportunities for constructive feedback. Timely feedback is crucial for helping employees understand their strengths and areas for growth, enabling them to make necessary adjustments. Additionally, offering ongoing support and guidance ensures that employees have the resources and direction needed to successfully meet their performance goals and continue developing in their roles.

C. Improve Performance Review Process

The results show a moderate to strong positive correlation between performance reviews and employee performance. Employees can better grasp how their work contributes to company goals when the performance evaluation process is carried out properly.

Recommendation:

To enhance performance management, it is recommended to establish semi-annual or quarterly performance evaluations to assess both accomplishments and opportunities for development. These evaluations should be fair, constructive, and based on clear, precise standards, providing specific examples of both strengths and areas for improvement. Encouraging a two-way dialogue during performance reviews allows employees to provide feedback on organizational support and management practices, fostering a more collaborative environment. Additionally, managers should receive training on conducting effective performance reviews to ensure objectivity, fairness, and consistency in the evaluation process.

D. Strengthen the Rewarding System

The study finds that the rewarding system has the strongest correlation with employee performance. Rewarding employees for their contributions is crucial in motivating them to perform at their best.

Recommendations:

To enhance employee motivation and performance, it is essential to create a structured and transparent reward system that recognizes both individual and team accomplishments. This system should include monetary compensation, such as bonuses, along with non-monetary rewards like praise, opportunities for professional growth, or incentives promoting work-life

balance. Regularly reviewing the reward system ensures that it aligns with the company culture and remains competitive with industry standards. Additionally, personalizing rewards where possible, based on employee preferences and motivations, can boost happiness and engagement. Finally, using incentives strategically can reinforce behaviors and outcomes that support the organization's broader strategic objectives.

E. Training for Managers and Supervisors

Since all four performance management practices (planning, monitoring, review, and rewarding) have a significant impact on employee performance, it is critical that managers and supervisors are well-equipped to implement these practices effectively.

Recommendations for Training and Development:

To enhance the effectiveness of performance management, it is crucial to provide training and development programs for managers to help them develop skills in setting performance goals, monitoring progress, conducting reviews, and administering rewards. Motivating managers to build strong, reliable relationships with their staff fosters a climate of trust, incentive, and feedback. Additionally, training managers on how to resolve conflicts, give constructive criticism, and encourage staff development will contribute to a more supportive and productive work environment.

Focus on Consistency and Transparency:

The study underscores the positive impact of clear planning, monitoring, review, and reward practices on employee performance. To strengthen management trust and improve performance results, it is essential to ensure consistency and transparency across all organizational levels. This can be achieved by standardizing performance management procedures throughout the district to ensure that all employees are assessed based on the same criteria. It is also important to clearly communicate performance management procedures to all staff so they understand how their work will be evaluated and rewarded. Ensuring that these procedures are applied consistently and equitably helps maintain employee morale and prevents feelings of bias or unfairness.

Conduct Employee Engagement Surveys:

Given the importance of performance management practices, it would be beneficial for CBE Kirkos District to periodically assess employee engagement and satisfaction levels. Regular surveys should be conducted to gauge employees' perceptions of the system and identify areas for improvement. Feedback should be gathered on the fairness of performance reviews, the

clarity of performance expectations, and the adequacy of rewards. The insights obtained from these surveys should be used to make data-driven decisions to adjust performance management practices, ultimately improving employee performance.

By implementing these recommendations, CBE Kirkos District can optimize its performance management system, significantly boost employee performance, and enhance workforce effectiveness, contributing to the achievement of organizational goals.

5.4 limitation and future direction

5.4.1. Limitations of the Study

1. Cross-sectional Design:

The study employs a cross-sectional design, which provides a snapshot of the relationships between performance management practices and employee performance at a single point in time. This restricts the capacity to conclude causal linkages or track the evolution of these relationships across time.

2.. Geographical and Industry Limitations:

The data collected is limited to a specific geographical area or industry, which may reduce the generalizability of the findings to other regions or sectors. The effectiveness of performance management practices can vary depending on industry-specific factors or cultural contexts.

3. Sample Size:

While the sample size of 161 respondents is reasonable, a larger and more diverse sample could provide more robust results and help ensure greater representativeness of the population.

4. Exclusion of Other Variables:

The study focuses solely on four performance management practices (planning, monitoring, review, and rewarding). However, other variables such as organizational culture, leadership styles, job satisfaction, or individual employee characteristics (e.g., motivation, experience) might also play a significant role in influencing employee performance but were not considered in this study.

5.4.2. Future Directions

1. Longitudinal Studies:

Future research could adopt a longitudinal design to observe how the relationship between performance management practices and employee performance changes over time. This would help establish causal relationships rather than just correlations and provide more insight into the long-term effects of performance management.

2. Exploration of Other Variables:

Future studies could explore additional variables that influence employee performance, such as individual traits (e.g., emotional intelligence, intrinsic motivation), organizational factors (e.g., leadership style, communication practices), or external factors (e.g., market conditions, economic climate). This would provide a more comprehensive understanding of the determinants of employee performance.

3. Expanding the Sample:

To enhance the generalizability of the findings, future research should include a larger, more diverse sample that covers different industries, geographical regions, and employee demographics. This would help identify whether the observed relationships hold across different contexts.

4. Comparative Studies:

Comparative studies could be conducted to examine how performance management practices in different organizations, industries, or cultures affect employee performance. This would help identify best practices and provide actionable insights for organizations looking to optimize their performance management systems.

5. Investigating Moderating and Mediating Variables:

Future studies could investigate potential moderating or mediating variables that might influence the strength or direction of the relationship between performance management practices and employee performance. For instance, factors such as job satisfaction, organizational commitment, or leadership behavior could moderate the relationship between performance management practices and employee performance.

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Appendix Questionnaires

Dear Sir/Madam

Denekew Shumete Mekonen, an MA candidate at Addis Ababa University's School of Graduate Studies, is the researcher conducting this study. This survey's goals are to learn more about how the Performance Management System (PMS) at Commercial Bank of Ethiopia's Kirkos District affects employee performance (EP). Your candid answers will contribute to the system's increased efficacy. Please answer the questions based on your experiences. The topic of the questionnaire is "The effect of the performance management system (PMS) on the work output of employees in the CBE Kirkos district. Your sincere response is only utilized for scholarly purposes. As a result, I appreciate your cooperation in advance. Please feel free to contact me at +251-923224377 or denekewshumete@gmail.com if you have any questions about this survey.

Definition of key terms

A performance management system (PMS) is a set of procedures and methods used by the bank to establish objectives, track, evaluate, and reward employee performance. Armstrong: 2014
Employee performance is the efficacy and efficiency with which a worker carries out their responsibilities in a way that supports the objectives of the bank. Kuvaas, 2006.

Questionnaire

General Instruction

The questionnaire has three parts: in part I, general demographic data are requested. In Parts II and III, your opinion is requested the effect of performance management system on employee performance of CBE. Kindly tick the box (✓) next to the point that best represents your suggestion for section I. and give an explanation for section II where required on space provided

Section I: General Information

1. sex

Male Female

2. Age

18-25years 26-35 years 36-45 years above 45 years

3. years of experience

Less than 5 year 5-10 years 11-16 years Above 16 years

4. Educational level

Diploma or certificate level

Masters Level

Degree level

Above Masters level

SECTION II The effect of performance management system on employee performance of CBE Kirkos district.

NO	Performance management system practices	Measurement scale				
		Strongly 1	Disagree 2	Neutral 3	agree 4	Strongly 5
I	Performance planning					
1	The performance goals set for me are achievable.					
2	The performance management system acknowledges my contributions toward achieving the organization's goals					
3	The performance planning process is participatory					
4	I have a clear understanding of what is expected of me in my role					
II	Performance monitoring	1	2	3	4	5
5	I feel supported by my organization in achieving the performance goals set in the PMS.					
6	I am aware of how my performance is monitored using key performance indicators (KPIs).					
7	I believe that performance monitoring helps to identifies competences that require personal improvement					
8	The organization actively monitors the progress of its goals and objectives					
III	Performance review	1	2	3	4	5
9	I have opportunities to discuss on my performance during review					

10	My performance is evaluated based on clear and specific objectives of the bank.					
11	The performance appraisal system provides constructive feedback that helps to improve my work performance					
12	I feel that the performance ratings given during appraisals are fair and unbiased.					
IV	Rewarding system	1	2	3	4	5
13	The company regularly communicates how the rewarding system works.					
14	I feel that the reward system promotes healthy competition among employees					
15	I believe that PMS's incentive program motivates me to work harder to meet my performance targets.					
16	I am aware of the types of rewards available in the company (e.g., bonuses, promotions, recognition)					
V	Employee's performance	1	2	3	4	5
17	The PMS, in my opinion, is a fair method of assessing worker performance.					
18	I receive timely and actionable feedback through the PMS to improve my performance.					
19	The performance management system has made me feel more accountable for my work and performance.					
20	The administration of the bank, in my opinion, encourages my professional and personal growth through the PMS.					
21	The PMS gives me the chance to acquire new abilities and capabilities.					
22	I regularly achieve the performance goals established for my role					

23	The PMS helps me to maintain a high level of productivity in my role.					
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SECTION III Give an explanation where required on space provided below

1. "What challenges have you encountered with the current performance management system in the following areas: goal setting, performance monitoring, feedback, or rewards?"

2. What improvements do you suggest for the PMS to better support your performance and the overall effectiveness of the system in the commercial bank of Ethiopia?
