

Employee Performance Management System Practices and Challenges: A Case of Commercial Bank of Ethiopia

Abdurezak Mohammed Kuhil* and Tigist W Michael

College of Business and Economics, School of Commerce, Addis Ababa University, Ethiopia

Abstract

This research was conducted to assess the practices and challenges of employee performance management system (EPMS) at Commercial bank of Ethiopia (CBE), a leading commercial bank in the country by collecting evidences from Bishoftu district area. The study focused on how PMS process was practiced, identify the purpose and challenges faced while implementing performance management in the case organization. The study employed descriptive research method of study with stratified random sampling technique to select respondents and collected empirical evidences using questionnaire and interview. The study used both primary and secondary data for the study. The analysis was done by the help of SPSS and presented using descriptive statistics techniques. The research has confirmed that CBE has good qualities in practicing clearly by defining the mission, vision and values and developing strategy map. However, the study identified that the EPMS of the CBE has limited awareness and trainings concerning the purpose, requirements and implications of PM (performance management) among employees; lack of trust and continuity of the system; lack of regular feedback and coaching to improve performance, subjective supervisor assessment. Based on the gap, the study has recommended to the management to improve employee's participation in the process, to avail adequate and timely trainings concerning all aspects of the EPMS, revise performance standards and measures to minimize subjectivity and inappropriateness; enhance the involvement and ownership of employees via promoting transparency and equip them with the required knowledge, skill and resources, provide regular feedback and coaching. Furthermore, it has been suggested that CBE shall make the evaluation criteria objective, conduct the evaluation at the right time and clearly articulate the end-to-end implication of good as well as poor performance. The study was limited to empirical data collected from one district of the case bank, however as the HRM policy of the bank is same throughout the bank system the data is expected to be valid.

Keywords: Employee performance management; Commercial bank of Ethiopia; Performance management

Introduction

Performance management system has become the backbone of any organization specifically in competitive industries like banking, pharmacy etc. wherein increasing cut throat competition is new buzzword and survival of the fittest has become the realities of the day [1]. Performance management is a total company system, built into all HR activities concerned with looking to the future, to improvements, challenges and opportunities. Performance management is a continuous process, integrated totally with the way the organization is run [2]. Performance management system is considered to be one of the strongest tools for developing human asset as it lays the foundation for training, promotion, career planning and competency mapping etc. [1].

Performance management is a means of getting better results by providing the means for individuals to perform well within an agreed framework of planned goals, standards and competency requirements [3]. It exist for establishing shared understanding about what is to be achieved, and for managing and developing people in a way that increases the probability that it will be in the short and longer term [4].

Performance management requires that managers ensure that employees' activities and outputs are congruent with the organization's goals and, consequently, help the organization gain a competitive advantage. Performance management therefore creates a direct link between employee performance and organizational goals and makes the employees' contribution to the organization explicit [3].

Stredwick [2] demonstrated the importance of employees' performance management as: "To all intents and purposes, an

organization is judged by its performance. Organizations can perform well or poorly due to external forces however, the majority of economists and commentators agree that the biggest influence on organizational performance is the quality of the labor force at all levels of the business. Teams of highly skilled, trained and motivated employees will nearly always overcome most of the difficulties created by external forces while a poorly motivated, untrained and unskilled labor force will nearly always fail to take advantage of favorable external opportunities. Given this situation, it could be argued that the most important role for human resources (HR) is to raise the performance of employees in the organization. To do this, employees' performance has to be managed and this is not an easy job".

Improved individual employee performance could improve organizational performance as well. Therefore, employee performance could be simply understood as the related activities expected of a worker and how well those activities were executed. Then, many business personnel directors assess the employee performance of each staff in order to help employees identify areas for improvement.

***Corresponding author:** Abdurezak Mohammed Kuhil, Assistant Professor, College of Business and Economics, School of Commerce, Addis Ababa University, Ethiopia, Tel: +251-911238889; E-mail: m.abdurezak@yahoo.com

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Putting in place an effective employee performance management process and system takes more than procedure and documentation. It takes strong commitment from all stakeholders more importantly employees who are major participants in the process and also practice the procedure and documents in action. Therefore, it is important to assess how performance management is practiced and also investigate challenges i.e., lack of alignment, commitment, measurements faced by the system in order to improve both performance and the system implemented.

Statement of the problem

It is well known that an organization achieves the desired objective having resources like materials, information, capital and human resources. People as human assets are the “glue” that holds all the other assets, such as financial and physical ones, together and guides their use to better achieve results. Many organizations have identified that having their human resources as core competencies differentiates them from their competitors and is a key determinant of competitive advantages [5].

Without human resource other factors of production are useless and idle. Compared to other factors of production Human resources is the only factor of production which produces more than its input, mobile, can be motivated, gains more knowledge and skilled in the long run, where the other resources goes depleting [6].

Increasing competition from businesses across the world has meant that all businesses must be much more careful about the choice of strategies to remain competitive. Everyone (and everything) in the organization must do what is supposed to be done to ensure strategies are implemented effectively. This situation has put more focus on effectiveness, that systems and processes in the organization be applied in the right way to the right things to achieve results. Performance management provides the way to managers to overcome and improve the sudden changes very soon [7].

Therefore, in this competitive environment the need for improved performance of each individual and teams working together to achieve organizational goals is the key to competitive advantage. To ensure market competitiveness performance management system is highly desired to develop the capacity of the employees and inspired them to put maximum effort in the realization of organizational goals.

The overall purpose of performance management is to develop and improve the performance. In addition, managing the performance of employees will contribute a lot to the overall performance of the organization. As a result, it is important to assess the actual practice of performance procedure and document and also challenges which is faced in the performance management system.

This research thus is initiated with the intention to assess practices and challenges of employee performance management at Commercial Bank of Ethiopia (CBE) in Bishoftu area. CBE is committed to best realizing of stakeholders’ values through enhanced financial intermediation globally and supporting national development priorities by deploying highly motivated, skilled and disciplined employees. The development of the bank and expanding bank industry in the country leads to the needs to highly qualified and competent human resource in the industry. Therefore, CBE needs a well developed and implemented performance management system to be competitive in the international market, to enhance the performance of its employees and to provide highly motivated, skilled and disciplined employees to the industry. Many organizations install performance management systems

formally and informally in their organizations, with the motivation to achieve better organizational results. In practice, organizations have difficulty in implementing a performance management system because its different dimensions are not taken into considerations enough [8].

Objectives of the research

The general objective of this study will be to find out the practices and challenges of performance management at Commercial bank of Ethiopia and to suggest possible solution for the actual problems.

The main objectives of this study are as follows.

- To investigate the performance management practices in the Bank.
- Identify the purpose of performance management system in CBE.
- To assess the challenges faced while implementing performance management system.

Research questions

In this study attempt will be made to addresses the following research questions:

1. How does employee performance management system is practiced in the bank?
2. What purpose does the performance management system have in CBE?
3. What are the challenges in implementing employee performance management system at the bank?

Literature Review

Performance management

Often performance management is confused with one of its key components-performance appraisal. Performance management is a series of activities designed to ensure that the organization gets the performance it needs from its employees [5]. Mathis and Jackson [5] define performance appraisal as the process of determining how well employees do their jobs relative to a standard and communicating that information to them. According to Armstrong and Baron [9], performance management is a strategic and integrated approach to delivering sustained success to organizations by improving the performance of the people who work in them and by developing the capabilities of teams and individual contributors.

Armstrong and Baron [9] further elaborated that PM is: as strategic in the sense that it is concerned with the broader issues facing the business, concerned with performance improvement in order to achieve organizational, team and individual effectiveness, and concerned with development, which is perhaps the most important function of performance management. Organizations, as stated by Lawson [10], have to get the right things done successfully. Performance is not only about what is achieved but also about how it is achieved.

Purposes of performance management

Information collected by a PMS can be for different purposes. Aguinis [3] asserted that performance management system can serve for the following purposes: strategic, administrative, information, developmental, organizational maintenance, and documentation.

By linking the organization’s goals with individual goals, the

performance management system reinforces behaviors consistent with the attainment of organizational goals. A second function of performance management systems is to furnish valid and useful information for making administrative decisions about employees. Performance management systems also serve as an important communication device. Feedback is another important component of a well-implemented performance management system. Managers can use feedback to coach employees, for the identification both of strengths and weaknesses and of the causes of performance deficiencies. The fifth purpose of PMS is to provide information to be used in workforce planning. Workplace planning is a set of systems that allows organizations to anticipate and respond to needs emerging within and outside the organization, to determine priorities, and to allocate human resources where they can do the most good. Finally, performance management systems allow organizations to collect useful information that can be used for several documentation purposes.

Stages of employee performance management

Zhang [11] has elaborated the EPM frame work incorporated the steps; developing and planning performance, managing and reviewing performance, and rewarding performance. Otley [12] also mentioned five points of developing the framework for organizational performances, which are key objectives, strategies and plans with the assessment or the measurement, target setting, information flows, and reward/punishment.

However, though there are differences in the approaches to draw the frame work by the scholars as disclosed above, the essence of the major steps of the performance management system incorporates the preparation step; performance planning step; the performance appraisal (evaluation) step; the rewarding and development; the need for continuous communication, coaching and feedback; and the data tracking, observing and documentation at which the absence of one of these steps and tasks affects negatively the effectiveness of the performance management system.

Prerequisites/preparing to start the process

According to Bacal [13], this step has incorporated the two dimensions, first; gathering the information and data needed to set meaningful and measurable goals for each staff member, and secondly; preparing and educating staff.

Torrington et al. [14] also agree that there is an assumption that before organization is able to plan and manage individual performance the organization will have to made significant steps in identifying the performance required of the organization as a whole. In most cases this involves a mission statement so that performance is seen within the context of an overriding theme and also strategic business objectives that are required within the current business context to be competitive and align with the organization's mission statement. Therefore, before implementing performance management system prerequisites: identifying mission, strategic goal and job in position are necessary.

Performance planning/developing and planning performance

Developing and planning performance refers to the step where the goals and targets of individual employees are set by the involvement of both managers or supervisors and individual employees, and is also as motivational process which gives the feeling of being involved and sense of ownership for employees. In this step, the required competencies in line with the expected performance are also clearly defined, and standards set by objectively creating an environment

in which an employee will be measured according to his or her own performance and output. According to Schneider et al. [15], it is in this step that individuals' goals and targets are linked with that of the organizations goals and objectives.

As summarized by Torrington et al. [14] individual objectives derived from team objectives and an agreed job description can be jointly devised by manager and employee. These objectives are outcome/results oriented rather than task oriented, are tightly defined and include measures to be assessed. The objectives are designed to stretch the individual, and offer potential development as well as meeting business needs.

Performance targets should be SMART enough since this step of the performance management process is an essential step in laying the ground work for effective review of performance at the end of the performance appraisal period. The term SMART refers to: Specific, Measurable, Attainable, and Realistic and Time-bound objectives, respectively [4].

Performance execution

Once the performance management cycle begins, employees strive to produce the results and display the behaviors agreed on earlier as well as to work on development needs. At the performance execution stage [3]; the following factors must be present: Commitment to goal achievement, on-going performance feedback and coaching, communication with supervisor, collecting and sharing performance data and preparing for performance reviews. Employees must be committed to the goals that were set. One way to enhance commitment is to allow the employee to be an active participant in the process of setting the goals.

Although the employee has primary responsibilities for performance execution, the supervisor also needs to do his or her share of the work [16]. While the employee is working to achieve the performance agreed, the manager retains a key enabling role which includes organizing the resources, providing off-job training, dealing with unforeseen barriers, sharing 'inside' information, on-going coaching and constructive feedback [14]. Smither and London [16] also stated that Supervisors have primary responsibility over the following issues: Observation and documentation, to Update objectives, standards, key accountabilities and competency areas, feedback on progression toward goals and coaching to improve performance, provide employees with resources and opportunities, reinforcement (supervisors must let employees know that their outstanding performance is noticed by reinforcing effective behaviors and progress toward goals).

Performance assessment

Performance assessment remains an essential part of managing an organization and the people within it. The crucial parts of the assessment process are to provide accurate feedback of assessment and to link assessment to jobs and organizational objectives [17].

Aguinis [3] summarizes the importance of performance assessment and involvement of employee and managers as: 'At the core of any performance management system is the assessment of performance. This also includes an evaluation of the extent to which the goals stated in the development plan have been achieved. It is important that both the employee and the manager take ownership of the assessment process. When both the employee and the supervisor are active participants in the evaluation process, there is a greater likelihood that the information will be used productively in the future. Employee involvement in the

process increases employee ownership and commitment to the system. In addition, it provides important information to be discussed during the performance review, which is discussed next’.

Reviewing performance/performance appraisal

According to Cardy and Leonard [18] performance appraisal is a process of assessing the performance and progress of an employee, has also further elaborated as an evaluation process of judging the worth of demonstrated performance with respect to the good and bad aspects of the performance exhibited by an employee, which necessitates observing of employees and establishing of performance standards and criteria.

This stage involves the meeting between the employee and the manager to review their assessments. The meeting is important because it provides a formal setting in which the employee receives feedback on performance and regarded as a review of the past, that is, what was done (results) and how it was done (behaviors) [16]. Torrington et al. [14] also demonstrated regular formal reviews are needed to concentrate on developmental issues and to motivate the employee. Also, an annual review and assessment is needed, of the extent to which objectives have been met and this may well affect pay received.

Development plan

Stredwick [2] mentioned Development can take two forms, the first is career development where performance data can influence, often decisively, promotion decisions and the second is a personnel development plan for the employee to help those areas where performance is weak. In other words, the performance management system acts as a training needs analysis. Smither and London [16] also described good development planning as a critical part of successful performance management and it is important for the supervisor and employee to agree on a development plan before review cycle.

Reward of performance

Tyson [19] summarizes that reward: ‘The reward review is the process whereby managers have to decide who deserves increments,

bonuses and other tangible incentives based on individual performance. It is a potentially uncomfortable and contentious situation because inevitably there will be winners and losers and the potential exists for charges of unfair treatment. These problems are always likely to occur, however sound scheme may be, but it is obviously vitally important to give thought in preparation and practice to ensure that any scheme for reward review is as fair and efficient as it can be’.

PMS seek to link rewards to performance after conducting performance evaluations. Performance management process should reinforcing good performance with appropriate reward and recognition, and dealing appropriately with performance deficiencies. The organization needs to define performance and performance expectations, measures; use only available rewards and make them visible; make sure that all employees are eligible; make rewards timely and contingent to the performance; use non-financial rewards and last but not list makes rewards reversible [20].

Challenges of performance management system

The performance management challenge in organizations has many dimensions in today’s business environment and creating focused initiatives to overcome these challenges is not a silver bullet approach. Challenges of PMS includes: lack of alignment, lack of measurements/ poor measures, leadership and management challenge, managing of the performance system managing poor performance and skill gap.

Conceptual framework

The conceptual frame work below shows PMS cycle.

Research Methodology

Description of the study area

The study is limited to the Commercial Bank of Ethiopia which only on branches existing at Bishoftu city, on branches which have been implementing performance management at least more than a year (Figure 1).

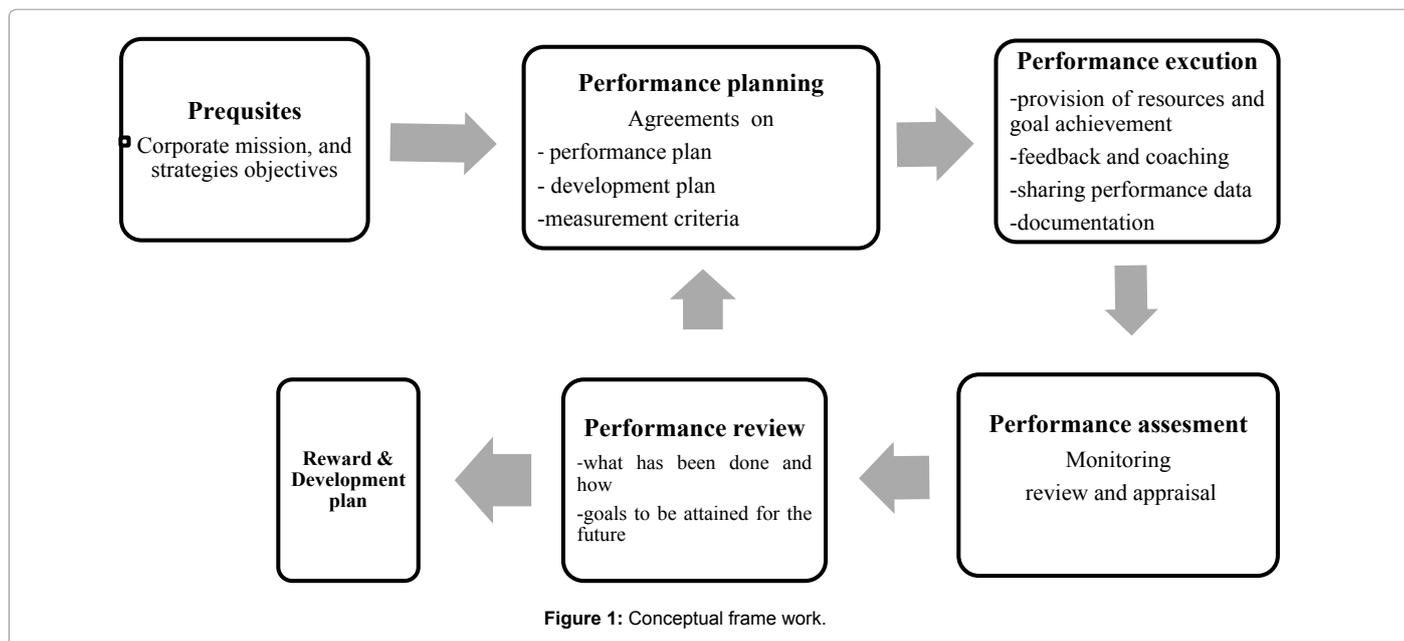


Figure 1: Conceptual frame work.

Research design

This study used a descriptive type of research that sets out to assess employee performance management practices and challenges in Commercial Bank of Ethiopia as it exists. The major purpose of this type of research is description of the state of affairs as it exists at present [21].

Research approach

This study has used mixed method to combine quantitative and qualitative results. A mixed methods approach is one which employs strategies of inquiry that involve collecting data either simultaneously or sequentially to best understand research problems [22].

Population and sample

The total population considered under this study is all employees of Commercial Bank of Ethiopia. CBE has more than 1250 branches stretched all over Ethiopia; it will be unrealistic to even consider that this study will have to embrace all this branches. The target population in this study includes staffs of six branches around Bishoftu area which consists 205 employees altogether.

The research used stratified random sampling method to select samples from the target population. According to Saunders et al. [23], dividing the population into a series of relevant strata means that the sample is more likely to be representative, which can ensure that each of the strata is represented proportionally within the sample. This study has applied a purposive sampling technique to select interviewees who are directly responsible with PMS. The sample size is determined by using Yamane [24] a simplified formula to calculate sample sizes as quoted in Israel, 2013. Therefore, by using the sample size calculation formula, the researcher has determined the total sample size and for respective divisions proportionally. As a result, the total sample from target population of 205 for this study was 136 employees. The sample respondents in this study included employees of six branches around Bishoftu area in South-Addis district of the bank. The respondents have more than five years of experience working for the bank with educational qualification of BA (81.34%), 11.11% of the employees have MA and only 7.55% of the respondents have less than first degree. These characteristics of the respondents have positive contribution on the quality of evidences.

Data sources and types

This study used both methods of collecting data: primary and secondary. The primary data happen to be original in character (interview and questionnaires) and secondary data on the other hand (performance management system policy and procedure of CBE, annual reports, brochures, organizational booklet, Journal and magazine articles), are those which have already been collected by someone else [25].

Reliability and validity

To raise the validity of the research, questionnaires were prepared according to literature reviewed and questionnaires were distributed and collected by the researcher in order to maintain its validity. Reliability refers to whether or not to get the same answer by using an instrument to measure something more than once. 'Instruments' can be things like machines (apparatuses), scales, or can be questionnaire [26]. Therefore, Cronbach's alpha value of 0.92 was obtained after inputting the data into SPSS application, which indicated that the acceptable values of alpha is ranging from 0.70 to 0.95.

Data analysis

The data gathered from questionnaire was summarized and analyzed by using descriptive statistics like frequency, percentage and mean. Then the data was described using tables for more clarification.

Findings

This study has found out the major purposes of EPMS implemented in commercial bank of Ethiopia. The respondents agreed that the employee performance management system implemented in the bank has linked the organization's goals with individual goals. It also enables to inform employees how they are doing and provide information to be used in workforce planning and determine who gets promoted and salary increment. Though, the system creates communications between the employees and their supervisor or managers, according to the respondents the system in the bank is not adequately defined in the organization. Furthermore, provision of information on specific areas that may need improvement for employees and documentation of important personnel decisions through the system are not adequate enough. This reveal that trainings that are aimed at equipping managers with the basic concept and purpose as well as process of performance management system are not enough, though the managers confirm that they do have the knowledge, skills, and abilities necessary to manage performance.

Based on the data collected from interviewees, the employee performance management system links employees' and organizations goal. It also helps to link employees' performance with organizational objectives and goals. And with regard to the prevailing condition on the purpose of PMS aspect as disclosed by the respondents include: limited awareness and trainings concerning the purpose, requirements and implications of performance management; lack of trust and continuity of the system due to its newness and limited orientation; resistance to change and implementation not supported by change management. The respondents also implied not updated job descriptions.

This study has also tried to assess the performance management practices in the Bank, according to participants' response, majority of the employees at CBE are clear with the banks' mission and vision, and also goals and activities, tasks, products, services, and processes of their job. But still there are a number of employees who are not familiar with goals and activities, tasks, products, services, and processes of their job.

In performance planning, respondents have agreed that the overall strategic objective is properly aligned to units and individuals objectives. Respondents are also clear about what is expected from them, their job responsibilities and also there is an agreement on what the role holder/individual has to achieve with management.

In the execution stage, employees responded, most of them fail to get frequent feedback on performance and Coaching to improve performance from their supervisor or manager.

According to respondents in the assessment stage of PMS, employee performance is assessed based on the agreed plan but biased supervisor assessment to performance exists. In addition, respondents review conducted with supervisor is not focused on the contribution, capability and on continuous development.

After performance assessment, any identified shortfall or gap is addressed by providing the required training for the assessed employee. In addition to the trainings, good performances are often reinforced by rewarding employees for their good performance. As employees responded there is personnel development plans somehow

that provide an action plan to improve areas of weaknesses and there are development activities. Regarding to reward most of respondents disagree that the system links reward to performance and above half of the respondents agree reward is not administered close to performance.

Based on the responses given by employees, there are different challenges encountered during employee performance management system implementation. This includes; giving different goals for similar positions (employees are not treated equally by the system with same job grade), there is no fair job rotation in the bank, poor resource allocation (Resources are not provided to enable employees to perform) and PMS doesn't treat employees equally/it favors some areas of work which contribute to unequal promotion opportunity.

Most of the respondents also feel that poor measures are developed. Other challenges include no link between performance and reward, results of PMS not used for other purposes other than record keeping/identifying best performer and Lack of knowledge about PMS.

Conclusions

Based on the findings of the study the following conclusions are made. EPMS implemented in commercial bank Ethiopia has made employees know the strategic objective of the bank and objective of their work unit very well, be clear about what is expected from them and their job responsibilities.

On the other hand, EPMS has faced some constraints/problems; a tendency giving unbalanced goals for similar positions with equal job grades, no fair job rotation among employees, no sufficient resource allocation to execute job properly, poor measures are developed, PMS doesn't treat employees equally/it favors some areas of work which contribute to unequal promotion opportunity, no link between performance and reward, results of PMS not used for other purposes other than record keeping/identifying best performer and lack of knowledge about PMS.

This study also reaches on the conclusion that, employees feel they are clear with their roles and responsibilities. However, according to the respondents the performance management system in the bank is not adequately defined in the organization. Furthermore, provision of information on specific areas that may need improvement for employees and also documentation of important personnel decisions through the system are not adequate enough.

The study found that among EPMS, performance planning has been implemented relatively in a good manner, employees are well aware of the system and they have good knowledge about overall strategy of the bank, goals and targets of their work units. The bank is not providing opportunities to their employees to participate in the planning performance goals and objectives. However, in the areas of setting SMART goals and targets as well as defining objective measures, and subjectivity due to lack of properly recorded trend data that leads to leave some tasks unplanned, it is noted that the bank needs to mitigate these gaps as early as possible so as to ensure effectiveness of the performance planning activity on continuous basis.

In the performance execution stage, even though their performance is regularly assessed based on the agreed plan/target, employees fail to get frequent feedback on performance, fail to get frequent coaching to improve performance from their supervisor or manager and they are not provided sufficient resources to execute their jobs.

In the assessment stage, the study found that in this stage employee performance is assessed based on the agreed plan but biased supervisor

assessment to performance exists is not objective oriented. In addition, respondents review conducted with supervisor is not focused on the contribution, capability and on continuous development. Regarding performance review, there is a meeting between managers and employees to review their results after they made performance evaluation. However, performance evaluation is not attached with reward and recognition schemes. Therefore, it is impossible to say that all PMS processes are trustworthy and right in the bank. The study addressed all the research questions raised in this study.

Recommendation

On the basis of the findings and conclusions reached, the following recommendations are forwarded in order to improve the PMS and its practices in CBE found in Bishoftu city.

- The performance management system of the bank should be designed in such a ways that it is future oriented and focused on the long term developmental benefits rather than focusing on the controlling aspect only which is short term in nature.
- The bank needs to implement training and development interventions ensure that the users of the performance management system are aware of PMS with the perspective of getting employees partnership and understanding to equip employees with the basic requirements that help them to accomplish their task as expected.
- CBE have to create a situation where employees can prepare their own SMART goals, participate in the discussion and to take ownership of the plan agreement.
- The supervisors should provide continuous feedback on the progress of performance towards the achievement of the goals of the organization which allows employees to improve performance from time to time.
- In order to have sufficient information about employee's performance and reporting their status as well as to have the expected output on performance information reporting and utilization, CBE have to have performance management process more flexible and reliable and also to reduce the possible bias from supervisors.
- The bank needs also to pay more attention to the performance execution stage; by providing on-going feedback and coaching, providing resources to perform job properly and by communicating Changes in initial objectives, standards, key accountabilities and competency areas regularly.
- The bank has to make sure that equal jobs are assigned for equal positions for the sake of fairness among employees and also the bank has to implement fair job rotation and provision of equal resources for all employees.
- In order to motivate the employees, also to encourage good performance the bank must integrate performance management system with reward (benefit packages). After performance assessment, any identified shortfall or gap should be addressed by providing required training for the assessed employee.
- Furthermore, the bank has to be making sure that equal jobs are assigned for equal positions, prevailing fair job rotation.

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