

The Link between Performance Management System and Employee Effectiveness: The Case of Ethiopian Banks

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Abstract

The study explores the current performance management system of banks in Ethiopia using a modified conceptual framework that links phases of performance management system with employee effectiveness. The research finds that banks in Ethiopia have in-placed a performance management system targeted to evaluate performance against desired objectives. However, it has a gap with regards to involving employees in planning and objective setting, in using performance management system as a motivation tool and in coaching them towards better performance result in the future. The hypothesis testing has proved that there is a significant relationship between phases of performance management system and employee effectiveness. The study recommends for improvement in building a robust performance management system and in maximizing the practical significance of the system.

Keywords: Performance management system, effectiveness, Ethiopia, banks

Introduction

Performance management is a means of getting better results from the organization, teams, and individuals by understanding and managing performance within an agreed framework of planned goals, standards, and competence requirement (Armstrong and Baron, 2004). It is a prominent practice that helps organizations to create business value through better output of their employees (Gungor, 2011). It is also agreed that in service giving organization like banks, where their day to day activities are related to customer services, a well designed performance management system will have a paramount importance to enhance employee commitment and to increase the service quality. In many great companies of developing countries, the importance of performance management is still neglected and has not been widely recognized as capable of enhancing the effectiveness of organization as well as contributing to overall profitability (Koontz, 2004). This belief has inspired the researchers into conducting this work on performance management in the banking industry. Therefore, the major theme of the study lies to explore the performance management system of banks in Ethiopia and its impact on the effectiveness of their employees.

Literature Review and Conceptual Framework

Performance management is methodology that links employee's accountabilities with the core performance areas (Payant, 2006). It is a promise to employees from organizations to create clear accountabilities linked to key business drivers. Lawler (2003) defines it as the system whereby an organization assigns some "score" to indicate the level of performance of a target person or group. Mondy et al. (2002) define PA as a system of review and evaluation of an individual's (or team's) performance. Concerning the benefit of Performance management, Rudman (2003) argue that by implementing effective performance management, the company's top leadership team can measure strategic performance based upon management and business strategies that were agreed upon. Baron and Armstrong (2004, p.38-39) emphasize the strategic and integrated nature of Performance Management, which in their view focuses on 'increasing the effectiveness of organizations by improving the performance of the people who work in them and by developing the capabilities of teams and individual contributors'

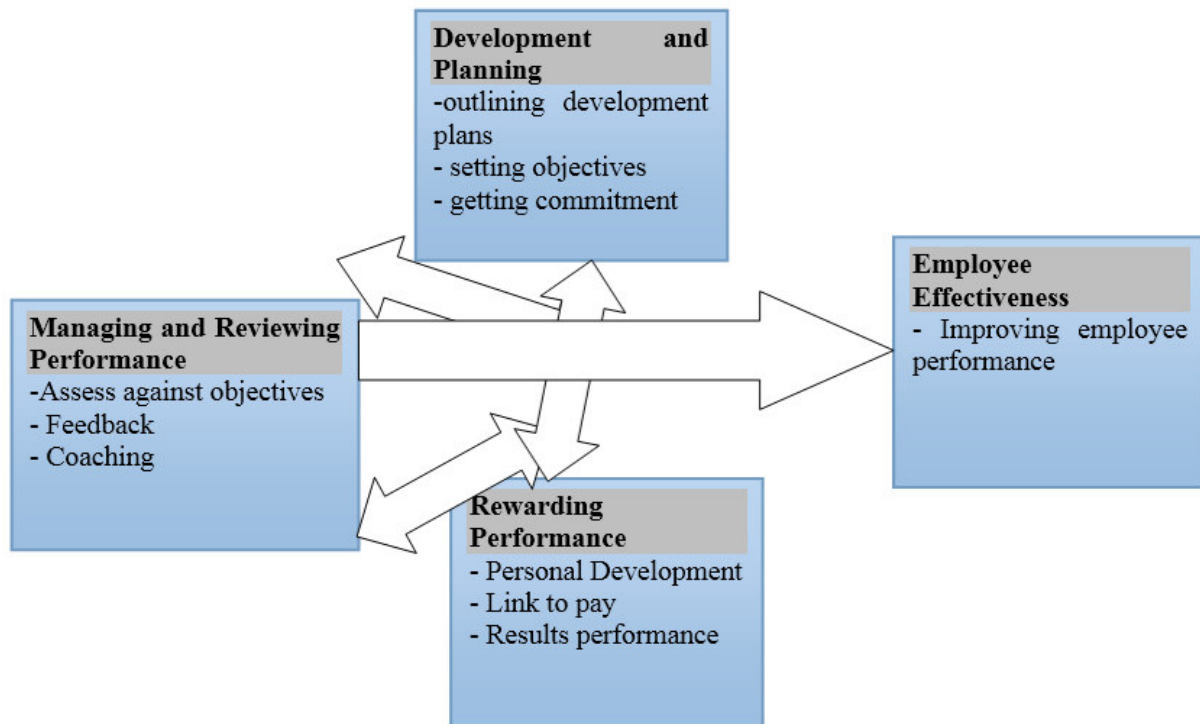
A performance management system is increasingly seen as a means of integrating HRM activities with the business objectives of the organization (Rudman, 2003). In other words, management and HR activities are working together to influence individual and collective behavior to support the organization's strategy. The emphasis of performance management systems is on continuously improving organizational performance, and this is achieved through improved individual employee performance (Macky & Johnson, 2000). Similarly from the suggestion of Lawler (2003), the objectives often include motivating performance, helping individuals develop their skills, building a performance culture, determining who should be promoted, eliminating individuals who are poor performers, and helping implement business strategies. Armstrong and Baron (2004) stated that the purpose of PMS is actually the establishment of such a culture in which performance improvement of processes and skills of all employees is noticed. The aim of this practice is to remove the deficiency that was found in previous systems. Therefore, employee and business performance can be improved through PMS.

Conceptual Framework

Schneier, Beatty and Baird (1987) classified a performance management system into three phases 1. development and planning 2. managing and reviewing and 3. rewarding phase. The conceptual framework however lacks to integrate the output expected from developing a robust performance management system. This will constrain the model to look toward the end result of the system. Therefore, from the above mentioned literature review it can be

inferred that the main purpose of performance management system is to enhance the effectiveness of employees in fact in a way to enhance organization performance. Hence, the study modified the conceptual framework to incorporate employee effectiveness as a result generated from the three phases of performance management system.

Fig. 1 Pictorial Representation of the performance Management phases



Planning is the first stage in the performance management system process cycle and offers the foundation for an effective process. Planning is a continuous process in performance management and should be executed with great care (Schneier et al., 1987). Planning helps to encourage commitment and understanding by linking the employees' work with the organization's goals and objectives. It usually includes identifying key value drivers of stakeholders, for example, shareholders, customers and employees of the organization. It involves setting objectives or goals describe something to be accomplished by individuals, departments and organizations over a period of time. (Armstrong and Baron ,2004). Therefore, these objectives need to be defined and agreed on. Managing performance is the second element of the performance management system cycle. This step distinguishes performance management as a process from performance appraisal as an activity (Schneier et al., 1987). In such process therefore, every employee is responsible for managing his or her own work performance (Schneider et al. (1987), and managers need to ensure that they are managing effectively. As a process, the actual performance is compared to the desired performance, so the outcome is evaluated and a development plan is set according to the weakness with reference the strategy. The third phase, rewarding performance ,includes three activities: personnel development, linking to pay and identifying the results or performance. The pay-for-performance principle involves providing monetary rewards through carefully designed compensation system that base pay on measured performance within the control participants (Locke and Latham, 2004). The result of the above process is to ensure employee Effectiveness in delivering the output expected from them. The emphasis of performance management systems is on continuously improving organizational performance, and this is achieved through improved individual employee performance (Macky and Johnson, 2000).

Methodology

The main purpose of the study is to assess the performance system in banks with a comparison of the actual and theoretically proposed performance management system . In addition, it aims to quantitatively assess the effect of the existing performance management system in the effectiveness of employees. Therefore, the study has followed a quantitative approach. Total sample size consists of 276 respondents in 9 private banks adopting a convenience sampling method for collecting a sample. Preliminary, data was collected from primary sources which are structured questions but allowing respondents to comment on the system through open ended questions. The study has included middle management and subordinates working at the head office and main branches. The structured questionnaire consists of ten questions for employees to provide their opinion on the existing performance system of their banks. The questionnaire is framed based on the conceptual model which has four main parts and ten components. This includes Developing and planning performance, Managing and reviewing performance,

rewarding performance and perceived effectiveness. Data collected by questionnaire from the sample employees are analyzed according to the Likert scale points with total, percentage, mean responses were observed and interpreted. It also attempts to run a regression model linking the three components of the performance management system with employee effectiveness.

Hypothesis of the study

Following hypothesis have been selected in the study based on the analytical interpretations in the previous section:

1. Ho1: Planning and development of performance system has no significant impact on employee effectiveness
2. Ho2: Managing and reviewing performance management system has no significant impact on employee effectiveness
3. Ho3: Rewarding performance has no significant impact on employee effectiveness

Data Analysis and Hypothesis Testing

The reliability value of the surveyed data is 0 .765 for variables of choice criteria which shows reliability for data analysis.

Developing and planning performance

Performance management system planning, especially in dynamic environment like banks is the most important factor that can enhance performance. In such endeavor, the performance system need to be planned and developed so that employees will be committed to contribute their level best towards the achievement of the goal of the organization. To this end, a positive opinion on performance planning practice has been noted in Banks. A good number (55%) of respondents has agreed that their Bank plans its performance. However, the response revealed that there is a gap in involving the employees in planning performance. From the response of the selected employees it's shown that sometimes performance plan are not agreed upon as to their objectives. This has been stated by 60% of respondents which is large and deserves attention of banks (see table1). The Bank's management has a responsibility to arrange the performance system to have clear objectives and involve the employees in setting the aim of the performance system. Therefore, lack of such involvement might force the employees to resist the system or limit their contribution towards achieving the goal of the organization. In other words, employees might not be convinced to accept the system as helpful so that they might develop a tight resistance towards it. Therefore, less commitment to achieve the expected performance will be witnessed. Such association has been reflected in the opinion collection where 50% of respondents still believe that performance systems are not done in a way to get commitment from employees.

Hypothesis Testing- ANOVA between planning performance and Employee Effectiveness- Null Hypothesis that employees planning their performance have no significant influence on their effectiveness has been rejected. Respondents have a strong perception that planning their own performance as the most important factor to influence effectiveness.

Table 1- ANOVA– Planning Performance

	df	Mean Square	F	Sig.
Between groups	43	82.167	25.6222	0.000*
Within groups	232	22.187		
Total	275			

Notes: *Significant at p < 0.05

Managing and reviewing performance

Managing and reviewing performance involves the practice of comparing the actual performance with the desired performance. Therefore, the outcome is evaluated and a development plan is set according to the weakness with reference the strategy. Such fact has been widely noted in the selected banks. Around 80% of the respondents have confirmed that there is a periodical comparison of the actual and desired performance. This is done at bank, department and employees level. In addition, there exists a practice of providing feedback for employees. This however is not strong. A good number of respondents have remarked that performance outcomes are not communicated well to the employees. Since feedback is one of the key instruments to develop a robust performance management system, it appears essential to provide input to employees about their performance. On the other front, there seem so gaps with regard to providing coaching for employees on their weaknesses. Majority (45%) of employees claim that supervisors are not providing the required coaching based on the performance result. This seems very critical as performance improvement comes from strong coaching system from the supervisors. Therefore, enhancing management capacity on developing their employees is a critical concern need to be addressed.

Hypothesis Testing- ANOVA between Managing and reviewing performance and Effectiveness- the Null Hypothesis that Managing and reviewing performance has no significant influence on employee effectiveness has been rejected. There is a significant perception among the employees that managing and reviewing performance has significant effect on employee effectiveness.

Table 2- ANOVA– Managing and Reviewing Performance

	df	Mean Square	F	Sig.
Between groups	43	78.39	30.484	0.000*
Within groups	232	20.325		
Total	275			

Rewarding Performance

Another major finding of the study is that employees do perceive that the performance assessment result has weak association for their personal development. This however needs to be changed. For instance, banks might plan to use the performance result in their training and development plan. This is following the basic intent of a performance management system which has placed developing employees to enhance their contribution towards meeting organization objectives as its fundamental component. There is a practice of associating the performance assessment result with the reward system. From the response on the open ended questions, it has found that banks have used the performance result to decide on salary increase and bonus payment. However, this has been commented that the reward system lack to identify the best performing employees and recognize their performance. On the other side, performance assessment is not linked with other non-monetary rewards like recognition, promotion etc. Therefore, the above factors have limited the scope of the performance assessment and its contribution to enhance future performance result of the employees.

Hypothesis Testing-ANOVA Rewarding performance and employee effectiveness – the hypothesis test rejected the null hypothesis that rewarding performance has no significant influence on employee effectiveness.

Table 3- ANOVA– Rewarding Performance

	df	Mean Square	F	Sig.
Between groups	43	52.395	20.866	0.000*
Within groups	232	15.63		
Total	275			

CONCLUSION AND RECOMMENDATION

Conclusions

The study explores the current performance management system of banks in Ethiopia using a modified conceptual framework that links phases of performance management system with employee effectiveness. The research finds that banks in Ethiopia have in-placed a performance management system targeted to evaluate performance against desired objectives. However, it has a gap with regards to involving employees in planning and objective setting, in using performance management system as a motivation and proper reward system and in providing feedback to employees about their performance and in coaching them towards better performance result in the future. However, the hypothesis testing has proved that there is a significant relationship between phases of performance management system and employee effectiveness. Therefore, banks should:

- Use the performance management for motivation purpose. Employees with better performance should be rewarded in such a way that other employees are motivated to achieve the targets. Employees with low performance should be encouraged and trained to improve their performance.
- Feedback must be provided so that employees can align their individual tasks with organizational goals and objectives.
- Employees should be involved in evaluation and planning process so that they can improve their performance to achieve set standards.
- Performance management should provide direction to employees towards career and personal development. In such endeavor banks can use the performance result in their training and development plan.
- Performance –reward relationship should be based on merit and shall include non-financial rewards such as promotion, recognition etc.

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ANNEX

Questionnaire

Introduction

The Questionnaire is designed to assess the performance management system of your Bank. This is purely an academic research and hence all the information supplied will be used for academic purpose and are kept confidentially. Therefore, please feel free to let the study get your valuable input.

Direction: The questionnaire is designed based on 5 point Likert scale. Please put a tick mark on the questions based on your level of agreement. SA= Strongly Agree, A= Agree, N= Neutral D= Disagree and SD= Strongly Disagree.

Section -A: General profile of Respondents

1. Sex Male Female

2.Experience
 Less than 1 year b. 1-5 years c. above 5 years

Section B: Performance Management System

	SA	A	N	D	SD
Developing and planning performance					
Does the Bank uses performance planning to encourage commitment and understanding by employees’ to work with the organization's goals and objectives?					
Are the performance objectives defined and agreed on?					
Does the planning and objectives setting done in a way to get commitment from employees and other stakeholders?					
Managing and reviewing performance					
Is there a practice of comparing actual with the desired performance?					
Are employees provided with feedback based on performance assessment ?					
Do supervisors provide the required coaching based on the performance assessment result?					
Rewarding Performance					
Is there a practice of using the performance assessment for personal development?					
Are performance assessment results linked to rewards?					
Does performance assessment contribute to enhance future performance result?					
Impact of performance management system in employee effectiveness					
Does the existing performance management system contributes to employee effectiveness?					

Comment if any.....