

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

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Declaration

I, **Milat Mekonnen**, the under signed, declare that this thesis entitled: “**Assessing the Effect of Performance Management System on Employees’ Performance: The Case of Ethiopian Airlines** ” is my original work. I have undertaken the research work independently with the guidance and support of the research advisor. This study has not been submitted for any degree or diploma program in this or any other institutions and that all sources of materials used for the thesis has been duly acknowledged.

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This is to certify that the thesis prepared by **Milat Mekonnen**, entitled **Assessing the Effect of Performance Management System on Employees' Performance: The Case of Ethiopian Airlines** and submitted in partial fulfillment of the requirements for the Degree of Master of Arts in Business Leadership complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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ABSTRACT

The main objective of the study was to assess the effect of the performance management system of Ethiopian Airlines on employee and organizational performance and its effect on promoting best behaviors and practices. To this purpose the researcher has studied to analyze the effect of PMS on employee performance, the extent to which performance measurement are aligned with the organization strategy, perception of employees on effectiveness of performance management and determinant factors for effective implementation of PMS using multiple regression model.

The research used quantitative method with the nature of both descriptive and correlation, and simple random sampling technique was used in the study to take a sample from the population. The sampling frame was divided into homogenous, non-overlapping groups called strata that is departments in case of the study. A total of 381 questionnaires were personally handled by the respondents with close follow-up and guide in filling the questionnaire and 345 respondents filled and returned their questionnaire. Thus, constituting approximately 89 % response rate. The statistical analysis of this study was done by using SPSS software version 20, and the researcher used both descriptive and inferential statistic. The descriptive statistic tables, mean and standard deviation are used descriptive statistics in this study to describe the data. Inferential analysis, the result of multiple linear regressions was analyzed. Based on the finding's coefficient values of reliability of PMS = 0.368 i.e., 100% change in reliability leads to 36.8% positive change in employee performance level. Coefficient values of Inclusiveness =0.266, implying that a 100% change in inclusiveness bring about a 26.6% positive change in employee performance level. Coefficient values of Acceptability and fairness =0.262, implying that a 100% change in acceptability and fairness bring a 26.2% positive change in employee performance level. Coefficient values of Openness =0.159, implying that a 100% change in PMS openness leads to a 15.9% positive change in employee performance level, linkage to KPIs =0.111, implying that a 100% change in PMS Linkage to KPIs leads to a 11.1% positive change in employee performance level.

Ethiopian Airlines need exert a better focus on these dimensions to bring a higher level of employee performance to its employees and should emphasize on inclusiveness, acceptability and fairness, linkage to KPIs factors of performance management system to augment its employee performance. Ethiopian Airlines should also work with more attention and focus towards the improvement of Openness and reliability factors to bring improve on its employee performance.

Key word: - *Inclusiveness, Acceptability & Fairness, Openness, Reliability, and Linkage of KPI*

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

All organizations have objectives to achieve to sustain their business or operation and gain competitive advantage. In the past, organization performance was measured in financial terms. Financial parameters like Revenue, profitability, return on capital were used to measure how the company is performing. Traditional financial measures of performance focus on firms' financial performances and didn't measure HR related outcomes, organizational and market-based outcomes, etc.

According to Jusoh, R et al. (2006), traditional performance assessment techniques which were designed for the industrial age economy which emphasizes on financial measures were proved ineffective with today's dynamic business environment. According to Jusoh, global competitions, ever increasing demands from customers for quality and reliable product and service, high service expectations, advancement in technology pressure organizations to devise and implementing a good performance system. Similarly, the organizational performance standards should include profitability, staff productivity, customer satisfaction, marketing and sales effectiveness as well as employee morale (Chan and Lynn 1991).

Contemporary organization's performance measurement parameters include profitability, customer satisfaction and brand image, also competent, skillful, and satisfied and motivated staffs. Organization performance is dependent on employee performance as good employee's performance will contribute positively towards organization performance. In the contrary, poor employee performance will negatively contribute towards organization performance. In general, employee performance plays an important and indispensable role for organizational performance and success.

According to Luthans and Staikovic (1999), employees or human capital are a primary source of competitive advantage in service-oriented organizations. Companies gain competitive advantage with its human capital who are knowledgeable, skilled, motivated, and high performing.

Organizations with skilled, competent, and motivated employees rendering above expectation service to customers win the competition and able to sustain profitable business.

Skilled human capital helps companies to build core competencies to perform better than their competitors. Core competencies are source of competitive advantage to the organization when it helps achieves better performance than competitors. Many organizations fail to exploit their human resource capabilities and convert those capabilities to gain competitive advantage. One of the major reasons for such failure is due lack of proper implementation, administration, management, and evaluation of employee performance and rewarding best performances and practices. According to Hitt Ireland and Huskisson (2007), enterprises achieve strategic competitiveness and earn above-average returns when their unique core competencies are effectively acquired, bundled, and exploited to take advantage of opportunities in the external environment in way that they remain ahead of competitors.

One of the main principles of the strategic human resource management perspective is that employees are regarded as valuable assets and management strategies are responsible in the development and implementation of an overall plan that seeks to gain competitive advantage by effectively managing these human assets through an integrated, interconnected set of HR practices that supports and promotes the overall business strategy of the organization.

Organizations need to devise strategies for identifying, assessing, motivating, developing, and rewarding the performance of their employee's. Organizations use several human resources management systems to recruit, develop, motivate, and improve the performance of their personnel. In this regard, performance management systems have become increasingly important in assisting firms to reach their goals of productivity (Stevens & Joyce, 2000). Thus, performance management is a vital tool of human resource management to enhance and influence employee performance and organizational performance in general.

Armstrong (2006) stated that the major goals and objectives for coming up with PMS include rectifying below standard performance, sustaining and maintaining good performance and improving performance. This is to create differentiation between good and poor performers and devise improvement action plans.

According to Aguinis (2009), Performance management systems are basic tools that can be used to transform people's talent and motivation into a strategic business advantage. Similarly, according to Lawler (2003), the objectives of performance management system include motivating performance, supporting employees develop their skills, building a culture that foster high performance, determining who should be promoted and rewarded and removing those individuals who are performing below standards, and helping organizations implement business strategies.

According to Fletcher (2001), performance management is concerned with establishing a shared vision and mission of the organization, assisting each individual employee be aware, comprehend and appreciate their part in contributing towards goal achievement, and in so doing manage and enhance the performance of both the individual and the organization. He stressed the importance of communication to create a shared vision to guide employees discharge their daily activity in way that contribute to achieving the organization's mission and objectives.

Performance management as a continuous process which is aimed at improving individual performance through consistent feedback According to Lawler (2003), performance management effectiveness increases when there is continuous feedback, behavior-based standards are adopted, and fixed targets are set and trained raters are deployed. Another factor that contributes to an effective performance management system entails ensuring that the system focuses on performance variables as opposed to personal traits (Lawrie, 2004).

In this respect, performance management and appraisal system have come to play a decisive role in leading organizations to reach their goal of productivity. Performance management system if effectively implemented help organization to achieve the set goals and objectives. In addition, implementation of PMS helps to bring change in employee behaviors that in tolerates unproductivity, improve transparency and cooperation among units.

Organizations need to implement best practices of PM that will help organizations to produce good result in terms of employee performance. Some of the dimension for effective performance management system include:

1. Strategic Congruences- The system should help to align and link individual employee goals with that of organizational goals.
2. Acceptability and Fairness- The evaluation of the employees should be based on actual performance of the employee and against clearly preset performance standards for the system to be perceived as Fair and Acceptable.
3. Inclusiveness-An effective system should be participatory and include input from multiple sources on continuous and consistent basis.
4. Openness- The system should have no undisclosed secrets. Feedback on actual employee performance and gaps identified should be communicated on ongoing basis.
5. Reliability – A good performance system should contain performance measurement standards that are clear, consistent and free from error, prejudice and bias.

The reason why I chose this research topic is to examine the challenges on effective implementation, administration and practice of PMS of Ethiopian Airlines based on observation and in relation to both theoretical and empirical literatures reviewed and assess its effect on employee and organization performance and its moderating effect on fostering good behaviors that lead towards better performance achievement.

Therefore, this paper examines the effect of performance management system on employee performance and productivity and its moderating effect on fostering good behaviors and attitude towards performance improvement.

1.2. Background of the Organization

Ethiopian Airlines (Ethiopian) is the nation carrier of Ethiopia with its hub at Addis Abeba Bole International Airport. Ethiopian started its operation in 1946 with first maiden flight to Cairo via Asmara. Today, Ethiopian is the largest Airlines in Africa in terms of its fleet size, wide network coverage along all the continents and number of passengers transported. Ethiopian currently serves more than 100 international and 21 domestic destinations operating with its youngest, modern, and new fleet with average age of 5 years. Ethiopian is also the largest cargo network operator with more than 66 cargo served destinations.

Ethiopian is currently implementing a 15-year strategic plan called Vision 2035 that will see it become the leading airline group in Africa with seven strategic business units that includes International passenger service, Ethiopian Domestic Service, Ethiopian cargo, MRO, Ethiopian Aviation Academy, Ethiopian Ground service etc. Ethiopian Airlines workforce includes more than 11 thousand permanent employees and around 3 thousand contract employees deployed in different business units across the company.

In alignment with its expansion strategy, the company has adopted BSC approach for its performance evaluation since January 2010. BSC is used as a strategic tool to cascade business objectives and goals to its employees, to communicate company's mission to all its employees working under different business units and to measure and evaluate how individuals are performing relative to set goals and objectives.

However, there has been challenges in the company in proper implementation and administration of performance management and evaluation, perception of employees towards the effectiveness of the system, and aligning it with the corporate mission and goals. As result the anticipated incremental outcomes were not achieved.

1.3 Statement of the Problem

Performance management system means management communicate company's mission, objectives, and goals to its employees. When PMS is done professionally and properly, it contributes in worthwhile assessment of employee performance that depicts how individual employee is contributing to achievement of organizational overall goals.

Most service organizations have adopted performance management system to enhance their service and remain competitive. There are genuine reasons why both managers and employees have difficulties with performance management. Managers avoid performance management activities, especially offering developmental feedback to employees, since they don't want to jeopardize their relationships with the staff, they rely on to get things done.

Employees avoid performance management activities, especially discussing their development needs with managers, because they don't want to endanger their income or advancement.

Performance management sets expectations for employee performance and motivates employees to work actively and diligently to meet expected performance set by the organization. But there is lack of understanding on implementation and practice of performance management and measurement.

However preliminary research on related topic shows noticeable and significant gap has been observed in cascading organizational mission and objectives to its employees through proper selection of performance measurements and proper evaluations. According to Armstrong (2009), alignment of individual and organizational objectives is one of the most essential purposes of PMS.

The other challenge associated with PMS implementation is in effective leadership and lack of the manager's commitment for successful implementation and utilization of PMS to gain the required outcome. Some managers may avoid performance management activities as it might affect the relationship with the employee. On other hand, Employees avoid performance management activities as it might have HR administrative consequences like demotion, layoff, or denial or lag on promotion etc.

PMS is an important tool as it helps organizations to ensure employees are committed and dedicated in achieving the organization's goal and objectives. Through PMS, employees are communicated on what is expected from them and the organization provides required support, guidance and motivation to help them meet the set expectation. Macky and Johnson (2000) stressed the importance of performance management system is on continuously improving organizational and employee performance which can be achieved by improved individual employee performance. He emphasized organization performance is achieved by enhanced employee performance. However, gap has been noticed in giving accurate and consistent feedback concerning staff performance and evaluation.

Effectiveness in performance management augments when there is continuous ongoing feedback, two-way and transparent communication between the supervisor and subordinate, measurement standards are objectives and free from subjectivity and bias, and when performance management practice in the organization is participatory.

According to Latham and Mann (2006), employees frequently believe that PMS is implemented by the management for wrong reasons, that is, the management is trying to utilize this for administrative procedure as a way to punish and hold them accountable and subsequently to punish and discipline them. Previous study shows similar wrong perception among some employees and consider it administrative tool to eliminate low performers. According to Kumar et al (2015), one of the main functions of performance measurement is to distinguish between employee's levels of performance, determine performance gaps and required training needs, approve rewards and identify employees legible for promotion. Hence there is awareness gap on the purpose and importance of PMS among employees.

The other gap noticed is PMS of the organization is perceived as not participatory in all performance management processes including planning, execution, and assessment. Participation in performance management practices helps employees to improve their performance. Performance of employees participated in PM processes of setting goals and performance measurement standards was much higher and better than those employees who did not participate in the planning process. (latham, Borgogni and petita (2008).

Temesgen Bahre (2018) has concluded around 48% of the airline employees perceive that PMS is ineffective in clarifying goal and objective of the organization and found out there was lack of proper feedback. Yitbarek Kasshun (2017) studied more than 50% of the airline employees reported that there is challenges in cascading organizational objectives to individual level through proper implementation of PMS. The management was not participatory in preparation of BSC targets with team.

Though some researchers have tried to analyze the effect of performance management on employee performance, detail study was not done on exhaustive list of PMS implementation challenge factors that have effect on employee performance.

So this paper attempts to analyze the effect of PMS on employee performance, the extent to which performance measurement are aligned with the organization strategy, perception of employees on effect of performance management dimensions on employee performance and challenges for effective implementation of PMS.

1.4. Research Questions

To achieve the purpose of this study and to give appropriate answer for the issues raised in the statement of the problem section, the researcher tried to address the following specific research questions.

1. How does the Inclusiveness of the PMS affect employees' performance at ET?
2. How does the Acceptability & Fairness of the PMS affect employee`s performance at ET?
3. How does the Openness of the PMS affect employees' performance at ET?
4. How does the PMS Reliability affect employee performance at ET?
5. How does the PMS Linkage of KPIS affect employee's performance at ET?

1.5 Research Objectives

1.5.1. General Objectives

The general objective of this research is to assess the effect of the performance management system of Ethiopian Airlines on employee and organizational performance and its effect on promoting best behaviors and practices.

1.5.2. Specific Objectives

In addition to the above-mentioned general objective, the specific objectives of the study are indicated below:

1. To examine the effect of the Inclusiveness of the PMS on employee`s performance at ET.
2. To analyze the effect of the Acceptability and Fairness of the PMS on employee`s performance at ET.
3. To evaluate the effect of the Openness of the PMS on employee`s performance at ET.
4. To determine the effect of PMS Reliability on employee`s performance at ET.
5. To study the effect of PMS Linkage of KPI`s on employee`s performance at ET.

1.6 Significance of the Study

This study is important for executives, directors and managers and employees of Ethiopian Airlines as it gives highlights on the effect of PMS to improve staff performance and productivity. The study is of importance for policy creators, HR managers and top management on performance management processes that influence employee performance to revise and update policies and guidelines for effective implementation of PMS.

This research will give information on the perceptions and awareness of employees on performance management so management will devise trainings, guidelines and coaching to increase the staff awareness level on PMS importance and purpose.

The study is also of importance for students and practitioners who want to pursue further study on the subject matter as it will be used as source of information and reference for further study or research on PMS and its effect on employee and organization performance.

1.7 Scope of the Study

The scope of the study is confined to assess the effect of PMS on Ethiopian Airlines employee's performance. Other Human resource and managerial factors that have direct impact on employee's performance and productivity are non-included on this study.

The study focused on Ethiopian Airlines permanent employees based in Ethiopia. The organization has employees working under the 7 business strategic business units, Ethiopian International Passenger services, Ethiopian Regional services, Ethiopian cargo, Ethiopian Maintenance Repair Overhaul, Ethiopian Aviation Academy, Ethiopian Inflight Catering and Ethiopian Ground service.

This study is limited by the perception of Ethiopian employees that are currently working in Addis Ababa due large number of staffs working across different countries the airline is directly serving as it is difficult to reach those employees assigned out of Ethiopia, in a short period of time.

Though the measurement of performance of contrat, expats and part-time employees is important to help employee improve their performance, it is not included on this report as some of the employees are not evaluated through the PMS.

1.8 Limitation of the Study

There are limitations encountered while conducting the research. The study is limited to employees based in Ethiopia and excludes employees serving in other international stations. Further extending the sample population would help to validate the result. The study focused on permanent employees based in Ethiopia and exclude contart/part-time employees to get accurate and representative data.

Furthermore, employee perception towards PMS varies among different staffs based on division level, year of service and position in the company which may influence the employee's performance with different magnitude. Moreover time, cost factors, some data inaccessibility due to the confidentiality has also constrained the researcher from assessing more accurate information on the subject matter. Finally, the study is bounded by the quantitative type of the research methodology, which restricts the respondent's opportunity to respond to open ended questions and have only to choose from the alternatives given in the questionnaire form.

However, the researcher has liaised with concerned departments and stakeholders to obtain sufficient information to make the study feasible.

1.9 Organization of the Study

The study is organized in five chapters. The first chapter deals with introduction of the topic and describes the role of PMS in helping organizations to meet organizational goals, objectives and culture and improving employee performance. The introductory part comprises of introduction of the study, the statement of the problem, the objectives of study, research question, the significance of the research, the scope and delimitation of the study. Chapter Two is related to literature review. In this chapter both theoretical and empirical review of the subject under review is discussed. Concepts and overview of literature on performance management and performance appraisal, performance management system is reviewed. Detail discussion is made on theories and concepts of Employee performance.

Chapter three deals with methods of the study like the description of the study, Design and approach of the research, population, sample and sampling technique, instrument for data collection, method of data analysis, validity and reliability and finally ethical consideration.

Chapter four presents the detailed analysis of data discussion on the findings are inferred. Then, finally chapter five presents the summary, conclusion, and recommendations of the results from the analyzed data.

Chapter two

Literature Review

This section of the study is to present detail of the theoretical and empirical literatures reviewed related to the subject under study.

2.1. Definition and Concepts of Performance Management

The subject of performance management has been widely studied and covered by many studies in human resource management. Performance can be defined as “What is expected to be delivered, could be measured in terms of efforts or results, quality of task accomplished ,with specification of conditions under which it is to be delivered” (Kumari & Malhotra 2012).We can infer from the above definition , performance or outcome of an employee or individual can be measured or assessed based on different Key Performance Indicators related to job or activity of the individual. Similarly, “Performance” according to Oxford English Dictionary, can also be defined as “The accomplishment, execution, carrying out and working out of anything ordered or undertaken. “Performance is about efforts along with the ability to put efforts supported with the organizational policies in order to achieve certain objectives (Ivanovic & Collins, 2003).

In the HRM discipline, the AMO-model (Appelbaum et al., 2003) describes that “organizational performance is best achieved by employees who have the ‘**ability**’ to do the job possessing the necessary skills and knowhow, who are ‘**motivated**’ to work through performance-based pay and who have the ‘**opportunity**’ to arrange their knowhow in doing their work” .Through associated HRM practices, the AMO framework influences an individual's ability, motivation, and opportunity, resulting in a performance-based outcome. If the three elements are offered, performance is likely to improve, and high employee performance is a critical factor that contributes to the success of the organization. In addition, the AMO model can also be used to recognize behavioral processes between people management initiatives and potential performance improvements (Purcell et al., 2003).

A key aspect in any firm is the requirement to manage and measure its employee's performance. Managing an organization is about managing performance of its employees. Organizations should have a system to measure employee performance and implement action plan for improvement.

Performance management is a process for evaluating and enhancing implementation based on the agreed goals, skills and competence requirements and advancement needs, the measurement of achievements and execution in relation to those needs and the agreement of new goals and improvement plans on the basis of that measurement(Armstrong 1999).He states that performance management is based on the agreement of set goals or targets and continuing review of an individual's performance against these targets and goals together with action plan on further development plans.

Hence Performance management refers to continuous process that ensure the organization aligns mission and objectives with the work of employees.PM involves two related activities.

1. Evaluation of performance of employees
2. Develop action plan for improvement

Performance management involves determining the strategic objectives and goals, plan for team development, assess the performance to identify development need and assign rewards for outstanding and best performances. As per Briscoe & Claus (2008), Performance management refers to the system that organizations use in setting work goals, establishing performance measurement standards, assigning, and evaluating employee's performance, providing feedback to employee's on level of performance achievement, identifying training and development needs and award performance-based rewards to employees. It's a day-to-day activity of goal setting, monitoring performance, giving candid feedback on employee performance against expectation and providing coaching, engagement and training based on gaps identified for performance improvement and rewarding best practices and behaviors that resulted in best performance.

We can infer from the definitions, that the core motive is to measure performance, distinguish between levels of performance achievements, identify training and development needs, approve and validate rewards, and identify legible employees for promotion (Kumar et al., 2015). The main purpose is not only to evaluate performance but to provide the required trainings and coaching to bring about change in future performance.

Maximizing the performance of organization is the main focus and goal for organizations. Employee performance is influenced by elements such as leadership style and dedication, employee knowledge and competencies, staff motivation and commitment, and performance appraisal. Hence organizations should have a system to appraise and measure employee's performance.

2.2. Performance Management System

Various models of performance management have been indicated in different literature. Each model has positively contributed to managing organizational and employee performance. Accordingly, different performance management initiatives have been adopted by organizations.

Performance management system (PMS) is a core process in people management. Managing organization is all about effective management of its employee performance. It is a systematic and holistic approach to measure overall performance of employees. According to Armstrong (2009), Performance management system refers to a set of interrelated and integrated activities and processes that are dealt holistically as an integrated and key component of an organization's approach to managing performance through people and developing the skills and abilities of its human asset, thus enhancing organizational capability and the fulfillment of sustained competitive advantage.

Referring to a more detailed definition by Ferreira & Otley (2009), Performance Management Systems is "the evolving formal and informal mechanisms, processes, systems, and networks used by organizations for conveying the key objectives and goals elicited by management, for assisting the strategic process and ongoing management through analysis, planning, measurement, control, rewarding, and broadly managing performance, and for supporting and facilitating organizational learning and change".

It is an integrated process deployed by organizations in which managers closely work with employees to set performance expectations, measure and review achievements, and reward performance in order to improve individual performance with ultimate goal to bring organizational success.

Similarly, A performance management system is a means of integrating human resource management activities with organizational business objectives to allow management and human resource activities working together in influencing individual and groups support the organization's strategy (Lawler, 2003). A performance management system, according to Rudman (2003), is a means of integrating HRM activities with the organization objectives, where management and HR activities are working in collaboration to influence individual and collective behavior to help attain the organization's strategic goals. Moreover, he also described that performance management system must fit with the organization's culture for effective implementation.

2.2.1 Evolution of performance management

Traditional organization performance measurement systems focus mainly on the financial dimension, but because of change of the business environment and stiff competition from the global market, the organization need to adopt a different approach in measuring performances. Traditional performance measurement tools designed for the industrial-age economy, which emphasize financial measures and tangible assets, are no longer able to capture the changing nature of today's business environment (Jusoh, R. *et al.* 2006). It is no longer effective on current business environment context which more focus is exerted on customers, quality of service and product, brand image etc. Johnson and Kaplan (1987) as cited in Hussain (2005) emphasized that the speedy and fast changes of technology with highly expanding information processing capabilities and stiff global competition, traditional management accounting systems are not providing essential information in fulfilling organizational objectives in decision-making, planning, and control. This affirmatively required a different approach of PMS that focus on both financial and non-financial measures.

PMS in today's competitive business environment are different from the one used in 1960s. Beer and Ruh (1976) first devised the term performance management in 1976 to distinguish it from the formal traditional performance appraisal process. Performance appraisal or evaluation is characterized as the formal evaluation and rating of individuals by their supervisors based on, usually, an annual review process (Armstrong 2006). It is more of a passive process that focus on

assessment of the past performance of employee during a certain period of time (mostly performed once or twice a year) and doesn't focus on employee development and productivity improvement. Performance appraisal is too backward looking to help managers to identify the root cause or gap on productivity and implement timely corrective action.

On the contrary, performance management is a proactive and continuous process that focus on employee development and increase in productivity. It is based on a wide range of actions aimed at improving both individual and organizational performance. Performance management is a “continuous process on identifying, measuring, and developing the performance of individuals and teams and aligning performance with the strategic goals of the organization” (Aguinis, 2009). It is continuous and ongoing process of goal setting, observing, and monitoring performance, providing and accepting candid and valid feedbacks, develop training and coaching programs based on identified gaps to achieve better organizational results.

Armstrong (2006) has defined it in more detailed and explanatory way as “Performance management is a strategic and integrated process that delivers sustained success to organizations by improving the performance of the people who work with them and by developing the capabilities of individual contributors and teams”. From above definition we can infer, performance management is an integrated and synchronized process of cascading the organizational mission and objective with team and individual competencies, linking it to the various HRM practices including performance evaluation, employee development and rewarding best performances, practices and behaviors.

Performance management is about helping people to understand how they contribute to the strategic goals of organizations and ensuring that the right skills and effort are focused and exerted on the things that really matter to organizations and that will make an impact on organizational overall performance (CIPD, 2009). It helps people to focus in doing the right thing using their skill, ability, and capabilities to achieve their goal. PM enhances individual and team skill and capacity by focusing on future planning, execution and enhancing personal development.

2.2.2 Founding Theories of Performance Management

Buchner, (2007) as cited by Armstrong (2009) underpin the below three theories of performance management.

➤ Goal Theory

This theory suggests that specific individual goals established by an employee can boost motivation and outstanding performance. This is because employee focus their attention on their goals. Participation in goal setting help to increase employee's effort to achieve these goals and make employees persists if they face challenges or setbacks. It helps them to modify or develop new strategies to better handle setbacks and challenges to goal attainment. The purpose of performance management system is said to be achieved if the performance improves. (Salaman et al, 2005).

➤ Control Theory

This theory was first presented by Victor Vroom in 1964. This theory is based on the concept that feedback is used as a means of shaping behaviors of individuals to help them adjust their behavior to match with anticipated satisfaction of valued goals set by them in such way which is most likely to direct them to attain these goals. This theory pinpoints the concept of performance management as it is assumed that performance is influenced by the expectations relating to future actions (Salaman et al, 2005).

➤ Social Cognitive Theory

Social cognitive theory was developed by Bandura in 1986 cited by Armstrong (2009). It is based on the core concept of self-efficacy (i.e. an individual's level of confidence or capacity to execute behaviors necessary to be successful in a particular situation). This suggests that what people think they capable or not capable to do with confidence have influences on their performance. Developing and strengthening positive self-belief in employees is therefore a primary goal performance management.

2.2.3 The performance Management process

The overarching goal of performance management is to help the business and its people achieve high levels of performance (Armstrong 2006). Different organizations adopt different stages of

performance management process that best fits and serves their goals in achieving better organizational performance.

Several cycles of performance management system have been drafted by different authors. According to Schneier Beatty and Baird (1987), a performance management system is categorized into a development, planning, managing, reviewing and rewarding phase. As per Armstrong (2009), the performance management system passes the following process: plan, act, monitor and review. Those steps are ongoing processes not necessarily carried out in sequential order.

The phases of performance management system as stated by Pulakos (2004) include: performance planning, ongoing feedback, employee input, performance evaluation and performance feedback.

However, Aguinis (2009) has described the most detailed and commonly used performance management process. He described PMS process undergoes through six major stages, namely: Pre-requisites, Performance planning, Performance execution, Performance assessment, Performance review and Performance renewal and re-contracting. The flow of the performance management process is depicted graphically in the figure, below.

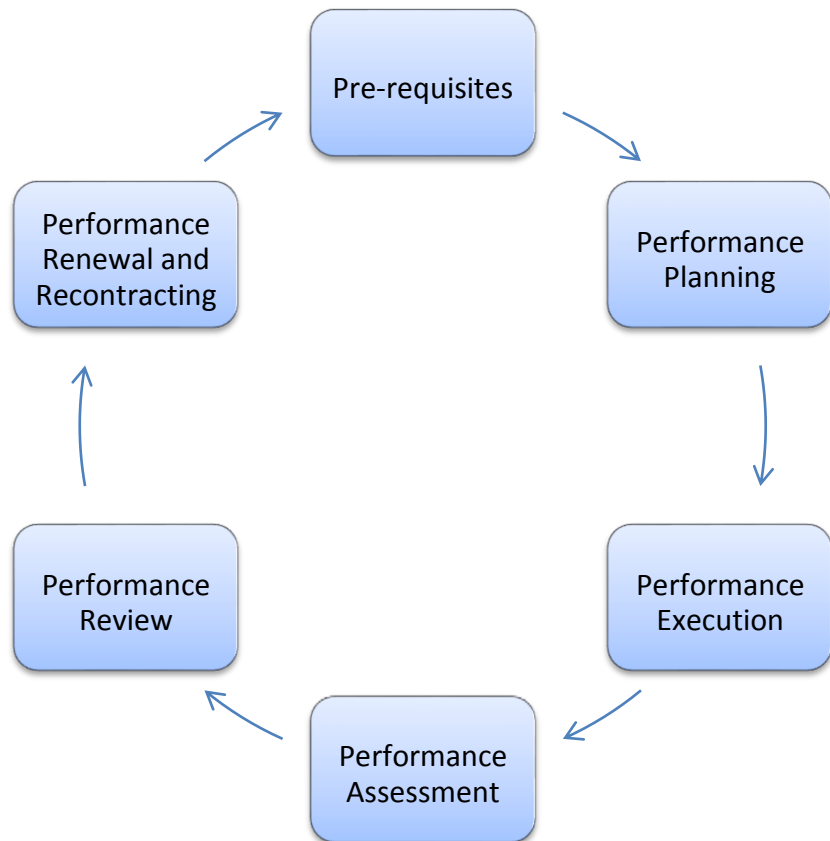


Figure 2.1 *Flow of the performance Management Process. Source: Aguinis (2009)*

2.2.3.1 Pre – Requisites

This is the first stage of performance management system. There are two important prerequisites that are required before implementing a PMS. Strategic planning allows an organization to clearly outline its mission and reason for existence, vision, or its future goal it wants to achieve, and what strategies it will use to achieve these goals. Once goals have been established, they are cascaded downwards with respective units setting objectives and employee goals to support the organization achieve its overall mission and objectives.

As per what is concluded by H. Aguinis (2009), if there is a lack of clarity regarding vision and future goal of the organization, or the integration among the organization’s mission and strategies and each of its unit’s mission and strategies is not aligned and clear, there will be a lack of clarity regarding what each employee is expected to achieve to support the organization get there.

Organizations are required to define their vision and mission, what objectives to be achieved and what strategies to adopt to achieve those objectives.

The second essential prerequisite prior performance management system implementation is to understand the job in question which is usually done through job analysis. Job analysis is getting detail information about the job including job components like tasks, activities, process, product, and service. As result of Job analysis, we understand the tasks to be carried out and the knowledge, skills and abilities required to perform a particular job. It is about making employees aware and internalize their job and required commitments to perform the job. Aguinis H. (2009) state that without a job analysis, it is difficult to know what constitutes the required duties for a particular job. If we don't know what an employee is required to perform to do the job or task, it will be challenging to know how and what needs to be evaluated.

2.2.3.2. Performance Planning

Performance planning refers to the phase where organization sets their expectation from employees. At this stage managers are required to define the key responsibilities of the individual employees and discuss on it, and establish objectives with the employees (Kerich, 2018).

Similarly, Performance planning is the performance agreement or contract, which defines expectations what the individual must achieve in the form of goals and objectives, how performance will be measured, and the competencies needed to deliver the required results Armstrong (2009). In this phase managers, supervisors and employees come together to set the goals and targets of individual employees and arrive at an agreement on the employee expectations or on performance that need be achieved. The purpose is to ensure the employee understand the objectives of PMS, performance standards and competencies required to achieve the expected goals.

Performance planning whose main goal is to aware the employee about PMS involves cascading organizational goals to individual goals, agreeing on objectives and goals, competency requirements, and personal development plans. It's an approach to align organizational goals with that of individual goals so all employees will have a shared vision of meeting organizational objectives.

The performance management cycle initially commences with a discussion of what is expected of employees in terms of results and behaviors. Performance planning discussion takes into consideration both results, behaviors as well as a development plan. This is a very important step as employees will be communicated on clearly articulated expectations and assessment performance standards hence each employee will commit for performance achievement. Performance standard is a standard used to evaluate how well employees have achieved each performance target. Result refers to what needs to be done or the output or outcomes an employee must achieve.

Behaviors is an important result measurement tool on how employees perform their job by discussing on required competencies, which are measurable bundle of knowledge, skills and attitudes which are fundamental in determining how results will be achieved.

The third component is development plan which incorporate both result and behavior. The plan shall include identifying gaps that need improvement and setting goals to be achieved. Such plans highlight an employee's strengths and the areas in need of development, and they provide an action plan to improve in areas of weaknesses or concerns and further develop areas of strength (Reyna & Sims, 1995, H. Aguinis 2009). It helps to pinpoint both the strength and weakness of an employee and design action plan to resolve performance gaps or deviations. In addition, development plans focus on knowledge, skill and ability required for long term career advancement.

The direct supervisor or first line manager has a significant role to play on employee development plan. Dunning (2004) cited H Aguinis (2009), stated that this active role will help the supervisor understand the process from the employee's perspective, anticipate potential barriers and defensive attitudes, and create a plan in a collaborative manner. First, the supervisor has responsibility to communicate and explain on what the requirements or initiatives for the employee are to be able to achieve the desired performance level. Second, the supervisor has a key responsibility to recommend appropriate developmental activities like coaching, mentoring, training, and resources to help the employee achieve his/her goal. Third, the supervisor check and review the development objectives and provide constructive suggestions.

Fourth, the supervisor has responsibility for monitoring and controlling on the employee`s progress towards development goal achievement. Finally, the supervisor needs to exert reinforcement so the employee will be motivated and encouraged towards development goal achievement.

2.2.3.3 Performance Execution

Performance execution is the stage where the already set and agreed goals are translated in to action. The employees are expected to exert all effort to produce the anticipated and agreed upon results, display the behaviors agreed upon and pursue on development plan. Aguinis H. (2009) stated that, the employee has the prime and main role, responsibility, and ownership of this process of the performance management system.

Major activities during this stage includes commitment and dedication towards goal achievement, ongoing performance feedback and coaching, communication with supervisor, compiling and sharing performance data, and preparing for performance reviews. Likewise, Supervisor needs to do the following issues: observing, logging and documenting performance daily, provide feedback and coaching, reinforce effective behaviors and progress toward goals.

According Aguinis H (2009), while the employee has primary responsibility in executing the performance and receive data and feedback regarding his/her performance, the supervisor has main responsibility that includes review organizational goal changes to update and revise initial objectives and standards, if necessary, provided candid and constructive feedback on consistent and continuous basis, provide the necessary resource that facilitates the employee to perform the job properly , appreciate remarkable performances by reinforcing effective behaviors and provide feedback and support on negative performance to remedy the observed gaps.

2.2.3.4 Performance Assessment

In the assessment phase, both the employee and the manager are responsible for evaluating the level to which the desired behaviors have been exhibited, and whether the desired results or outcome have been achieved. (Aguinis H., 2009). In this phase, both the employee and manager play an important role to assess whether the expected result has been attained and the level the

desired behaviors have been exhibited. Moreover, he stated that the inclusion of self-appraisal or self-rating by employee is very crucial to identify and reconcile the discrepancies between self-review and supervisor review. Self-appraisal helps to reduce employee`s defensiveness during the appraisal review meetings and enhance employee`s satisfaction with the assessment process as it augments the perception of accuracy and fairness.

Being its core purpose is enhancing employee`s career development, performance assessment or appraisal help managers provide employees with relevant and accurate feedback concerning their achievement and contribution to the organizational productivity through performing a continuous assessment and measurement of employee`s performance towards meeting organizational goal (Ziyaminyana and Pawka,2019). Performance assessment or appraisal has benefit to sustain the organization success by enhancing employee`s productivity and achieving the preset organizational goals. It helps the organization to identify the strength and weakness of its employees and level of their contribution towards pre-determined organizational goals.

2.2.3.5 Performance Review

The performance review commonly called as appraisal meeting is a formal stage where the employee and the manager meet individually to review their respective assessments. The appraisal meeting is important platform because it provides a formal setting in which the employee receives feedback on his or her actual performance or achievement. (Aguinis,2009).

Although effective PMS include ongoing engagements and check-ins, the appraisal meeting is very important as it provides a formal setting in which the employee receives feedback on level of his/her performance.

At this stage, the employee and supervisor involve in dialogue to review performance against predetermined and agreed targets and exchange feedback. Jawaria Andleeb Qureshi et al., (2010) discussed that Performance reviews are neither a ‘top-down appraisals’, nor like the interviews in which one party raises questions and other responds but are like open meetings where both parties can exchange their ideas and views freely, which leads to agreed conclusions.

Despite its importance in performance management, the appraisal meeting is regarded as the most challenging stage of PMS process. This is because many managers are uncomfortable to provide performance feedback especially when the performance depict unmet goals or deficient. (Ghorpade & Chen, 1995). Hence training should be given to supervisors and managers to mitigate the anxiety and discomfort to be created during appraisal meeting or discussion.

In most cases, the appraisal meeting is regarded as a review of past performance ie what was done, what was the actual outcome or result and how it was done eg. the behavior. The discussion should basically incorporate future goals and development plans that the employee is expected to reap for next review period. Moreover, a good appraisal meeting shall involve information on what rewards, remuneration and compensation the employee is entitled as result of his/her performance achievement.

Exchanging feedback is very important as the employee will develop satisfaction towards the PMS and also discuss on required development plan. Overall, the performance review meeting is the method through which the five primary performance management components of agreement, measurement, feedback, positive reinforcement, and dialogue are put into place. (Rameshabu H 2017).

2.2.3.6 Performance Renewal and Re-Contracting

Performance renewal and re-contacting is the final stage of the performance management process. As described by Aguinis (2009), this stage is identical or resembles to the performance planning stage of the process but differ in that the renewal and re-contracting stage applies the insights and data gained from the other phases.

The PM starts with prerequisites and ends with performance renewal and recontacting. Generally, the process has no end point but starts all over again and passes through the stages on continuous basis.

2.2.4 The Overall Purpose and aim of Performance Management

The purpose of performance management might differ among organization depending on the goal to be achieved. As stated by Armstrong and Baron (2004), the purpose of PMS is the establishment of a culture in which performance improvement processes and skill enhancement of all employees is observed. According to Aguinis (2013), performance management has several purposes

including strategic, administrative, communication, developmental. Organizational maintenance and documentation purposes.

1. **Strategic purpose-** Performance management play vital role to allow organizations reinforce behaviors or practices that are consistent with the attainment of organizational goals by linking the organizational goal with that of employee goal. It serves to cascade and communicate organizational goals to individual employee level so they will be aware of most important organizations strategic initiatives and perform to deliver the expected result or outcome.

2. **Administrative purpose** -PMS is used as a resource of valid and helpful information about individuals for making administrative decisions. The administrative decisions include rewards for employees whose performance are satisfactory or above expectations like salary increment, promotions and recognitions. In contrary, administrative decisions for poor performers include demotion, termination, and layoffs.

It is very important an organization deploy a good performance system, so administrative actions will not be biased or are not based on office politics which will result in greater employee resentment and dissatisfaction.

3. **Communication purpose-** PMS can be an effective and excellent way or tool of communication. Employee are communicated and engaged on how well they are performing and receive feedback on areas that need immediate focus and improvement. The communication should be two way and transparent.

4. **Development purpose** - feedback is an important part of PMS. Managers can use feedback to coach and develop employee on continuous basis to bring performance improvement. The feedback helps to timely identify the strength and weakness as well as identify root cause of performance gaps. As per Aguinis and Kraeger, (2009), feedback is only useful to extent that remedial action is taken, and concrete steps are implemented to remedy deficiencies. Developmental purpose refers to both short term and long-term goal of development as individuals use the information to work on and achieve their future career goal.

5. **Organizational maintenance**-It yields information about skill, capabilities, readiness for promotion and previous histories of assignment of present employees to be utilized to assemble accurate talent inventories and work force planning. It helps the organization to know the composition of talent the organization currently possess. The other aspect of organizational

maintenance purpose served by PMS include assessing future training needs evaluating performance achievements at organizational level and evaluating the effectiveness of HR interventions (eg to assess effectiveness of training program by analyzing if employee's productivity improves after the training). It's worth noting none of the above activities can be conducted effectively if good PMS lacks.

6. **Documentation purpose**-Performance data can be used to endorse and validate a newly proposed selection instrument. For eg if there is a positive correlation between measurement using the selection instrument and result collected through PMS, the measurement can be applied and enforced as future selection criteria. Moreover, documentation purpose of performance management systems also allows managers and supervisors to make important administrative decisions. Additionally, the organization can use the documents in the case of litigation. The documents are filed and retained to justify decisions made like promoting, not promoting, or demoting a staff.

In General, the overall aim of performance management is to establish a high-performance culture in which individuals strive and take ownership for continuous improvement of business processes and the individual skill and knowledge for better contribution towards organizational goals achievement. The following are the major aim of PMS.

- To encourage, reward and empower employees to dedicate themselves for high performance.
- To align the individual's objectives to organizational objectives.
- To help managers, gain understanding about subordinate's performance and behavior.
- To develop better skillful competent employees.
- To have fair, transparent and proper administrative action.
- For presentation of objectives with clearly articulated performance measurement standards.
-

2.2.5 Challenges of Implementing Effective Performance Management System

Armstrong (2006) states that PMS exists to align employee performance with company's objectives and to assure that the effort is not only to maintain improved performance, but to also provide the outcomes required at every individual and unit level to fulfil the company strategy and objectives, thus securing, and increasing shareholders value. The performance of an organization in general depends on the performance of its employees, hence it is very important to ensure effective

implementation of PMS to achieve organizational goals. Kanana (2017) states that the most cited challenge of implementing PMS as follows:

- **Managing Skill Gaps:** The stakeholders involved in the PMS should have sufficient and important information, attitudes, competencies, and expertise to effectively utilize the system. According to Armstrong (2009) the desired behavior and skills required consists of; developing performance measurement standards, basic outcomes to be achieved, managerial skill to effectively measure performance and communicate result, monitoring and evaluating the quality of PMS. To manage skill gaps, assessment need to be conducted to identify the skills that the employee have versus the skill that are required to achieve the goal. These gaps or variances can be closed through trainings, coaching by best performers, benchmarking with best practices etc.
- **Managing Rewards:** Having a reward system in the organization PMS, which recognizes, recommends and reward exceptional performance will help to motivate and encourage employees and reduce employee turnover.
This will help the organization to build loyal and committed staffs. But creating a reward system that is unreliable is a challenge or setback to the PMS. A system that evenly reward top performers and penalize or eliminate poor performers should be in place. The rewarding system should be holistic incorporating promotion, staff development, monetary rewards and more work responsibilities.
- **Managing Communication Challenges:** The management should continuously aware its employees on PMS implementation process and participate them in the process and in order to minimize misunderstanding and assure the benefits and execution are not misread or misinterpreted. It is necessary to a adopt a proactive communication strategy. Maiers, Reynolds, & Haselkorn, (2005) as cited by kanana acknowledge that there are quite a high number of challenges in creating an effective information and communication systems in the organizations. The challenges range from system issues to organization issues such as cultural business environment and method of communication used in the organization. Effective communication is important as it helps major stakeholders to develop confidence on PMS. The organization should avail continuous training for people involving on PMS process to communicate in a

developed and professional way when conducting performance appraisal and employee evaluation.

- **Clarity in Tasks and Duties:** In order for an organization to create an effective performance management system that put in place rewards and recognition as its primary goal, there should be joint and collaborative process between supervisor and employees and their role in PMS should be clearly defined. According to Aguinis (2009) the process of PMS should consist of continuous discussion between the supervisor and employee focusing on end results, action plan to improve performance in future. The supervisor should receive feedback from subordinates to understand the subordinate perspective or point of view. This information will be helpful in future administrative decisions concerning rewards, promotion or career development or advancement.

Manville & Greatbanks, (2013) discussed that clarity in roles and duties helps in the improvement of quality of relationships within an organization and enhance employee perceptions towards performance management.

- **Regular Review of Performance Management:** One of the common failures in many organizations is lack of constant review of performance management system to align with changes in the organization and industry which resulted in PMS ineffectiveness.

Many studies shows that there is a need to frequently review, revise and update the PMS to ensure compatibility with the industrial competition. Such activities ensure the firm remain responsive to ever changing customer demands. The system of dealing with performance management are challenged with many sorts of problems.

The problem comprise failure to frequently review the system and performance measurement standards, failure of administering the performance, maneuvering or intervening on the system and scarce resources within the organization. Such impediments need to be addressed on priority to ensure effective management of performance.

Effective PMS have a well-articulated process for evaluation of employee with clearly defined roles for both employee and managers. To use PM for effective HR administrative decisions and rewards, it is vital that all employees are treated fair and equitable (Pulakos 2004). In poor

implementation of PMS, rater mistakes in one factor that contributes to employee dissatisfaction and negatively impact employee and organizational performance. This error emerges from misunderstanding of performance appraisal standards (Hakan Turgut & Ibrahim Sani Mert,2014). Some of the common errors are:

Halo Error: Supervisor allocates marks or ratings to the employees based on a perceived specific traits. It is a tendency to let the rater judgment of an employee based on one trait influence the evaluation of that person on other specific traits. The evaluator uses his general perception for appraisal the employee. The perception can be positive or negative.

Central Tendency: This error is ignoring good and bad performers and keep all employee on middle (average) category. Such type of rating dissatisfies employees as stated by Stone (1995) that central tendency is another reason of error which can bring dissatisfaction over performance appraisal from employees when they feel their rating doesn't match to their actual achievement.

Leniency of error: Positive or negative leniency error is the tendency by the rater to assign high evaluation points or low evaluation points in contrast to the deserved or actual performance level.

First impression or recency error: This error resulted by the evaluator putting more attention on his/her first or recent impression of employee or focusing on most recent interaction with the employee. In case of positive effect, the rate is considered of employee doing good job and in case of negative effect, the rate is assumed to be performing bad or below standard (V, Rao, 2012).

Similarity error: This error results from situations where the evaluator looks for similar behaviors, personalities, background to himself/herself to appraise employee as good or bad. Employee attempts to match or reconcile his/her behavior with supervisor to get good ratings.

2.2.6 Determinate Factors of Performance Management system`s Effectiveness

PMS use to manage and measure employee and organizational performance largely depends on the quality of its implementation. Accordingly, effective implementation of PM has a critical importance for the success of the organization. A well designed and implemented PMS has positive impact on the organization's the overall performance and financial results. According to Pulakos (2009), performance management system is the most challenging and difficult system to

implement in organizations. The mere fact organization has PMS will not bring success; it's rather how well the system users own it and properly used by managers and subordinates.

According to Aguinis (2009), the following characteristics are important components of an ideal performance management system. The presence of below features in the system will most likely bring about success in PMS.

- ✓ ***Strategic congruence***: The system should align individual goals with unit and organizational goals.
- ✓ ***Thoroughness***: Thoroughness concerning the following four aspects: All employees including the managers have to be evaluated. Next, all major job roles and responsibilities including behaviors and results should be assessed, the evaluation should include performance across the entire review or evaluation period and shouldn't be confined and restricted to lesser period. Finally, feedback should not only be given on positive and better performance but also on those that are in below standard and need of improvement.
- ✓ ***Practicality***: Systems should be user friendly and benefits of using the system against its cost implication should be checked and accept only if the benefit outweigh the cost.
- ✓ ***Meaningfulness***: First, the criteria and evaluations undertaken for each job function must be considered important and crucial. Second, performance evaluation must consider only on those actual jobs or activities that are under the control of the employee. Third, evaluations must be consistent and must take place at regular intervals and at appropriate timings. Informal quarterly reviews need be conducted.
Fourth, system that provide continuing skill development of raters should be in place. Finally, the results should be used for appropriate administrative decisions. There must be consequences based on the outcome.
- ✓ ***Specificity***: A good system should be capable of providing detailed and concrete guidance to employees about what is expected of them and how these expectations can be met. Expectations should be clearly articulated and communicated to employees.
- ✓ ***Identification of effective and ineffective performance***: The system should allow for distinguishing and differentiating between effective and ineffective behaviors and results, thereby also allowing for the identification of employees exhibiting various levels of performance effectiveness. A system that rates all employees similar or average is of no use or advantage.

- ✓ **Reliability:** A good system should include measures of performance that are consistent and free of error and bias. An employee should be rated same if evaluated by two supervisors using same performance measurement standards.
- ✓ **Validity:** The PM measures include all relevant performance facets and do not include irrelevant performance facets. In other words, PM measures should include all relevant aspects related to performance and exclude factors beyond the control of the employee.
- ✓ **Acceptability and fairness:** A good system is acceptable if perceived as fair by all participants. Employees' perceptions of fairness can be measured by comparing the performance evaluation received against actual work performed, or perception of reward received relative to evaluation procedures used to relate evaluation ratings with rewards. In addition, it can also be checked for justice with perceptions of the procedures used to determine the ratings as well as the procedures used to relate evaluation ratings with rewards. A good system should only evaluate performance based on actual achievement and should be free from discrimination and bias.
- ✓ **Inclusiveness:** Good systems incorporate input from multiple sources on consistent basis. The evaluation process must address the concerns of all the people who will be affected by the outcome of the measurement. Employee`s input on how and what behaviors and results are expected and assessed should be collected before appraisal meeting.
- ✓ **Openness:** Good systems have no hidden secrets. First, performance is evaluated regularly, and performance feedback is provided on an ongoing basis.
Therefore, employees are continually informed on the level of their performance. Second, the appraisal meeting consists of a two-way communication process during which the employee is allowed to express his or her input and should not only be delivered from the supervisor to the employee without his or her participation. Third, standards should be precise and objectives in as much as possible and should be communicated on continuous basis. Finally, communications are factual, transparent, candid and based on actual achievement.
- ✓ **Correctability:** The process of evaluating and ratings should minimize subjectivity and when employees report an error or mistake has been made, there should be a system through which an error can be timely corrected or rectified. There should be an appeal process in place if an employee challenges his or her performance ratings.

- ✓ **Standardization:** Performance evaluation is applied consistently across people and interval. To achieve this goal its mandatory to provide recurrent and continuous training for managers, supervisors who oversee appraisal process.
- ✓ **Ethicality:** Good systems comply with ethical standards; this means that the supervisor controls his or her personal self-interest in providing evaluations and evaluate subordinates based on accurate, actual contribution and using sufficient information and it should be kept confidential.

2.3. Employee Performance

Employee Performance is generally defined as the level to which employees in the organization contributes to achieving the set and predetermined goals of the organization. Employees are the main force that drives a company to success.

In other words, employee performance is how staffs in the organization accomplish their assigned duties in accordance with their role, complete required task and behavior exhibited in the workplace.

Macky and Johnson (2000) pointed that “improved individual employee performance could improve organizational performance as well”. The success or failure of an organization is largely outcome of its individual or team performance. An organization who focuses on employee performance not only assist its employee`s to perform to their full capacity but also improve the organization performance. Organizations with high employee`s performances provide their employees with better opportunities than those who have low performance.

Employees are main source of competitive advantage in service-oriented organization (Luthans and Stankovic 1999).Quality of service rendered by its employees is critical successor factor for service business. Employee performance help to examine what an employee performs or don't perform. “Performance is related to that organization hires the person to do and do well”(Campbell 1993).Organizations use their human resource to achieve their goal. As per Deadrick and Gardner's (1997), employee performance could be described as the record of result or outcomes achieved for every work function during a given specified span of period. Employee performance is the successful accomplishment of activities by an individual using available resources

efficiently, as determined and assessed by supervisor measured by preset agreed measurement standards. It is mostly about level of commitment of employee (Armstrong & Murlis 2004).

Employee performance can be assessed by using different parameters which are attributed to employee achievement over period of time. Companies measure quality of service and amount of output, as well as work effectiveness, among other things.

According to (Al Mehrzi and Singh, 2016) Performance is the level of accomplishment of a person as a whole upon a given duration or span of time in executing out undertakings contrasted to different options, such as work standards, targets or predetermined measures that have been mutually agreed upon. He also stated that performance is the quality and quantity of an output of individual or group in a certain activity caused by natural or acquired ability of the learning process as well as the desire and willingness to perform. From this definition, we can infer ability, experience, and desire to work are determinant factors for performance.

The measurement of an employee's performance helps for rational and proper administrative decisions at the individual employee level. It also provides essential data and information for the evaluation of the effectiveness of such personnel- system factors and processes such as selection and recruiting policies, training and development programs, selection criteria, promotional strategies, and reward allocations (Landy, Zedeck, Cleveland, 1983).

2.4. Balanced Scorecard (BSC)

2.4.1 Overview of Balanced Scorecard

The balance score card is a management tool that help organizations to clarify their vision and strategy and translate them into action to examine the performance of the organization against set objectives and goals. The Balanced Scorecard is a framework that helps organizations translate strategic goals into operational objectives that drive behavior and performance (Kaplan and Norton, 1992). It is an effective management tool that help organizations to align corporate strategy with individual employee actions.

It is a system that helps organizations to measure their employee performance transparently and objectively against organizations strategies and goals. The score card itself is fundamentally a performance measurement framework with two key objectives: translating strategy into specific goals for different units of the organization and communicating and cascading that strategy to all units of the organization (Migliorato et.al, 1996).

Balanced Scorecard is a new aspect in the subject of performance evaluation. The main purpose of this model is to give managers and leaders a complete view of the business and allow them to focus on critical success areas, as customer perspective, financial perspective, internal business perspective and innovation and learning (Wongrassamee, Gardiner and Simmons, 2003).

According to Kaplan & Norton (1992), the balanced scorecard allows managers to look at the business from four important perspectives.

The four perspectives include the followings:

1.Financial perspectives: Financial performance measures point out whether or not the company's strategy, implementation, and execution are contributing to bottom-line outcome. (Kaplan and Norton, 1992). Standard financial goals have to do with revenue and profitability growth, firm productivity, and shareholder value. The financial perspective help shareholders to understand how attractive is to invest in which financial goals are valued from the shareholder's point of view.

Niven (2006) also states that exerting resources, time, energy, and capabilities on quality service and customer satisfaction, knowledge, and other factors in the others of the perspectives without including indicators showing the financial results of an organization may produce no significant added value.

2.Customer Perspectives: BSC requires that managers translate their general mission and goal statement on customer service into specific measures that reflect the focus factors that really influence the customers. Customers "concerns tend to fall into four areas: time, quality, performance and service, and cost". It measures important customer service quality elements such as timeliness, quality, performance, cost and service. Niven (2006) also notes that to achieve satisfactory financial results, organizations need to create and deliver quality products and services which customers perceive as adding value to them. This way they will be able to retain customers,

increase market share, gain high customer satisfaction, and better competitive advantage than competitors.

3.Internal Business Perspective: The internal measures for the balanced scorecard should emanate from the business processes that have the greatest influence on customer satisfaction eg, factors like cycle time, employee ability & skills, productivity, and service quality. Companies should also try to pinpoint and assess their company's core competencies, the critical technologies needed to ensure continued leadership in the market. Kaplan and Norton (1992), presume that great customer performance is the result of processes, decisions, and actions which managers need to focus on in order to satisfy customer's needs. This perspective measures working conditions, activities or processes that may create value to customers and shareholders. Some of the measurements used include speed, quality (avoid rework, defect, or waist), measure cost per transaction etc.

4.Innovation and Learning Perspective: measures the organization's ability to be innovative like being pioneer to market a new product development, process enhancement and workforce training and development. (Kaplan & Norton 1992) emphasize that 'learning' is more than 'training'; it incorporates points like mentors and coacher within the organization, as well as that ease of communication among workers that allows them to instantly get help on a problem when it is needed.

It helps the organization to invest on training that help the organization bring continuous process improvement. Continuous improvements and the ability to learn and growth and introduce new products and services in the market are the prerequisites to sustain business, expand in the global market, and increase the company's value (Kaplan and Norton, 1992).

Organizational learning and development stem from three principal sources: people, systems, and organizational procedures. Businesses need to invest in skilling employees, enhancing and upgrading information technology and systems, and aligning organizational procedures and routines (Kaplan and Norton, 1996).

2.4.2 Balanced Score Card at Ethiopian Airlines (ET)

Ethiopian Airlines started to practice BSC performance management approach since January 2010. According to Ethiopian Airlines Human resource procedure manual (2016) the system is used

to relate employee's performance evaluation to strategic goals and objectives of the airlines, reward and improve productivity of employees, to create sense of ownership and understanding among employees on non-financial, qualitative and quantitative performance standards, achieve balance among short term and long term strategic goals, promoting organizational learning through feedback, coaching , training , provide a common communication platform among its employees.

The Organization strategic objectives are cascaded to departments in the four BSC perspectives: financial, internal processes, customers, and learning and growth; and there are specific metrics attached to each perspective based on the function of the department. The appraisal period adopted by the airline is July01-June 30. And there will be two performance appraisals performed ie first and Second Semi Annual evaluation. There is a clear role and responsibility assigned to people who use the system for effective implementation. The supervisor is responsible to initiate performance standards or metrics aligned with strategic goals, periodically log, review, monitor and provide feedback, evaluate the employee semiannually, identify training and development needs and take required action for performance improvement.

2.5. Empirical Evidences

O.Samwel(2018) conducted empirical study on the impact of performance management on employee performance in the case of selected private organizations in Tanzania. According to this study there is a significant relationship between performance management and performance of employees and recommend the PM practice to apply to all members of the organization.

Nadeem Iqbal ,Naveed Ahmad ,Zeeshan Haider ,Yumna Batool and Qurat-ul-ain conducted study on "Impact of performance appraisal on employee's performance" . The study found that there is significant positive relation between performance appraisal and employee's performance. The study recommends continuous effort in coaching and counseling, flat communication between employee and supervisor to improve employee performance.

According study of Mr. Morris N Mulwa (2017) on "The Influence of Performance Management System on Employee Performance in case of Commercial Banks in Kitui Town, Kenya" ,he endorsed PMS enhanced employee performance. When employees feel their performance is being

monitored and will eventually be evaluated, they strived to do their level best to perform better. He also concluded PMS helped employees to be efficient and competent.

In his study on ‘The Effect of Performance Management on Organizational Performance: The case of Ethiopian Airlines’, Yitbarek Kassahun (2017) identified PMS in Ethiopian Airlines has a major contribution in cascading shared vision and objectives and enhancing and managing the overall performance of employees and organization.

Meseret (2021) carried out comparative empirical study on the effect of performance management practice on organizational performance in case of Addis Ababa Health Bureau, she found out the performance planning stage is the most important factor that influence employee and organization performance. She stated training and continuous feedback played important role in improving employee and organization performance in general.

Judy Muthonia Maina carried out a research on “Effect of performance management system on employee performance in FAO”, and identified lack of constant review of PMS to align with changes in the business and industry environment is a common failure in many organizations. She recommends PMS need to be reviewed on a continuous and consistent basis to reflect the impact of change due internal and external factors.

Tewabech (2016) conducted a study on impact of BSC implementation on performance of Ethiopian Airlines, she finds out BSC has helped Ethiopian Airlines to achieve its strategic objectives through achievement of set targets. She found out customer perspective, internal process and learning and growth perspectives were the main factors that contribute to the level of performance on Ethiopian Airlines.

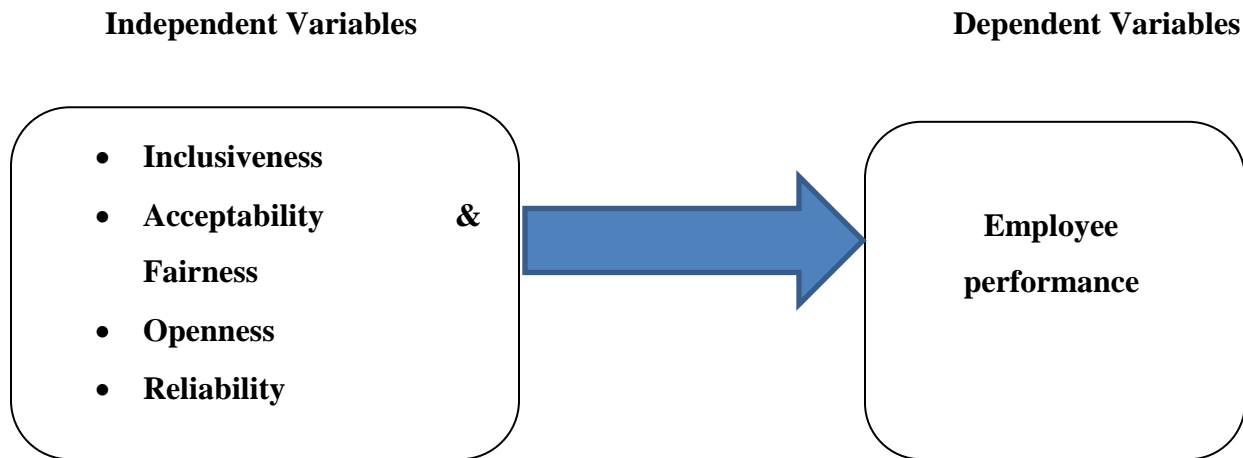
Yidnekachew(2015) on his study “Assessing Employee performance management of commercial Bank of Ethiopia”, he concluded employee participation in performance planning is very crucial to attain the company objectives.

2.6. Conceptual Framework

A conceptual framework is a collection of general ideas and principles extracted from important fields of enquiry and used to structure a subsequent presentation (Kombo and Tromp,2009). The

framework describes the relationship between performance management system and employee performance. Based on different literatures reviewed, the conceptual framework depicted in the below figures is adopted. Dimensions of PMS related to the research question are categorized as independent variables while employee performance is categorized as dependent variable.

Figure 2.2 Conceptual Framework of the Research



Source: Conceptual Model of the Study: Adopted from Aguinis (2009) , Armstrong (2006)

H1 The inclusiveness of the PMS has a positive and significant effect on employee`s performance at ET.

H2 The acceptability and fairness of the PMS has a positive and significant effect on employee`s performance at ET.

H3 The openness of the PMS has a positive and significant effect on employee`s performance at ET.

H4 The reliability of the PMS has a positive and significant effect on employee`s performance at ET.

H5 PMS linkage to KPI's has a positive and significant effect on employees' performance at ET.

CHAPTER THREE

METHODOLOGY

3.1 Description of the Study Area

This study focuses on assessing the effect of Performance management system of Ethiopian airlines on its employee's performance. Ethiopian Airlines (ET) is a flag carrier of Ethiopia fully owned by the government. It is currently ranked the largest airline in Africa in its Fleet size, countries of destination, number of passengers transported, and revenue and profit earned. The study focused on contribution of PMS to improved employee performance and success of the airline.

Under this topic: the research design and approach, target population and sampling techniques, method of data collection and analysis, instrument validity & reliability test are discussed as below.

3.2 Research Design

The research design is the study's conceptual structure or master plan, which details the methods and procedures for gathering, measuring, and analyzing data. It is a blueprint that plans the action and activities of the research project.

“A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure”. Kothari (2004).

In order to capture the logical structure of the study, the researcher used explanatory research design. Explanatory research tries to look for reasons or causes and to provide evidence and explanation that support or refute an explanation. It helps to answer both the why and how aspects of the research question. This design helped in establishing the cause-and-effect relationship between variables of the study PMS dimensions and employee performance.

3.3 Research Approach

The appropriate research strategy is decided by the nature of the data to be collected. There are three sorts of research methods: qualitative, quantitative, and mixed method. For this research, the researcher adopts quantitative research approach entirely composed of closed ended questions. According to Creswell (2014), this approach is desired as it attempts to assess the relationship between the study variables, which are measured quantitatively and analyzed using different statistical techniques.

Quantitative research has its own distinct advantage as it generates precise, numerical data from large survey sizes. Moreover, the findings are more dependable and can be generalized and replicated to larger populations (Maxwell and Delaney, 2004). The method is chosen as it helps produce reliable and quantifiable data that can potentially be generalized to larger population in a short amount of time.

3.4 Population of the study

The population of this study are permanent employees and management staffs of Ethiopian Airlines based in Addis Ababa headquarters. As per the current Human resource report, the total number of permanent employees and management staff serving the airline in different position at Addis Ababa Bole headquarters is around 13,000. For this around 8048 are permanent staffs based in Addis Ababa. Employees working outside Addis Ababa, in international station, contrat, part-timers, expats staffs and junior employees with less than one year service are excluded from the target population. This is due to accessibility, cultural difference, and employees with less than one year service, part-timers and expats might not be curious about the PMS as they might have not been evaluated through the PMS.

3.5 Sample Size Determination and sampling Technique

3.5.1 Sample Size Determination

It is not feasible to study the whole population due to constraint factors like feasibility, accessibility, and cost implications. So, it's very crucial to choose a sample that is a genuine representative of the population. The total population cannot be studied due impediment factors and such as time, cost, accessibility. (Singh, 2006).

The sample size can be calculated in a variety of ways. In this paper, the researcher applied a sample size determination formula adapted from Kothari (2004). This formula can be used to calculate the minimum representative sample size from given population and sample size for each strata.

The sample size determination formula is as presented below:

$$n = \frac{N}{1 + N e^2}$$

Where:-

n=sample size

N= the size of the population

$$n = \frac{8048}{1 + 8048(0.05)^2} = 381$$

This formula considers a degree of variability (i.e. proportion) of 0.5 and a confidence level of 95%. Thus, the total sample size is **381**.

3.5.2 Sample Technique

Following the selection of a representative sample size, the next step is to select representative respondents using acceptable sampling techniques. Accordingly simple random sampling techniques is used as a sample technique. The sampling frame is divided into homogenous, non-overlapping groups called strata that is departments in this study. Then proportionate stratified sampling drawn from each stratum in accordance to employee size.

Sekaran (2003) stated that a stratified random sampling comprises a process of stratification, followed by random selection of representative from each stratum.

Table 3. 1: Sample size by division

NO*	Division	Total No of Employees	Sample size for strata	Percentage of Strata
1	ADDIS HUB GROUND SERVICE	1722	80.01	21%
2	ET MRO	2594	121.92	32%
3	Customer Service	2175	102.87	27%
4	Ethiopian Cargo and Logistics	691	34.29	9%
5	Corporate HR and Finance	866	41.91	11%
	Total	8048	381	100%

3.6. Data Collection Instrument

This study largely used primary data collected through survey method by using standard questionnaires. According to Krishnaswami and Ranganatham (2007), “The advantage of using this method is it imply less cost, allows anonymity and help to acquire more valid and honest responses”. Moreover, secondary data is gathered from both published and unpublished theoretical literatures. Books, HR procedure manuals, Ethiopian Airlines periodic reports, Dissertations, online sources and scholarly journals have been reviewed for secondary source data.

The five-point Likert scales (i.e., Strongly Agree, Agree, Moderate Agree, Disagree, Strongly Disagree) is applied in the questionnaire to obtain and measure the responses of the respondents.

The advantages of using the Likert scale is that it is simple to construct questionnaire, easy and less time taking to read and complete. The questionnaire was designed from different previous literatures reviewed on related topics and customized to fit the research problem. Sample questionnaires were distributed to pre-test and check its appropriateness for gathering all the required information and adjusted based on initial recommendations.

The reason for the selection of questionnaire is it's relatively inexpensive, faster and efficient way of collecting extensive data at lesser cost and to have access to wide geographical area coverage in relatively reasonable span of time.

3.7 Method of Data Analysis

The quantitative data analysis method was used to analyze the acquired data. Descriptive analyses methods such as frequencies and percentages are portrayed to present quantitative data and displayed in form of tables and graphs. Data were coded and entered into the computer using the statistical package for social science (SPSS Version 20) for analysis. It gives means, standard deviations, correlations, coefficient of variables, and All ANOVA results including statistical model specification output, and frequency distribution of each independent and dependent variable. Inferential statistics are used for employee performance regressed against the five independent variables with the multiple regression model and its ANOVA. The mean and standard deviation are widely used descriptive statistics in this study to describe the data.

The research employed the statistical model specification methods to determine which independent variable to include and exclude from a regression equation and to avoid biased results. These statistical models' specifications are chosen models that have larger adjusted and predicted R-squared values, the p-values have been less than the significance level but reducing the model until the model contains only significant terms and by omitted variable bias in multiple regression model.

The model specification equation multiple regression models are like as follows.

$$EP = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \epsilon$$

Where:

- EP (Employee Performance) in the dependent or predicted variable.
- β_0 is the EP- intercept, i .e, the value of EP when $X_1, X_2, X_3, X_4,$ and X_5 are 0.

- $\beta_1, \beta_2, \beta_3, \beta_4,$ and β_5 are the regression coefficients representing the change in EP relative to the one-unit change in X1, X2, X3, X4, and X5 respectively.
- E is the model's random error (residual) term.

3.8 Validity Analysis

Validity is the extent to which differences discovered with a measuring instrument reflect true differences among those being tested (Kothari, 2004). To put it another way, Validity is the most critical criterion and indicates the degree to which an instrument measures what it is supposed to measure.

To ensure the quality of the research design content and construct validity of the research will be checked. According to Kothari (2004), Content validity refers to how well a measuring instrument covers the topic under investigation.

If the instrument contains a representative sample of the population, the content validity is good. Its decision is primarily based on judgmental and intuitive. It can also be defined by using a panel of persons who shall judge how well the measuring instrument meets the standards, but there is no numerical way to express it. Based on this the content validity was checked by the professionals.

3.9 Ethical Consideration

The personal integrity of each participant was respected in the process of conducting the research. Every participant in the research was informed properly in an accessible manner about the purpose of the research and asked orally his/her consent before any information asked was begun. No information was asked from a participant without his/her prior consent. The information provided by each respondent has been kept confidential and will only be used for research purposes.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS, AND INTERPRETATION

4.1 Response Rate

A total of 381 questionnaires were personally handled by the respondents with close follow-up and guide in filling the questionnaire and 345 respondents filled and returned their questionnaire. Thus, constituting approximately 89 % of the questionnaires are returned, while 36 of the respondents didn't respond and never returned the questionnaire and constituting about only 11 %. According to Saunders (2002), a response rate of 70% and above for a questionnaire survey is sufficient to carry out the analysis.

Several questions that measure employees' performance with the performance management system provided in the case of Ethiopia Airlines are included in the questionnaire.

The questionnaires were distributed to employees of Ethiopian Airlines. The basic assumptions of the performance management system selected attributes namely inclusiveness, Acceptability & Fairness, Openness, Reliability, and Linkage of KPIs influence employee performance. A multiple regression modeling approach was proposed as an effective method for studying the relationships.

The result of this multiple regression model was analyzed and discussed in this chapter, the statistical analysis of this study was done by SPSS software version 20, and the result of the study is shown in the inference and descriptive section. In the descriptive section tables, charts were used and in the inference section, the result of multiple linear regressions was analyzed.

4.2 Demographic characteristics of Respondents

The questionnaire includes a segment of the employee's profile such as an assortment of demographics and other factors that are likely to influence the degree of employee performance concerning the performance management system in the case of Ethiopia Airlines. In studies like this, it is important to analyze the background information of the respondents. This is because people's social background influences their thinking patterns and to a larger extent what they do.

The background information comprised of age, gender, educational level, current work position, and work experience at the current position. Concerning the gender of respondents, 64.1 % of them are male and the rest 35.9 % are females. This shows that the major participants of the study are male.

Table 4.1: Demographic characteristics Analysis of Respondents

No of Item	Item	Characteristics	Frequency	Percentage
1	Gender	Male	221	64.1
		Female	124	35.9
2	Age	20-30	192	55.7
		31-40	113	32.8
		41-50	32	9.3
		51 & Above	8	2.3
3	Educational Level of Participant	Diploma	23	6.7
		Degree	261	75.7
		Masters and Above	61	17.7
4	Work Experience at ET	Less than 1 year	0	0
		1-5 years	138	40.0
		6-10 years	95	27.5
		11-15 years	64	18.6
		Above 16 years	48	13.9

5	Current position	Non-Management Management	249 96	72.2 27.8
6	Work Experience at the Current Position	Less than 1 year 1-5 years 6-10 years 11-15 years 16-20 years Above 21 years	23 199 63 20 24 16	6.7 57.7 18.3 5.8 7.00 4.6
7	Work Division	ET-MRO ADD HUB Ground Services Customer Services ET-Cargo Corporate HR & Finance	112 75 91 28 39	32.5 21.7 26.4 8.1 11.3

Source: own survey 2022.

Majority respondents belongs to age group of 20-30 years which accounts 55.7 %, followed 31-40 years having 32.8% ,41-50 years 9.3%, and Above 51 years accounts 2.3% share. This shows that most participants in this study are between the age of 20 and 40 years. It implies that the Ethiopian Airlines employees are dominated by young adults and this finding suggests that most of the employees are found in the working-age bracket. Regarding education, the respondents were predominantly first-degree holders with 75.7%. There are only 17.7 % and 6.7 % of respondents who were Master's degree and Diploma level of education respectively. This shows that the respondents had high literacy level.

With regard to length of period that respondents have been serving ET, 40.0% of the respondents have served the airlines between 1 and 5 years.,27.5% are between 6-10 years,18.6 % are between 11-15 years and remaining 13.9% were with the company for more than 16 years. The majority of respondents 72.2 % were working in a Non-management work position and the rest 27.8% were working at a management level.

About 6.7 % of the employees of Ethiopian airlines have less than a year work experience at their current position,57.7 % were from 1-5 years, 18.3 % were from 6-10 years, 5.8% were from 11-15 years,7.0% were from 16-20 years, and the remaining 4.6 % were greater than 16 years.

Finally in regard to the work division of the respondents, the respondents were selected based on the proposed sampling technique and comprise 32.5% from ETMRO division, 21.7% were from Addis Hub Ground Services, 26.4% from Customer Services, 8.1% from ET-Cargo, and the remaining 11.3 % were from Corporate HR and Finance. This depicts that as a service providing company in Aviation industry, the major business units of the airline are ET-MRO and Customer Service.

4.3 Reliability Test

This study adopted Cronbach's alpha, which is a common method to estimate the internal consistency of the entire instrument. A value of 0.70 is recommended; Reliability is the degree to which the measure of a construct is consistent or dependable. The reliability test was executed by Cronbach's alpha coefficient and items that scored above the acceptable value were retained.

Tavakol&Dennick (2011) if a test has more than one concept or construct, it may not make sense to report alpha for the test as the larger number of questions will inevitably inflate the value of alpha. In principle, therefore, alpha should be calculated for each of the concepts rather than for the entire test or scale.

The coefficient of alpha varies from 0 to 1 and the value of 0.5 or less generally indicates unsatisfactory internal consistency reliability and unacceptable (Ramayah, 2011).

According to Zikmund et al., (2000) scales with coefficient alpha between 0.6 and 0.7 indicate fair reliability and acceptable.

Table 4.2: Reliability Test

Each Variable Reliability Statistics		
	Item	Cronbach's Alpha
Inclusiveness	9	.974
Acceptability and Fairness	9	.968
Openness	7	.973
Reliability	7	.968
Linkage to KPIs	7	.971

Employee performance	5	.970
Total Item	44	

(Source: Researcher's Survey, 2022)

Based on the above range all the 44 variables designed were found to be a good measure of the internal consistency. The Variable's alpha coefficient is greater than 0.9 which implies that the data reliability is excellent and acceptable.

4.4 Descriptive Analysis

Descriptive statistics ie mean and standard deviations of the respondent scores were calculated. Analysis has been done by comparing these mean scores and deviations among respondents. The reason for using descriptive statistics is to compare the different factors that affect the level of employee performance by using the means and standard deviations values.

Table 4.3 shows the mean value depicting the overall employee performance. As far as this descriptive statistic is concerned, the performance management system on employee performance is above satisfactory level with a mean value of **3.08** on a 5-point Likert scale. This implies that inclusiveness, Acceptability & Fairness, Openness, Reliability, and Linkage of KPIs influence employee performance.

The analysis of this study was done using descriptive statistics; from these, the researcher used the mean scores of each variable. The main reason for using this measurement was to demonstrate the average responses of respondents for each question that was included under each dimension of the predictor variable. The interpretation is made based on the following measurement scale intervals or range. Mean scores are 4.51-5.00 excellent very good, 3.51-4.50 good, 2.51-3.50 average or moderate, 1.51-2.50 fair, and 1.00-1.50 is poor (Poonlar Btawee:1987) as cited by Hailu (2013).

Table 4.3: Descriptive Analysis

Descriptive Statistics			
	N	Mean	Std. Deviation
Inclusiveness	345	3.0609	.54884
Acceptability and Fairness	345	3.3005	.72093

Openness	345	2.8352	.50489
Reliability	345	2.7830	.61764
Linkage to KPI`s	345	3.2894	.60867
Employee performance	345	3.2110	.68335
Valid N (listwise)	345		

Source: own survey 2022.

Table 4.3 shows a summarized average (mean) score of the employee's perception towards the determinant factors of the performance management systems' effectiveness, provided by the 345 respondents on a Likert scale of 1 to 5. It shows that the average score for Inclusiveness is 3.06 with a standard deviation of +0.55. This indicates that the respondents have average level of agreement with the level of Inclusive factor in the performance management system. Regarding Acceptability and Fairness, the mean score is 3.30 with standard deviation of +0.72.

This also implies that the employees' perception towards this factor is average or moderate. The mean score for Openness is 2.84 and a standard deviation of + 0.50 which indicates that the respondents disagree with the level of openness factor in the performance management system. Similarly, the Reliability factor has a mean score of 2.78 with standard deviation of +0.62 which portrays the respondent don't agree with the performance management system reliability.

The Linkage to KPI`s factor of performance management system has scored a mean figure of 3.28 and with standard deviation of + 0.61 indicating respondents' agreement with this factor. The mean score value for employee performance is 3.21 and standard deviation is +0.683. Employees have indicated they agree PMS encourage and help employees to improve performance.

4.5 Inferential Analysis

In this section regression analysis for dimensions of the performance management system on the employee performance has been undertaken to understand the relationship between the performance management system on employee performance explanatory variables.

Regression is widely used technique and links to Pearson's 'r', sharing many of its assumptions, including linearity and the use of scale data (Burns & Burns, 2008). Moreover, the technique of regression allows the researcher to make a prediction of the likely value of the dependent variable Y from known values of independent variable X in a simple linear regression, from known values of a combination of independent variables D, F & F in multiple linear regressions (Burns & Burns, 2008). The multiple linear regression formula:

$$EP = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$$

Where:

- EP (Employee Performance) in the dependent or predicted variable.
- β_0 is the EP- intercept, i .e, the value of EP when X1, X2, X3, X4, and X5 are 0.
- $\beta_1, \beta_2, \beta_3, \beta_4,$ and β_5 are the regression coefficients representing the change in EP relative to the one-unit change in X1, X2, X3, X4, and X5 respectively.
- ε is the model's random error (residual) term.

Thus, in examining the factors that could affect employee performance, the study used a regression analysis to show the effect of the five independent variables on the dependent variable of employee performance. In using regression, scholars like Collins and Hussey (2014) advice to check multicollineary, independence and normality of the residuals on the data we used. Therefore, to establish the validity of these assumptions, the researcher also checks the assumption test like as follow.

4.5.1 Assumption Tests

Before applying regression analysis, some tests were conducted to ensure the appropriateness of data to assumptions regression analysis which is as follows:

The correlation between a dependent variable and independent viable along with the casual effect was described as follows:

4.5.1.1 Correlation Analysis

As per Marczyk, Dematteo & Festinger (2005) general guidelines, correlations of .01 to .30 are considered as small, correlations as of .31 to .70 are considered as moderate, correlations of .71 to .90 are considered as large, and correlations of .91 to 1.00 are considered as very large.

The below table shows the result of the correlation coefficient between the dependent variable (Employee Performance) and independent variables (Inclusiveness, Acceptability & Fairness, Openness, Reliability, and Linkage of KPIs).

As can see from the below table result of the correlation between employee performance and Inclusiveness of the PMS showed a positive coefficient of the relation of 0.865. This result shows that the Inclusiveness of the PMS has a significant relationship with employee performance.

The result of the correlation coefficient between employee performance and openness is positive with a value of 0.847, this implies that there is a positive correlation between employee performance and openness. The correlation coefficient between employee performance with reliability and Linkage to KPIs has a positive value of 0.822 and 0.837 respectively.

This imply that there is a moderate correlation between them. Based on the correlation results inclusiveness, openness & acceptability and fairness have a positive and strong relationship with employee performance with the coefficient of 0.865,0.847 and 0.846, respectively.

Table 4.4 : Correlation matrix of dependent and independent variable

		Correlations					
		Inclusiveness	Acceptability and Fairness	Openness	Reliability	Linkage to KPI's	Employee performance
Inclusiveness	Pearson Correlation	1	.840**	.900**	.708**	.794**	.865**
Acceptability and Fairness	Pearson Correlation	.840**	1	.795**	.643**	.838**	.846**
Openness	Pearson Correlation	.900**	.795**	1	.733**	.747**	.847**
Reliability	Pearson Correlation	.708**	.643**	.733**	1	.748**	.822**

Linkage to KPI's	Pearson Correlation	.794**	.838**	.747**	.748**	1	.837**
Employee performance	Pearson Correlation	.865**	.846**	.847**	.822**	.837**	1

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

Source: Own Survey 2022

The above correlation matrix provides the correlation between variables with a Pearson correlation coefficient to show the strength of the relationship among the variables (independent & dependent). Pearson correlation analysis was used to provide evidence of convergent validity and Pearson correlation coefficients reveal the magnitude and direction of relationships either positive or negative and the intensity of the relationship. Correlation is perhaps the most basic and most useful measure of association between two or more variables (Marczyk, Dematteo, and Festinger, 2005).

Cooper & Schindler (2009) suggested that a correlation coefficient above 0.8 between explanatory variables should be corrected because it is a sign of multicollinearity problems. Malhotra (2007) argued that the correlation coefficient can be 0.75. Moreover, Hair et al. (2006) discussed that a correlation coefficient of less than 0.9 may not cause serious multicollinearity.

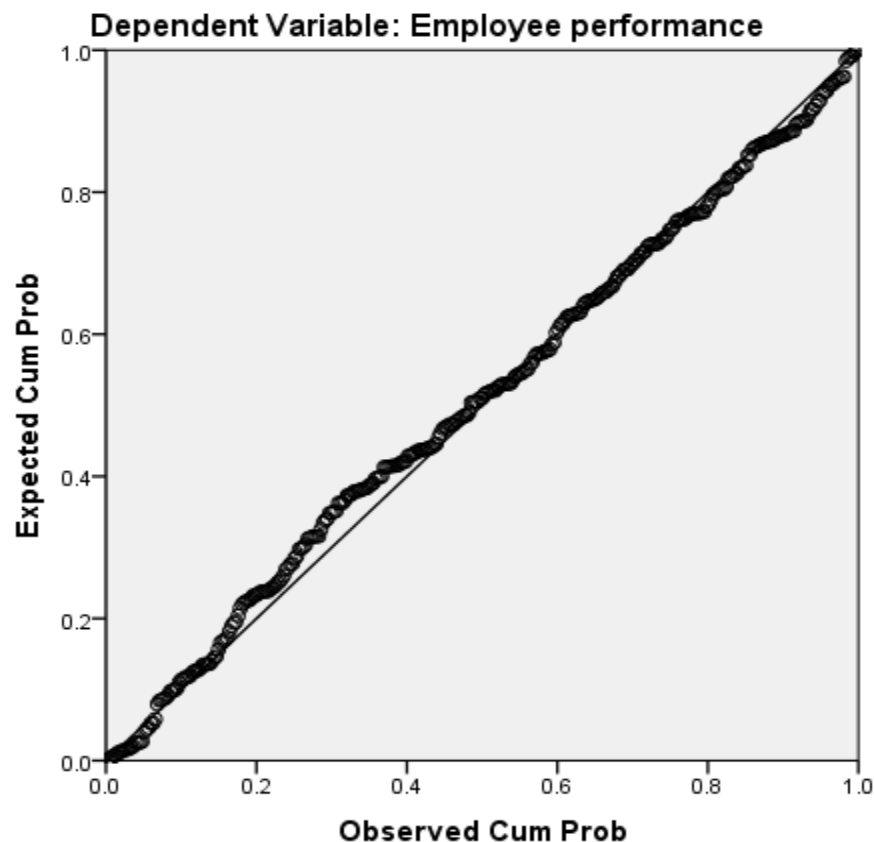
4.5.1.2 Linearity Test

Linearity refers to the extent to which the change in the dependent variable is related to the change in the independent variables.

To determine whether the relationship between the dependent variable and the independent variables (Inclusiveness, Acceptability & Fairness, Openness, Reliability, and Linkage of KPIs) is linear; plots of the regression residuals through SPSS software had been used.

Figure 4.1 : The scatter plot of residuals

Normal P-P Plot of Regression Standardized Residual



The scatter plot of residuals shows no large difference in the spread of the residuals as you look from left to right in figure 4.1. This result suggests the relationship we are trying to predict is linear.

4.5.1.3 Test of normality of the Data

Among the others, one of the assumptions was the normality of the data should be tested before running the analysis of the data using skewness and Kurtosis.

According to Field (2005), normally distributed data considered that the data are from one or more normally distributed populations. The rationale behind hypothesis testing relies on having normally distributed populations and so if these assumptions are not met then the logic behind hypothesis testing is flawed.

Therefore, the value of S (Skewness) and K (Kurtosis) and their respective standard errors were computed. An absolute value between -2 and +2 score for Skewness and Kurtosis is expected to be significant at $p < 0.05$. The large sample will give rise to small standard errors and so when sample

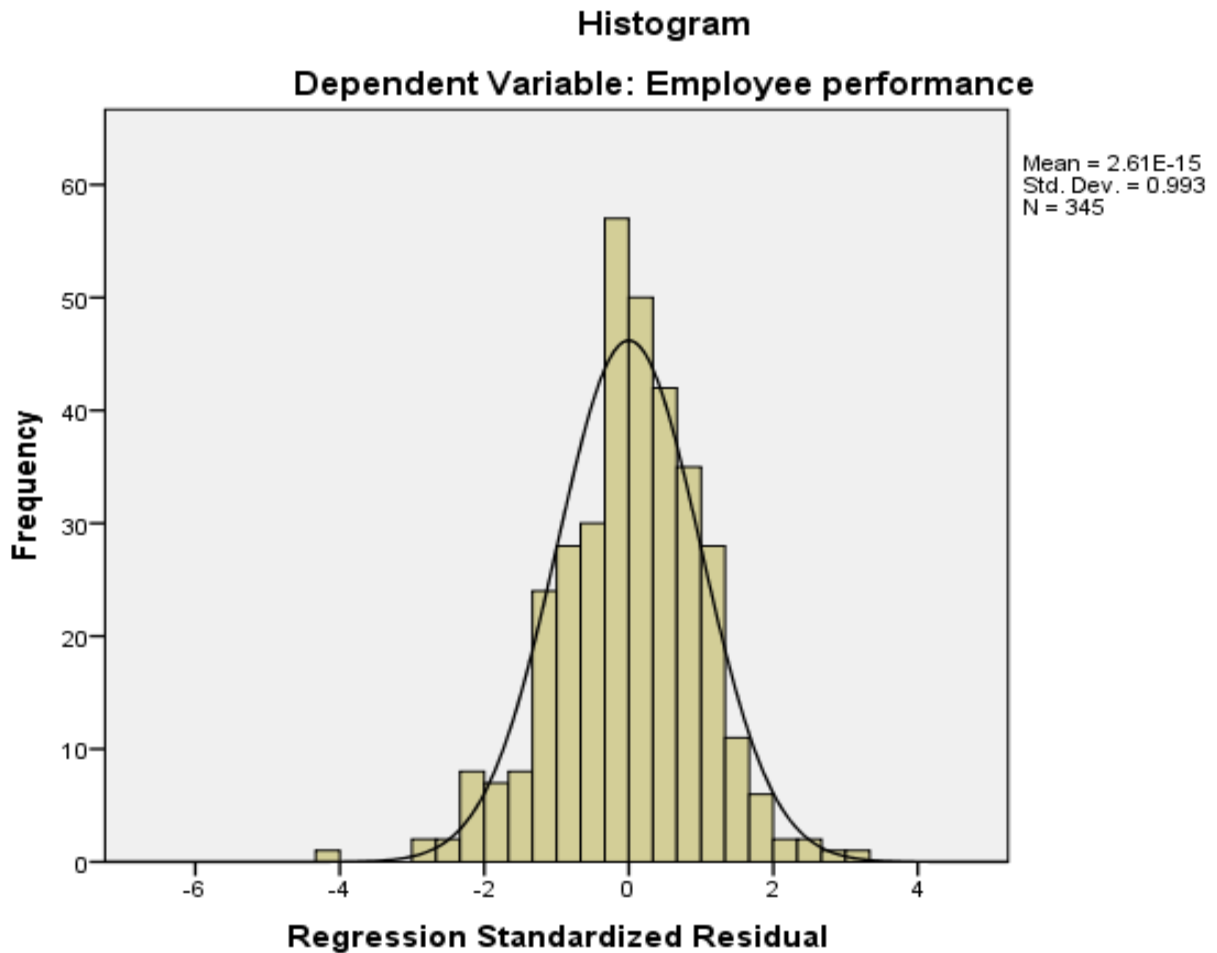
sizes are big, significant values arise from even small deviations from normality for both skewness and Kurtosis (Field, 2005).

Table 4. 5: Normality Test

	Descriptive Statistics				
	N	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
Inclusiveness	345	-.254	.131	-.105	.262
Acceptability and Fairness	345	-.404	.131	-.151	.262
Openness	345	-.156	.131	-.484	.262
Reliability	345	.000	.131	.406	.262
Linkage to KPI's	345	-.190	.131	-.125	.262
Employee performance	345	-.503	.131	-.054	.262
Valid N (listwise)	345				

Source: Own Survey 2022

As we can see from table 6 above all the absolute values of skewness and the kurtosis are between -2 and +2 and it indicates that data is considered to be normally distributed.



4.5.1.4 Multicollinearity Test

A multicollinearity test was done to avoid habits in the decision-making process regarding the partial effect of independent variables on the dependent variable. A good regression model should not happen correlation between the independent variables or not happen multicollinearity. Test multicollinearity as a basis of the VIF (Variance Inflation Factor) value of multicollinearity test results using SPSS. If the result of the VIF value lies between 1 and 10, then there is no multicollinearity otherwise there are multicollinearity issues.

Table 4.6: Multicollinearity Test

Multicollinearity

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
Inclusiveness	.143	7.011
Acceptability and Fairness	.207	4.840
Openness	.168	5.963
Reliability	.361	2.771
Linkage to KPI's	.218	4.593

Source: Own survey 2022

Based on the above Coefficients Output –co-linearity Statistics, the VIF values of the independent variables are obtained between 1 to 10, it can be concluded that there are no multicollinearity symptoms.

4.5.2 Regression Result

The overall regression model and its ANOVA are summarized as follows:

Table 4.7: Multiple Regressions between the performance management System Variables and Employee Performance

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.935 ^a	.874	.872	.24425	.874	470.718	5	339	.000

a. Predictors: (Constant), Linkage to KPI's , Reliability, Openness, Acceptability and Fairness , Inclusiveness

b. Dependent Variable: Employee performance

Source: Own survey 2022

R-squared has measured the goodness of fit of the explanatory variables in explaining the variations in employee performance measures of explanatory variables (Inclusiveness, Acceptability & Fairness, Openness, Reliability, and Linkage of KPIs). As clearly described in table 8 adjusted R-square value for the regression model was 0.872. This indicates the explanatory variables; Inclusiveness, Acceptability & Fairness, Openness, Reliability, and Linkage of KPIs in this study explain approximately about 87.2 percent of the variation in the level of employee performance. The remaining only 12.8 percent of the variation in the level of employee performance of Ethiopian Airlines are explained by other variables which are not included or covered in the model. Therefore, performance management system dimensions (Inclusiveness, Acceptability & Fairness, Openness, Reliability, and Linkage of KPIs) are very good explanatory variables of the employee performance level of Ethiopian Airlines, but it does not mean that all these factors of performance management system have equally significant correlation with employee performance level.

Table 4.8: Analysis of Variance Results of the Regression Analysis between Predictor Variables and Employee Performance

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	140.414	5	28.083	470.718	.000 ^b
	Residual	20.225	339	.060		
	Total	160.638	344			

a. Dependent Variable: Employee performance

b. Predictors: (Constant), Linkage to KPI's , Reliability, Openness, Acceptability and Fairness , Inclusiveness

Source: Own survey 2022

Table 4.8 above summarized the information about the variation of the dependent variable explained by the existing model used for this study and the residual that indicates the variation of the dependent variable that are not captured by the model. Accordingly, it is observed that the independent variables give a significant effect on the dependent variable, where F-value is 470.718 with a p-value of less than 0.05 (i.e. p value 0.000) indicating that, over all, the model used for the study is significantly good enough in explaining the variation on the dependent variable.

Besides the F statistics which is used to measure the overall test of significance of the model was presented, and the null hypothesis can be rejected since the p-value is 0.000 which is sufficiently low, the model is well fitted at a 5 percent level of significance.

Table 4.9: Regression Coefficients of the Relationship between Employees Performance and the five Predictive Variables

Coefficients ^a							
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-.308	.081		-3.787	.000		
Inclusiveness	.266	.064	.214	4.186	.000	.143	7.011
Acceptability and Fairness	.262	.040	.276	6.518	.000	.207	4.840
Openness	.159	.064	.118	2.499	.013	.168	5.963
Reliability	.368	.035	.332	10.363	.000	.361	2.771
Linkage to KPI's	.111	.046	.099	2.395	.017	.218	4.593

a. Dependent Variable: Employee performance

Source: Own survey 2022

Similarly, the regression table 10 shows the overall significance or acceptability of the model from a statistical perspective. As the significance value of F statistics shows a value of (.000), which is less than $p < 0.05$. Thus, the model is significant which indicates that the variation explained by the model is not due to chance.

As mentioned earlier, this research aims to identify the most contributing independent variable in the prediction of the dependent variable. Thus, the strength of each predictor (independent) influencing the criterion-dependent variable can be investigated via a standardized Beta coefficient.

From the above table, we can develop the following major findings: Coefficient analysis shows the relationships between dependent variables and independent variables. Accordingly, were statistically significant at a 5% level in agreement with the hypothesis.

This means they have a great contribution to improving employee performance. The regression equation is therefore, $EP = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5$

Where, EP= Employee Performance, X1 = Inclusiveness of the PMS , X2 = Acceptability & Fairness of PMS, X3 = Openness of PMS, X4 = Reliability of PMS and X5 = Linkage to KPI's of PMS. When the values from the above table 10 are computed, the equation become:

$$EP = -0.308 + 0.266X_1 + 0.262X_2 + 0.159X_3 + 0.368X_4 + 0.111X_5$$

With the statistical result of Std. Err (0.081) (0.064) (0.040) (0.064) (0.035) (0.046), T values (-3.787) * (4.186) * (6.518) * (2.499) * (10.363) *(2.395), R square (Adj.) = 0.872, F = 470.718 of the Significant at 95% level.

The regression coefficient explains the average amount of change in the dependent variable that caused by a unit of change in the independent variable. The larger value of Beta coefficient that an independent variable has will bring more support to the dependent variable as the more vital determinant in predicting the dependent variable.

According to Sig. value of the independent variables X1(Inclusiveness), X2(Acceptability & Fairness), X3(Openness), X4(Reliability) and X5(Linkage to KPIs) are statistically significant at a 5 percent significant level in agreement with the objective. This means that Inclusiveness, Acceptability fairness, Openness, Reliability, and Linkage to KPIs have great contributions to improving employee performance in Ethiopian Airlines.

As depicted in Table 4.9, the coefficient values of reliability of PMS is 0.368 which means that all things being equal, when the other independent variables (Inclusiveness, Acceptability & Fairness, Openness and Linkage to KPIs) are held constant, employee performance would increase by 36.8% if there is 100% reliability of PMS. This was statistically significant ($0.00 < 0.05$) i.e. the variable (Reliability of PMS) is making a significant unique contribution to the prediction of the dependent variable (employees' performance). This finding is in line with Noe et al. (2016) that discuss an effective performance management help to establish consistent standards that are objective and free from error for evaluating employee's performance for the employees to perceive the system to be reliable.

The coefficient of inclusiveness with ($\beta=0.266$), implying that a 100% change in Inclusiveness factor bring about a 26.6 % positive change in employee performance level. Similar study by Temesgen (2018), shows inclusiveness nature of performance management system has positive and significant effect on employee motivation which is a driving force to improve employee performance. Empirical studies have also shown that performance of employees participated in setting goal processes was much higher than their peers who did not participate in the planning process. (Iatham, Borgogni and Petita, 2008). Yidnekachew (2015) also find out on his research participation of employees in performance planning help to attain employee and organization performance objectives. Moreover, this finding is also in line with Goal theory as cited by (Armstrong 2009) that states specific individual goals established by an individual employee helps to increase staff motivation towards outstanding performance.

The coefficient of Acceptability and fairness has Beta value=0.262, implying that a 100% change in Acceptability and fairness bring a 26.2% positive change in employee performance level. This finding is in consistent with findings of Temesgen (2018) which found Acceptability and fairness nature of performance management system has positive and significant effect on employee motivation, performance, and organization performance in general. Similarly, on literature reviewed, Pulakos (2009) states clear Performance standards help employees understand what is expected of them and provide common standards for managers to use in evaluating employees, thereby increasing consistency, transparency, and fairness. The evaluation is performed against standards which helps the employees perceive the PMS to be free from prejudice, error and bias and increase their performance.

In regard to coefficient of Openness with ($\beta=0.159$), implying that a 100% change in PMS Openness leads to a 15.9% positive change in employee performance level. Meseret (2021) in her study manifested Performance feedback has positive and statistically significant effect on organizational performance. She inferred continuous feedback and discussion played important role in improving employee and organization performance in general. This result is also consistent with the finding of (Temesgen, 2018) which found out continuous feedback factor has positive effect on employee motivation and performance.

Linkage to KPIs with Beta value=0.111, implying that a 100% change in PMS Linkage to KPIs leads to a 11.1% positive change in employee performance level. This finding is in line with the result of Yitbarek (2017) which found out that Alignment of Ethiopian Airlines strategies with Key Performance Indicators (KPIs) has positive effect on organization performance with Beta value= 0.0561.

All the explanatory variables have a significant positive effect on employee performance with the PMS of Ethiopian Airlines. The findings provide significant support for the Inclusiveness, Acceptability& fairness, Reliability, Openness and Linkage to KPI’s literature which advocates that the variables influence employee performance in Ethiopian Airlines.

In General, the findings are also consistent with other research findings like O.Samwel(2018) who conducted empirical study on the impact of performance management on employee performance in the case of selected private organizations in Tanzania. According to this study there is a significant relationship between performance management and performance of employees and recommend the PM practice to apply to all members of the organization.

In addition, according to Nadeem Iqbal ,Naveed Ahmad ,Zeeshan Haider ,Yumna Batool and Qurat-ul-ain conducted study on “Impact of performance appraisal on employee’s performance” . The study found that there is significant positive relation between performance appraisal and employee’s performance. The study recommends continuous effort in coaching and counseling, flat communication between employee and supervisor to improve employee performance.

Table 4.20: Summary of hypotheses testing

	Hypothesis	Result
H ₁	<i>The inclusiveness of the PMS has a positive and significant effect on employee`s performance at ET.</i>	Supported
H ₂	<i>The acceptability and fairness of the PMS has a positive and significant effect on employee`s performance at ET.</i>	Supported
H ₃	<i>The openness of the PMS has a positive and significant effect on employee`s performance at ET.</i>	Supported
H ₄	<i>The reliability of the PMS has a positive and significant effect on employee`s performance at ET..</i>	Supported
H ₅	<i>PMS linkage to KPI`s has a positive and significant effect on employees' performance at ET.</i>	Supported

Source: own compilation 2022

CHAPTER FIVE

Summary Of Findings, Conclusion, And Recommendation

Introduction

This chapter presents the overall summary of the study, the conclusion, and the recommendation of the study. The recommendations, however, consisted of two parts. It is made up of the main recommendation as well as recommendations for future research. It is important to also mention that the recommendations provided emanated from the findings of the study.

5.1 Summary of Finding

The primary objective of this study was to examine the effect of the performance management system of Ethiopian Airlines on employee and organizational performance and its effect on promoting best behaviors and practices. To do this, five determinants of performance management system variables are used (Inclusiveness, Acceptability & Fairness, Openness, Reliability, and Linkage of KPIs). Hence, this study has attempted to assess the effect of performance management system of Ethiopian Airlines on employee and organizational performance. In addition, this study has also attempted to answer the research questions stated in the introduction part. The study used questionnaire tools that contained 44 performance statements related to the five aspects of PMS. The data is analyzed using Statistical Package for Social Science (SPSS) software version 20 through descriptive and inferential statistics.

To undertake the study, 381 questionnaires were distributed and 345 have been duly filled and returned. Descriptive analysis revealed that most of the employees of Ethiopian Airlines were male, and most of the respondents fall within the 20-30 years means adult age group, Regarding the education level, 75.7% of the respondents are first degree holders, and the majority of respondents 72.2 % are working in a Non-management position and about 57.7 % of the employees of Ethiopian airlines have from 1-5 years of work experience at their current position. In relation to their work experience at Ethiopian airlines, 40% of the respondents have served the airlines between 1-5 years. Majority of the staffs 32.5% are currently working at ET MRO division.

Regarding the Inclusiveness factor of PMS system, the respondents have average level of agreement with mean value 3.06. According to Aguinis (2009), a good PMS system should incorporate input from multiple sources on continuous basis. More than average number of the respondent's don't believe the performance management practice in the organization is participatory in all performance management process including planning, execution, and assessment.

The result of the correlation coefficient between employee performance and Inclusiveness is positive with a value of 0.865. This implies that there is a positive correlation between employee performance and Inclusiveness of PMS. These findings agree with the Goal setting theory which suggests that the individual goals established by an employee play an important role in motivating him/her for better and superior performance.

Concerning Acceptability and fairness, employee's perception towards this factor is moderate with mean score 3.30. Most of the respondents don't feel their evaluation is fair and is based on their actual achievement. A good system should only evaluate performance based on actual achievement and should be free from discrimination and bias. (Aguinis 2009).

The correlation coefficient between employee performance and acceptability & fairness have a positive and strong relationship with employee performance with value of 0.846. Therefore, the Acceptability and fairness factor of performance management enhances employee's performance.

Most of the respondents expressed low level of agreement to openness factor in the performance management system to be effective. The respondents have indicated there is no continuous and timely performance feedback prior to the semiannual performance review and feedback provided by supervisor is not based on accurate data and observation to help them improve their performance. Michael A. Akinbowal, Melanie E. Louren & Dinesh C. Jinabha (2013) did a similar study on the role of performance appraisal policy and its effects on employee performance, and they concluded that the Feedback, particularly on interpersonal (supervisor-subordinate) basis was found to be highly important and effective in assisting employees to improve their performance.

The respondents expressed moderate agreement if they are allowed to express ideas on performance appraisal meeting and was a two-way communication.

According Lawler, (2003), effectiveness in performance management system augments when there is continuous ongoing feedback on how the employee is performing and should be a two-way communication.

The result of the correlation coefficient between employee performance and openness is positive with a value of 0.847 which implies that there is a positive correlation between employee performance and openness. We can infer proper PMS usage assist in reviewing performance and improve the interaction between management and employees towards enhancing organizational performance.

Concerning reliability, most of the respondent's don't agree with the organizations 's performance management system reliability. Aguinis (2009) stated good system should include measures of performance that are consistent and free of error and bias. Most of the respondents don't agree their supervisors/managers assess their performance based on actual achievement. They perceive their managers mostly focus on pitfalls, failures and under achievements. However, the result of the correlation revealed that there is a positive relationship between reliability factor of performance management system and employee performance.

In regard to Linkage to KPIs, concerning Ethiopian Airlines' BSC goal setting alignment with Airline's mission and objectives, average respondents are in agreement with the Linkage of KPIs factor. Satisfactory number of respondents believe KPI's in the BSC enable them to focus on factors that contribute to the organization success and goal achievement. According Aguinis (2009), linking and aligning individual goals with organizational goals serves as a way to communicate what are the most crucial business strategic initiatives.

The correlation coefficient between employee performance and Linkage to KPIs has a positive value of 0.837 implying that there is a moderate correlation between them. According to Armstrong (2009), alignment of individual and organizational objectives is one of the most fundamental purposes of PMS. Linkage of KPI's factor of performance management helps to improve employee and organizational performance and helps employees to focus on factors that mostly contribute to the organization success and goal achievement.

In addition, the adjusted R-square value for the regression model was 0.872. This indicates the explanatory variables; Inclusiveness, Acceptability & Fairness, Openness, Reliability, and Linkage of KPIs in this study explain approximately about 87.21 percent of the variation in the level of employee performance. The remaining only 12.8 percent of the variation in the level of employee performance of Ethiopian Airlines is explained by other variables which are not included in the model.

The results of the multiple linear regression analysis show the relationship between dependent variables and independent variables. According to Sig. value of X1(Inclusiveness), X2(Acceptability & Fairness), X3(Openness),X4(Reliability), and X5(Linkage to KPIs) are statistically significant at a 5 percent significant level in agreement with the objective. This means that inclusiveness, acceptability&fairness, Openness, reliability, and Linkage to KPIs have great contributions to improving employee performance in Ethiopian Airlines.

5.2 Conclusion

The main purpose of the study was to assess the effectiveness of the performance management system and its effect on employee performance. As stated on the literature review and per Briscoe & Claus 2008, Performance management refers to the system that organizations adopt in setting work goals, establishing performance measurement standards, assigning, and evaluating employee's performance, giving feedback to employee's level of performance achievement, identifying training and development needs and allotting performance-based rewards to employees.

Literature reviewed has pointed out , Employee performance plays an important role for enhancing organizational performance and drive the company to success. Therefore, effective implementation of PMS is indispensable for organizations to sustain their business. Hence it is imperative both the management and the employee take ownership of the system, understand the various PMS determinate factors that affect the effectiveness of PMS and work towards effective implementation of the system.

The model that is developed in this research paper provides a clear understanding of various variables that influences employee performance based on which hypothesis can be built and analysis can be done to find out ways to contribute to overall organizations performance in an essential manner.

In this research, the level of employee performance with the different performance management system dimensions pertaining to the theoretical model was evaluated. Accordingly, the major findings are presented as follows: Descriptive analysis revealed most of the permanent employees are adults between the ages of 20-30, educationally; the respondents were predominantly degree holders. Majority of the respondents are serving the airlines at ET-MRO division.

The mean value of performance management system on employee performance is above satisfactory level which is 3.08 on a 5-point Likert scale with inclusiveness (mean of 3.06), acceptability and fairness (mean of 3.30), Openness (mean of 2.83), reliability (mean of 2.78), and linkage to KPI's (3.28) have relatively major roles on performance management system and in turn overall employee performance. This shows most of the respondents perceive PMS lacks Openness and Reliability on its implementation. Therefore, it can be concluded improving these factors will make the system more effective with a positive improvement in the level of employees' performance and promoting best behaviors and practices. As per the control theory cited by Armstrong (2009), Feedback is a primary means of shaping behaviors of individuals towards goal attainment. He also stated performance measurement standards that are clear, consistent, and free from error help employees to perceive system is reliable and dependable.

They also feel the system is effective and positive in terms of Inclusiveness, Acceptability and fairness, Openness and Linkage to KPI's. With this, we can conclude that the performance management system is perceived effective in these factors but needs to work with more attention on improvement of these determinant factors to make the system more effective and achieve higher employee performance. Literatures reviewed indicates effective implementation of PM has a critical importance to the success of the organization. According Armstrong (2009), effective PMS help in alignment of individual and organization objectives. Hence a well designed and

implemented PMS has positive contribution on the overall performance and financial results of the organization.

Based on the results of the descriptive analysis, the study showed that there is effect on employee performance of Ethiopian Airlines due to its performance management systems. The result of the correlation also revealed that there is a positive relationship between the determinant factors of performance management system and employee performance. The analysis indicates the explanatory variables; Inclusiveness, Acceptability & Fairness, Openness, Reliability, and Linkage of KPIs in this study explain approximately about 87.2 percent of the variation in the level of employee performance. We can conclude the proper implementation of these factors leads to high employee and organizational performance.

Inclusiveness, Acceptability & fairness, Reliability, Openness and Linkage to KPIs have a positive and significant relation with employee performance. Any increase in reliability, inclusiveness, acceptability & fairness, openness, and linkage to KPIs leads to an increase in employee performance by 36.8%, 26.6%, 26.2%, 15.9 and 11.1% respectively. These results are significant at a 5% level of precision. Therefore, the effective implementation of all these aspects helps the organization achieve its strategic objectives by improving its employee's performance. As stated by Aguinis (2009), the presence of the above determinate factors of PMS brings about success in PMS.

5.3 Main Recommendation

In today's highly competitive business environment, organizations rely on effective performance management system to evaluate and review the performance of their employees and to determine the position of the organization in terms of performance. Hence organizations should have effective performance management system in place to assess the performance of their employees. Consequently, the analysis of this study includes implications for Airlines as far as the performance level of its employee with different aspects of the performance management system is concerned.

Therefore, based on the study results the following recommendations are forwarded to the concerned bodies.

- As Acceptability & fairness, reliability, openness, inclusiveness and Linkage to KPIs dimensions of performance management system have highly significant positive effect on employee performance. Accordingly, the researcher recommends that Ethiopia Airlines need to have better focus on these dimensions to enhance a higher employee performance.
- The Openness and Reliability factors of the performance management system play a vital role in its effectiveness. Hence, it is advisable that Ethiopian Airlines works towards the improvement of these factors in order to improve its employee performance.
- Setting up an accurate, consistent, and clear standard measures help employees to achieve their performance targets. Furthermore, such a goal and plan could stimulate and boost employee initiative and commitment for their jobs.
- Continuous and timely feedback on employee actual performance helps employees to identify their gap and take improvement actions. Communication between the subordinate and supervisor should be a two-way communication and employee`s should be allowed to express their ideas so they perceive the system as open and fair. Werner (2012) has stated that “subordinates see the performance discussion as fairer when they are given a chance for two-way communication”.
- In performance management system, training could play an important role in improving employee performance. According to Kumar et al 2015, one of the main goals of performance measurement is to differentiate between levels of performance, determine training needs based on gaps identified. Intervention training programs should be designed and implemented that are linked to the performance gaps.
- Management staffs of the airlines should be committed to effectively and properly utilize the system to help employees improve their performance. They need to operate in open door policy, ensure performance evaluations are fair, supervisors and managers should develop team objectives, provide and participate in guiding employees in their development plan throughout the evaluation periods.

5.4 Recommendation for Future Research

The complexities associated with performance management system is so high that a one study could not discover all. Moreover, due to covid-19, resource limit and time, this study could fill 345 questioners even though the study could have covered a wide area.

This study also investigates the determinants of performance management system that have major effects on employee performance of the Airlines. But the variables included in the study were not exhaustive. Future researchers could include other variables which are not included in this study. Given the above, the researcher recommends that the study to be replicated in the other private or government service giving organizations in Ethiopia since the findings of the current study indicated that there are varied advantages as well as challenges with performance management system.

APPENDIX



Master of Arts in Business Leadership Program

Dear Respondent,

Your participation on a research study for partial fulfillment of Master of Arts Degree in Business leadership is much appreciated. This questionnaire is designed to collect primary data on perception of Ethiopian Airline's employees on "Effectiveness of Performance Management System on improving employee performance and Performance Management System implementation factors affecting Employee performance". The study is primarily intended for academic purpose and confidentiality of data is fully assured. In addition, the output of the study will give valuable insight to concerned Performance Management system users and management at Ethiopian Airlines for effective implementation of Performance Management System to get the desired result.

For any clarification needed please contact me on +251911404722.

Thank you in advance!!

Part One: Respondent Profile

Instruction: This part of the questioner asks you about your personal and job-related information. Please Circle the number on choices for each question or answer the questions in the space provided. **Please note that there is no need to disclose your name on the questionnaire.**

1. What is your age group?
 1. 20-30 years of age
 2. 31-40 years of age
 3. 41-50 years of age
 4. 51 years & above
2. Sex:
 1. Male
 2. Female
3. What is your highest Academic Qualification?
 1. Diploma
 2. Degree
 3. Masters
 4. Above Masters
4. Your Work experience at Ethiopian Airlines?
 1. Less than 1 year
 2. 1-5 years
 3. 6-10 years
 4. 11-15 years
 5. Above 16 years
5. What is your current position classification in the organization?
 1. Non Management
 2. Management
6. How long have you been working at Current position?
 1. Less than 1 year
 2. 1-5 years
 3. 6-10 years
 4. 11-15 years
 5. 16-20 years
 6. Above 21 years
7. Where is your work k division?
 1. ET-MRO
 2. Addis HUB Ground Service
 3. Customer SVCs
 4. ET-Cargo & Logistic
 5. Corporate HR & Finance

Part Two: Questions related with the topic (Please put a “√” mark in the box next to the point which highly relates to your perception.

II	Effectiveness of Performance Management System Practice	Measurement Scale				
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	<i>NB: Please indicate your response about the determinant factors of effective performance management system as implemented in Ethiopian Airlines</i>					
	Inclusiveness	1	2	3	4	5
1	I clearly understand the Performance Management process and practice of					

	the organization.					
2	I believe the Performance Management practice in the organization is participatory in all Performance Management process including planning, execution, and assessment.					
3	I have participated in establishment of performance standards that are clearly related to my Job.					
4	Participation in performance management practices helped me to improve my performance.					
5	I am clearly communicated and agreed on how my performance is measured.					
6	Standards used to measure my performance are related to my work and helps to measure my actual performance.					
7	My concerns on Performance Management System implementation are received and addressed by my supervisor/manager.					
8	I am given chance to perform self - review and is reconciled with supervisor review.					
9	Performance rating were done periodically.					

	Acceptability and Fairness	1	2	3	4	5
10	I believe the performance management system is open, fair and rational.					
11	I feel that my evaluation is fair and is based on my actual achievement					
12	I get continuous feedback from my supervisor on my performance status.					
13	I feel the evaluation is performed against standards and is free from prejudice, error, and bias.					
14	I believe the procedure used to determine rating is fair and transparent.					
15	I believe the procedure used to link rating with reward is fair and transparent.					
16	If employee don't agree with performance appraisal rating, there is a system to appeal					
17	I perceive fairness and accuracy of the performance evaluation have an effect on employee performance					
18	Are you satisfied with the existing performance management system of the organization?					
	Openness	1	2	3	4	5
19	I receive continuous and timely performance feedback prior my semiannual performance review					

20	The performance standards are clearly articulated and communicated on ongoing basis.					
21	The feedback provided by my supervisor is based on accurate data and observation and helped me to improve my performance.					
22	The feedback I receive helped me to identify my strength and weakness and work on my gaps					
23	I am allowed to express my idea on performance appraisal meeting and is a two-way communication.					
24	Communication with my supervisor was factual, open, and honest.					
25	Continuous discussion takes place between manager and employee on what the employee is required to perform to achieve the set goals, and improve skill, attitude and performance.					
	Reliability	1	2	3	4	5
26	My supervisor/manager assess my performance based on my actual performance.					
27	Most of the performance measurement standards are objectives and free from subjectivity and error.					
28	My performance rating will be checked					

	for quality audit by responsible HR department.					
29	My supervisor is willing to amend my rating if any error is identified.					
30	Performance evaluation differentiate high and low performers.					
31	Performance appraisal is free from rater`s error like Halo error, central tendency, leniency error etc.					
32	The manager takes into consideration my performance throughout the evaluation period rather than focusing on pitfalls, failures and under achievements.					
	Linkage to KPI`s	1	2	3	4	5
33	Organizational goals and objectives are clearly communicated.					
34	ET`s BSC goal setting are aligned with Airline mission and objectives.					
35	KPI`s in the BSC enables me to focus on factors that contribute to the organization success and goal achievement.					
36	ET`s BSC links short term goals with long term strategic goals.					
37	Performance measurement standards are revised to align with change in organizational goals and objectives.					

38	I believe ET`s BSC practices helps me to increase my performance and productivity.					
39	The level of organizational performance has improved after the implementation of performance management system.					
III	Employee performance	1	2	3	4	5
40	Performance appraisals positively influence employee`s performance.					
41	Performance management system encourage employees to continuously improve their performance.					
42	ET develops intervention training programs that are tied to the gaps identified in the performance.					
43	The reward system encourages high performance.					
44	I believe administrative decisions taken based on performance ratings are appropriate and valid.					

Thank You !!

Sample Output SPSS Result

Descriptive Statistics

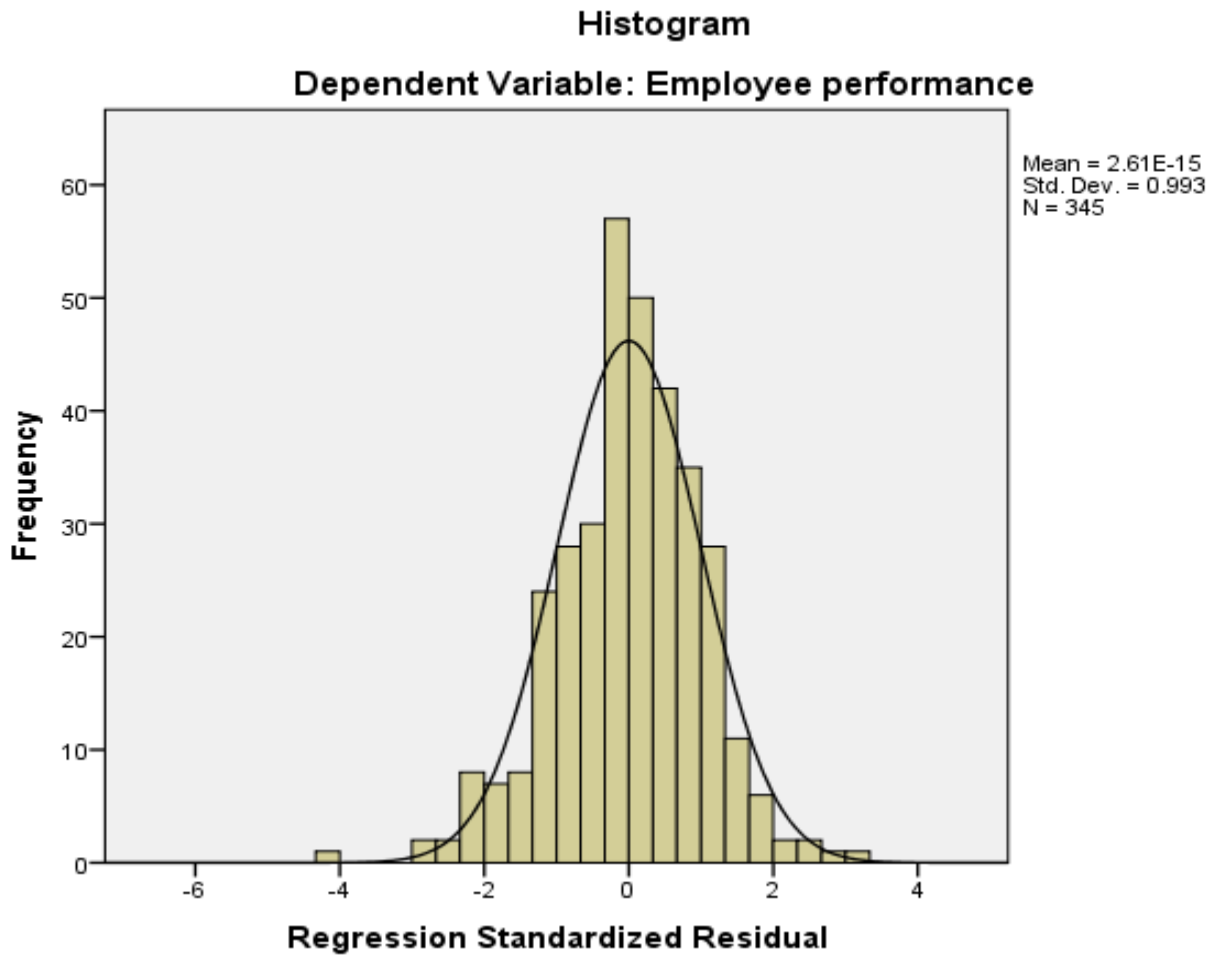
	N	Mean	Std. Deviation
Inclusiveness	345	3.0609	.54884
Acceptability and Fairness	345	3.3005	.72093
Openness	345	2.8352	.47934
Reliability	345	2.7830	.61764
Linkage to KPI's	345	3.2894	.60867
Employee performance	345	3.2110	.68335
Valid N (listwise)	345		

Normality Test

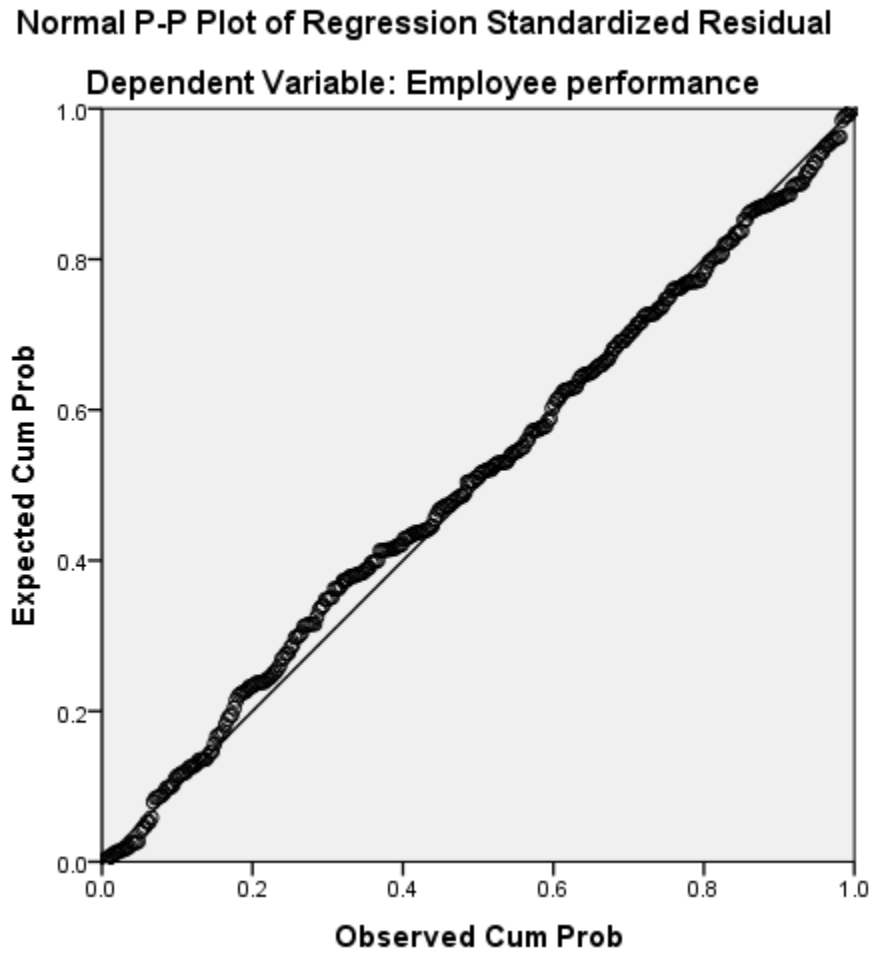
Descriptive Statistics

	N	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
Inclusiveness	345	-.254	.131	-.105	.262
Acceptability and Fairness	345	-.404	.131	-.151	.262
Openness	345	.044	.131	-.381	.262

Reliability	345	.000	.131	.406	.262
Linkage to KPI's	345	-.190	.131	-.125	.262
Employee performance	345	-.503	.131	-.054	.262
Valid N (listwise)	345				



Linearity Test



Correlations

		Inclusiveness	Acceptability and Fairness	Openness	Reliability	Linkage to KPI's	Employee performance
Inclusiveness	Pearson Correlation	1	.840**	.900**	.708**	.794**	.865**
Acceptability and Fairness	Pearson Correlation	.840**	1	.795**	.643**	.838**	.846**
Openness	Pearson Correlation	.900**	.795**	1	.733**	.747**	.847**
Reliability	Pearson Correlation	.708**	.643**	.733**	1	.748**	.822**
Linkage to KPI's	Pearson Correlation	.794**	.838**	.747**	.748**	1	.837**
Employee performance	Pearson Correlation	.865**	.846**	.847**	.822**	.837**	1

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

Source: Own Survey 2022

For Regression Analysis

ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	140.414	5	28.083	470.718	.000 ^b
Residual	20.225	339	.060		
Total	160.638	344			

a. Dependent Variable: Employee performance

b. Predictors: (Constant), Linkage to KPI's , Openness, Reliability, Acceptability and Fairness , Inclusiveness

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.935 ^a	.874	.872	.24425	.874	470.718	5	339	.000

a. Predictors: (Constant), Linkage to KPI's , Openness, Reliability, Acceptability and Fairness , Inclusiveness

b. Dependent Variable: Employee performance

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics		
	B	Std. Error	Beta			Tolerance	VIF	
1	(Constant)	-.308	.081		-3.787	.000		
	Inclusiveness	.266	.064	.214	4.186	.000	.143	7.011
	Acceptability and Fairness	.262	.040	.276	6.518	.000	.207	4.840
	Openness	.159	.064	.118	2.499	.013	.168	5.963
	Reliability	.368	.035	.332	10.363	.000	.361	2.771
	Linkage to KPI's	.111	.046	.099	2.395	.017	.218	4.593

a. Dependent Variable: Employee performance

Multicollinearity

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Inclusiveness	.143	7.011
	Acceptability and Fairness	.207	4.840
	Openness	.168	5.963
	Reliability	.361	2.771
	Linkage to KPI's	.218	4.593

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