



**ST. MARY'S UNIVERSITY**  
**SCHOOL OF GRADUATE STUDIES**

**ASSESSMENT OF PERFORMANCE APPRAISAL PRACTICE AT  
OROMIA INTERNATIONAL BANK**

**BY**  
**MULUKEN ABEBE**

**MAY, 2018**  
**ADDIS ABABA**

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**ST. MARY'S UNIVERSITY**  
**SCHOOL OF GRADUATE STUDIES**  
**SCHOOL OF BUSINES**

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**APPROVED BY BOARD OF EXAMINERS**

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## **List of Acronyms/Abbreviations**

<b>BARS</b>	:	Behaviorally Anchored Rating Scales
<b>BOS</b>	:	Behavioral Observation Scales
<b>HR</b>	:	Human Resource
<b>HRM</b>	:	Human Resource Management
<b>MBO</b>	:	Management by Objective
<b>OBM</b>	:	Organizational Behavior Modification
<b>OIB</b>	:	Oromia International Bank
<b>PA</b>	:	Performance Appraisal
<b>PM</b>	:	Performance Management
<b>ProMES</b>	:	Productivity Measurement and Evaluation System

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## **Abstract**

The study aims at assessing the overall performance appraisal practice of Oromia International Bank. It looks through how performance appraisal was conducted, design and evaluated. Data were collected through questionnaire and interview. The data were gathered combination of both unstructured interviews with higher level managers and questionnaire addressed to the employees of the organization. The data received were analyzed both qualitatively and quantitatively by using descriptive statistic. Total of 304 employees have been taken as a sample and the response rate was 98%. The bank does not follow standards of appraisal process and the performance standards of the bank addresses issues such as quantity, quality, timelines, cost effectiveness and strategic relevance but it fails to address the extent to which individuals tend to maintain certain level of performance over time. The Bank also faces problems on its performance appraisal practice, some of them are rater's error and the remaining is the problem of the system. Performance review discussion does not take place in the case company unless an employee comes up with grievances. Generally the outcome of the research confirmed that the performance appraisal practice of the Bank needs improvement.

### **Key words**

**Performance Appraisal, Performance Standard, Clerical Employees, Non Clerical Employees**

## **CHAPTER ONE: INTRODUCTION**

The first chapter serves as an introduction to the research under review and give broad summery of the backgrounds of the study, the problem statement, objective of the study and research questions. The scope of the study, the significant of the study and limitation are also covered in this chapter. The definitions of key terms are stated and finally the structure of the thesis is outlined.

### **1.1. Background of the Study**

Performance management is one of the cornerstones of Human Resource practice in organizations. No matter where you work, how big or small your organization or how simple or complex the business model, effective performance management is a key requirement if you have any number of employees (Allan H. Church and Janine Waclawski, 2009). According to the definition the basic thing for human resource management, which helps the organization to be success on its objective, is performance management.

There are several important HRM practices that should support the organization's business strategy: analyzing work and designing jobs, determining how many employees with specific knowledge and skills are needed, attracting potential employees, choosing employees, teaching employees how to perform their jobs and preparing them for the future, evaluating their performance, rewarding employees, and creating a positive work environment. An organization performs best when all of these practices are managed well. At companies tend to be more innovative, have greater productivity, and develop a more favorable reputation in the community (Noe et al, 2011).

Performance management is an ongoing process that identifies measures, manages, and develops the performance of people in the organization. It is designed to improve worker performance over time. Performance appraisal is the part of the performance management process that identifies, measures, and evaluates the employee's performance, and then discusses that performance with the employee (Aguinis, 2009).

According to Armstrong (2009) performance appraisal defined as it is formal, structured system of measuring, evaluating job related behaviors and outcomes to discover reasons of performance

and how to perform effectively in future so that employee, organization and society at a large will benefited.

Performance Appraisals is the assessment of individual's performance in a systematic way. It is a developmental tool used for all round development of the employee and the organization. The performance is measured against such factors as job knowledge, quality and quantity of output, initiative, leadership abilities, supervision, dependability, co-operation, judgment, versatility and health (David A. Decenzo, 1999).

Performance management is continuous process of identifying, measuring, and developing the performance of individuals and teams and aligning performance with the strategic goals of the organization. The process starts from prerequisites, knowledge of the organization's mission and strategic goals and knowledge of the job in question (through job analysis) follows by performance planning, to define the goal for employees to have a thorough knowledge of the performance management system then after performance execution is there, make sure the employee strives to produce the results and display the behaviors agreed on earlier as well as to work on development needs. After that performance assessment comes and here the employee and the manager are responsible for evaluating the extent to which the desired behaviors have been displayed, and whether the desired results have been achieved. Before the final stage there is performance review and this stage involves the meeting between the employee and the manager to review their assessments. This meeting is usually called the appraisal meeting or discussion.

Finally renewal and re-contracting stage exist although this is identical to the performance planning component. The main difference is that the renewal and re-contracting stage uses the insights and information gained from the other phases. For example, some of the goals may have been set unrealistically high given an unexpected economic downturn. This would lead to setting less ambitious goals for the upcoming review period (Aguinis, 2009). Note that the key components of this definition are that this is a continuous process and that there is an alignment with strategic goals. If a manager fills a form once a year because this is a requirement of the HR cops, then this is certainly not a continuous process. Also, evaluating employee performance (that is, performance appraisal) without clear considerations of the extent to which an individual

is contributing to unit and organizational performance and about how performance will improve in the future is also not consistent with this definition of performance management.

## **1.2. Statement of the Problem**

Performance appraisal is a formal system of periodic review and evaluation of an individual's job performance. It occurs constantly in both public and private organizations. When it is properly done, performance appraisal provides feedback to employees that will improve their performance and thus organizations also benefit by ensuring that employees' effort and ability make contribution to organizational success.

Organizational performance is the synergetic sum total of the performance of all employees in the organization. This being the fact, employee performance has to be closely planned, coached and appraised to ensure that it is in line with the interest of organizations. However, it seems that performance appraisal is not given the proper attention by Oromia International Bank and is exercised periodically more as a usual practice than as a tool of motivation on the basis of which various administrative and developmental decisions are taken.

The researcher inspired to fill the gap which problem occurred and complaints presented by the bank's staff at different levels following to the bank failed to do performance appraisal in a way of improving and encouraging employees due to evaluators are not be aware of the factors that can cause problems with the process.

The banking industry in Ethiopia has been experiencing an intense competition in the past few years. In connection with this fact, in order to gain competitive advantage over competitors in the industry the organization must carefully handle this sensitive issue of employee performance appraisal. Different researches indicate that one of the most critical inputs for a business is its people (human resources) from which a firm can develop sustainable competitive advantage.

Based on observations made by the researcher in different web sites and more than two years of experience even if there are a lot of researches that have been done regarding performance appraisal practice, there was no research that was done to assess performance appraisal practice in Oromia International Bank Share Company. Therefore in this study the researcher assessed performance appraisal practice in detail in Oromia International Bank Share Company.

### **1.3. Research Questions**

In order to answer the problem related to this research the researcher raised some questions which are related to the statement of problem and try to give appropriate answer.

- ✓ To what extent the performance appraisal linked with the bank strategic objective?
- ✓ What are the natures of employees' performance appraisal practices in OIB?
- ✓ What are the major challenges the bank faces in the process of performance appraisal?
- ✓ To what extent the performance appraisal of the bank meet its objectives?

### **1.4. Objectives of the Study**

The study has the following general and specific objectives.

#### **1.4.1 General Objective**

The major objective of the study is to assess performance appraisal practice in Oromia International Bank Share Company.

#### **1.4.2 Specific Objectives**

Specific objectives of the study are the following:-

1. To identify to what extent the performance appraisal practices are linked with objective of the bank.
2. To examine the nature of employees' performance appraisal practice in OIB.
3. To investigate the major challenges the bank face in the process of performance appraisal.
4. To assess to what extent the performance appraisal of the bank meets its objectives.

## 1.5. Definition of Terms

**Performance Appraisal (PA)** - is a method of evaluating the behavior of employees in the work spot, normally including both quantitative and qualitative aspects of job-performance (Rao, 2004).

**Performance Standard** –List of major duties that tells employee what is to be done and it provide the employee with specific performance expectation for each major duties.

**Clerical Employees-** are employees of the bank like Customer service officer, secretaries and clerks up to positions below Accountant or assistant branch managers.

**Non Clerical Employees-** are employees of the bank like janitors, messengers, securities, cash office boys/girls etc.

## 1.6. Significance of the Study

This paper tried to cover the performance appraisal practice of the study bank. The findings of this study expected to provide a lot of advantage for different organs. The major benefits of this study are the following;

- i. It helps students in the field and practitioners as a reference material to get deep insight with regard to performance appraisal practice as well as theory.
- ii. It informs the bank any gaps in its practice of performance appraisal and help to make the necessary adjustment.
- iii. It assists employees of the bank to know about how they are evaluated and to identify purposes of the performance appraisal of the bank and the study
- iv. It also serves as a criterion for the partial fulfillment of Master of degree in the field of graduate studies.
- v. It serves as a stepping stone for those who want to make further study on this topic.

## **1.7. Scope of the Study**

The study has focused on to the Oromia International Bank on employees who are working at Addis Ababa branches and Head office whose experience is at least one and more than one years. The study emphasizes on assessment of employee's performance appraisal practice in the bank. The study was only focused to the information and data gathered till the time frame of preparation of this paper. Geographically, the study was restricted in OIB operating Addis Ababa.

Since he study is conducted on one organization, the finding cannot be used as generalization to all organization however for organization with similar situation.

## **1.8. Limitation of the study**

The study focuses on assessing the overall performance appraisal practice of OIB and forwards the possible recommendation accordingly. However, the researcher faced the following difficulties while conducting the study;

- ✚ Late response and unreturned questionnaires by respondents
- ✚ Difficulty of accessing employees who are busy work place

## **1.9. Organization of the Paper**

This research has been contained five chapters. The first chapter presents background of the study and explains the research problem. The chapter addresses the research objectives to be achieved, the research question to be answered and briefly explain the importance of the research. It also presents the scope and limitation of the study. Chapter two focused on the review of literature of the theoretical finding from secondary source. Empirical studies have been assessed in this chapter to enable the construction of conceptual framework of this research. Chapter three describe how the research id carried out in terms of research design, population and sampling procedures, source of data, method of data collection, pilot testing–validity and reliability, the method of data analysis and ethical consideration. The result of analysis is presented in chapter four by using the data results generated from the procurers set in chapter

three. Finally chapter five deals with summary of major finding, conclusions, and recommendation.



## **CHAPTER TWO: REVIEW OF THE RELATED LITERATURE**

This chapter reviews different books articles published thesis and other secondary data to define and give background to the meanings and importance of performance appraisal, effective appraisal practices, and type of performance appraisal, appraisal process and challenges of appraisal.

### **2.1. Meaning and Definition of Performance Appraisal**

Before defining performance appraisal one has to know what Performance management is, therefore according to Armstrong (2009), Performance management is a systematic process for improving organizational performance by developing the performance of individuals and teams. It is a means of getting better results by understanding and managing performance within an agreed framework of planned goals, standards and competency requirements. Performance management is concerned with: aligning individual objectives to organizational objectives and encouraging individuals to uphold corporate core values; enabling expectations to be defined and agreed in terms of role responsibilities and accountabilities (expected to do), skills (expected to have) and behaviors (expected to be); providing opportunities for individuals to identify their own goals and develop their skills and competencies. (Armstrong, 2009) Performance Appraisal is defined by different scholars of human resource management in different time. Therefore, some theories of those scholars have been discussed as follows.

According to Longenecker, (1997) performance appraisal is two rather simple words that often arouse a raft of strong reactions, emotions, and opinions, when brought together in the organizational context of a formal appraisal procedure. Most organizations throughout the world regardless of whether they are large or small, public or private, service or manufacturing, use performance appraisal, with varying degrees of success, as a tool to achieve a variety of human resource management objectives. Organizations use different tools and have a number of goals for performance appraisals, often resulting in some confusion as to the true purpose of performance appraisal systems. However, at its core, the performance appraisal process allows an organization to measure and evaluate an individual employee's behavior and accomplishments over a specific period of time (Wiese and Buckley, 1998). Yong (1996) defines performance appraisal as "an evaluation and grading exercise undertaken by an organization on

all its employees either periodically or annually, on the outcomes of performance based on the job content, job requirement and personal behavior in the position”. Therefore, HR development, begins with the orientation of new employees, HR training and development, and also includes the necessary information to accommodate technological changes. Encouraging development of all employees including supervisors and managers is necessary to prepare organizations for future challenges. Career planning identifies paths and activities for individual employees as they develop within the organization. Assessing how well employees are doing their jobs is the focus of performance appraisal (Mathis and Jackson 1997). Furthermore, (Gomez-Mejia et.al.), stated that “performance appraisal as the process of identification, measurement, and management of human performance in organization.” Therefore, to make these effective organizations should develop a system that serve as a tool to performance appraisal process.

## **2.2. Purpose of Performance Appraisal**

Walsh and Fisher (2005) identified four purpose of performance appraisal:

- a. Provide feedback about strength and weakness
- b. Distinguish between individual to allocate rewards
- c. Evaluate and maintain the human resource system of the organization and
- d. Create paper trail of documentation

Even if Walsh and Fisher identified some of the major performance appraisal, their finding is not the full list also lacks elaboration. Performance appraisal can serve the following major purposes:

Appraisal can be used to improve current as well as future performance of employees, provide timely feedback, increase motivation, identify training needs, identify potential of the employee, let individual knows what is expected from them, focuses on career development, award salary increase and solve job problems. It can be used to set out job objective, provide information to human resource planning and career success, assess the effectiveness of the selection process and as a reward or punishment (Walsh and Fisher 2005).

We can also see the purpose of performance appraisal from two perspectives:

1. Necessary information for facilitating managerial decision related to personal functions.

2. From a development perspectives, appraisal has to do with ways that enhance employee ability and motivation

In the first perspective, the result of performance appraisal of employee can help the organization to decide well informed decision in the other area of human resource like human resource planning, recruitment and selection, training and development and compensation. The result obtained from formal performance appraisal in any organization setting can be based to evaluate and improve the effectiveness of the various human resource practices in the organization. More especially performance appraisal can serve the general purpose of improving the current as well as the future performance of employee through systematic rating of their performance on the job as well as enhancing their job satisfaction and organizational commitment according to the second perspective. These various benefit of performance appraisal justify the attention that must be given to the proper planning and implementation of workable performance appraisal system in all organization settings. It is quite clear that those organizations with proper performance appraisal system have a superior competitive advantage than those without it (Walsh and Fisher, 2005).

### **2.3. Performance Appraisal Process**

The basic purpose of performance appraisal is to make sure that employees are performing their job effectively. In order to realize the purpose of performance appraisal organizations should clearly plan appraisal system and follow a sequence of steps (Wether and Davis) as illustrated bellow;

1. Establish performance standard
2. Communicate standard to employees
3. Measure actual performance
4. Compare performance with standards
5. Discuss appraisal with employees
6. Take corrective action (Wether and Davis, 1996)

### **A. Establish Performance Standards**

The first step in appraising performance is to identify performance standards. A standard is allowed or specific criterion against which actual performance can be compared (Baird, et.al,1990). Employee job performance standards are established based on the job description. Employees are expected to effectively perform the duty stand in the job descriptions from the board criteria against which employee's performance is measured.

### **B. Communicating Standards to Employee**

For the appraisal system to attain its purpose, employee must understand the criteria against which their performance is measured. As (wether and davis, 1996), stand to hold employees accountable, a written record of the standard should exist and employees should be advised of those standards before the evaluation occurs. Providing the opportunity for employee clearly understand the performance standards will enhance their motivation and commitment towards their job.

### **C. Measuring Performance**

Once employees have been hired, their continued performance and progress should be monitored in a systematic way. This is the responsibly of the immediate boss to observe the work performance of subordinate and evaluate it against the already established job performance standards and requirements. The aim of performance measure is to detect departure from expected performance level (Wether and Davis, 1996).

### **D. Comparing Performance with Standards**

After evaluating and measuring employee job performance, it is necessary to compare it with the set standards to know whether there is deviation or not. When one compare performance with standard either performance match standard or performance does not match standards (wether and Davis, 1996)

### **E. Discussing Appraisal with Employees**

For the appraisal system to be effective, the employees must actively participate in the design and development of performance standards. The participation will enhance employee motivation,

commitment toward their jobs, and support of the evaluation feedback. In other words, employee must understand it, must feel it is fair, and must be work oriented enough to care about the result. After the evaluation, the rater must describe work related progress in a manner that is mutually understandable. According to (Baird Et.al 1990), feedback is the foundation up on which learning and job improvement are based in an organization. The rater must provide feedback on the result that the employee achieved that meet or exceed performance expectation. Reaction of positive and negative feedback varied depending on a series of variable such as;

- ✓ How highly the employee rate the evaluator
- ✓ The extent to which the employee has a positive self image and
- ✓ The expectancies the employee had prior to the evaluation; for example, did the employee expect good evaluation or bad?

#### **F. Initiating corrective Action**

The last step of performance appraisal is taking corrective action. The measurement has several alternatives after appraising performance and identifying causes of deviation from job related standards. The alternatives are,

1. Take no action
2. Correct the deviation
3. Review the standards

If problem identified is insignificant, it may be wise for the management to do nothing. On the other hand if there are significant problems, the managements must identify and analyze the reason why standards were not met. This would help to determine what corrective action should be taken. For example, the cause for weak performance can range from the employee job misplacement to poor pay. If the cause is poor pay, corrective action means compensation policy review. If the cause is employee job misplacements, corrective action would mean assign employee ton job related to his/her work experience and qualification. Finally, it is also important to revise the performance standards. For example, the majority duties stated in the job description and qualification related to do the job may not match. In this case the corrective action would mean to conduct job analysis to effectively determine the job description and job

specification. Hence, the evaluator would have proper guide that is performance standards that must explicit the quality and /or quantity of performance expected in tasks indicated in the job description (Chatterjee, 1995).

## **2.4. Performance Appraisal System**

Aguinis, (2005) indicated that performance management system usually include measures both behaviors (what an employee does) and results (the outcomes of an employee's behavior). In order to realize the purpose of performance appraisal, organizations should carefully design appraisal system and implement accordingly. According to Gomez-Mejia (2001), the first step in the performance appraisal process is identifying what is to be measured. This process seems fairly simple at first glance. In practice, however, it can be quite complicated.

Identification of performance dimensions is the important first step in the appraisal process. If a significant dimension is missed, employee morale is likely to suffer because employee who do well on that dimension is missed, employee will not be recognized or rewarded. If an irrelevant or trivial dimension is included, employees may perceive the whole appraisal process as meaningless. The second step in performance appraisal process is measuring employees' performance. Measuring employee performance involves a number to reflect an employee's performance on the identified characteristics or dimensions. Technically numbers are not mandatory. Label such as "Excellent", "Good", "average" and "Poor" might be used instead. Assessment of Employee's performance Appraisal Practice: The Case of Oromia International Bank S.C

### **2.4.1 Approaches of Performance Appraisal**

Numerous techniques for measuring performance have been developed over the years. According to Gomez-Mejia, (2001), Techniques of measuring performance of employees involve wide array of appraisal formats from which to choose. Here we discuss the formats that are most common legally defensible. These formats can be classified in two ways: (1) the type of judgment that is required (relative or absolute), and (2) the focus of the measure (trait, behavior, or outcome). PA roots in the early 20th century and its existence consists of different approaches in its history. The three approaches that deal with PA are presented below. (Heneman et.al.1996).

**The Traditional Trait rating Scale Approach:** involves rating an individual's personal traits or characteristics. Commonly assessed traits are: initiation, decisiveness and dependability. Although the trait approach is widely used by managers and it is generally considered by experts to be the weakest. It contains different method during application.

**Behaviorally Anchored Rating Scale Approach: is done on job –by-job basis.** The steps in developing a behavioral anchored rating scale are both time consuming and rigorous. It contains different method, during application.

**Management by Objectives Approach:** focuses on the product of one's efforts. It is the most common format for the results approach. Also, it contains different methods during application. (Henenman et al. 1996).

#### **2.4.2. Effectiveness of Performance Appraisal systems**

To meet the vision, mission, objective, goals and targets of an organization or an institution, everyone should set clear and precise methods of PA system objectivity. If so, effective output of PA system leads an organization to prosper specially, in the environment where formal learning and other similar activities are held. As a result of, every employee's awareness leads to set and control how to implement effective PA system. Nelson and et.al (1997) discusses that an effective PA system has about five main characteristics.

**Validity:** Comes from capturing multiple dimensions of person' job performance.

- ✓ **Reliability:** comes from capturing evaluation from multiple sources and at different times over the course of the evaluation period.
- ✓ **Responsiveness:** allows the person being evaluated some input in to the final outcome.
- ✓ **Flexibility:** it opens to modification based on new information such as federal requirements.
- ✓ **Equitableness:** results in fair evaluations against established performance criteria, regardless of individual differences.

Again clear and very important statements, about the effectiveness of PA system are expressed by Mathis and Jackson (1997) as follows. An understanding what an appraisal is supposed to do is very critical whichever of the method is used. It usually works if PA is used to develop employees as a source. When management uses appraisal as a punishment or when raters fail to understand its limitations it fails.

What and whichever the appraisal method is used, the main point is that managers and employees must understand the purposes of PA system. So, consistent with the strategic mission of the organization, useful as an administrative tool, legal as development tool, as documentation of employees' performance are points of chances to be obtained if and only if PA is practiced properly".

### **2.4.3 Time to Conduct Performance Appraisal**

In any administration activity of an organization, PA also has its own time to be conducted. Everyone in the organization has his/her own time to conduct PA depending on their own philosophy of time period (Mullins 1996) with the majority of schemes, staff receives an annual appraisal and for many organizations this may be sufficient. Also more frequent appraisals may be appropriate for new members of staff, those recently promoted or appointed to a new position or for those whose past performance has not been up to the required standard. And also Mathis and Jackson (1997) broadly explained as follows: First an informal appraisal is conducted whenever the supervisor feels it is necessary. The day-to-day working relationships between a manager and an employee performance have to be judged. This judgment is communicated through conversation on the job or over coffee or by on-the-spot examination of a particular piece of work. Informal appraisal is especially appropriate when time is an issue. The longer feedback is delayed the less likely it is motivating behavior change. Frequent information feedback of employee can also avoid surprises (and therefore problems) later when the formal evaluation is communicated. Second, a systematic appraisal is used when the contact between manager and employee is formalized and a system is established to report managerial impressions and observations on employee performance. Although informal appraisal is useful, it should not take the place of formal appraisal. Both employees and managers are aware that performance will be reviewed on a regular basis, and they can plan for performance discussions.



In addition, informal appraisals should be conducted whenever a manager feels they are desirable.

#### **2.4.4 Responsible Body to Conduct PA**

PA is the most significant activity of an organization. If the right persons are not assigned to process PA activities, then the strategic objectives of organization is seriously affected. Tosi, Rossi and Carroll (1986) said (wrote) as follows: It has been department and for certain purposes, self-ratings are used.” Additionally, Mathis and Jackson, (1997), also wrote as follows: Again performance appraisal can be done by any one of familiar with the performance of individual employees. Possibilities are including the following.

- Supervisors who rate their employees
- Employee who rate their supervisors
- Team members who rate each other
- Outsider sources
- Employee self-appraisals
- Multi-score (360°) appraisal

#### **2.4.5. Performance Appraisal Criteria**

According to Armstrong (2009), the criteria for reviewing performance should be balanced between: achievements in relation to objectives; the level of knowledge and skills possessed and applied (competences or technical competencies); behavior in the job as it affects performance (competencies); the degree to which behavior upholds the core values of the organization; day-to-day effectiveness. As Mathis and Jackson (1997) stressed, performance criteria are standards commonly used for testing or measuring performances. Criteria for evaluating job performances can be classified as trait-based, behavioral based, or results based.

Trait based criterion: identifies a subjective Character trait such as “pleasant personality”, “initiative,” or “creativity and has little to do with the specific job. Such traits tend to be ambiguous, and courts have held that evaluation based on traits such as “adaptability” and general demeanor” are two vague to use as the basis for performance-based HR decisions.

**Behavior-based Criterion:** focus on specific behaviors that lead to job success.

**Results-based Criterion:** look at what the employee has done or accomplished. For some jobs where measurement is easy and appropriate, a result based approach works very well.

Generally, criteria are relevant when they measure employees on the most important aspects of their jobs. But there are also problems with these criteria. Mathis and Jackson (1997) again said, jobs usually include many duties and tasks, and so measuring performance usually requires more than one dimension. If the performance criteria leave out some important job duties, they are deficient. If some irrelevant criteria are included in the criteria, the criteria are said to be contaminated. Managers use deficient or contaminated criteria for measuring performance much more than they should.

## **2.5. Performance Appraisal Methods**

We can manage performance by focusing on employee attributes, behaviors, or results. In addition, we can measure performance in a relative way, making overall comparisons among individuals' performance. Finally we can develop a performance measurement system that incorporates some variety of the preceding measures, as evidenced by the quality approach to measuring performance (Noe et al,2008).

### **2.5.1. The Comparative Approach**

The comparative approach to performance measurement requires the rater to compare an individual's performance with that of others. This approach usually uses some overall assessment of an individual's performance or worth and seeks to develop some ranking on the individuals within a work group. At least three techniques fall under the comparative approach: ranking, forced distribution, and paired comparison (Noe et al 2008).

#### **Ranking**

Simple ranking requires managers to rank employees within their departments from highest performer to poorest performer (or best to worst). Alternation ranking, on the other hand, consists of a manager looking at a list of employees, deciding who the best employee is, and

crossing that Person's name off the list. From the remaining names, the manager decides who the worst employee is and crosses that name off the list and so forth (Noe et al 2008).

### **Forced Distribution**

The forced distribution method also uses a ranking format, but employees are ranked in groups. This technique requires the manager to put certain percentage of employees into predetermined categories. Such performance ranking takes several forms. Most commonly, employees are grouped into three, four, or five categories usually of unequal size indicating the best workers, the worst workers, and one or more categories in between. Forced distribution method forces managers to distinguish between employees, which avoids an entitlement mentality for pay, rewards, and developmental activities. Even if a manager's employees are all above average performers, the manager is forced to rate some employees as "Not Acceptable"(Noe et al 2008).

### **Paired Comparison**

The paired comparison method requires managers to compare every employee with every other employee in the work group, giving an employee a score of 1 every time he or she is considered the higher performer. Once all the pairs have been compared, the manager computes the number of times each employee received the favorable decision (that is, counts up the points), and this becomes the employee's performance score.

### **Evaluating the Comparative Approach**

The comparative approach to performance management is an effective tool in differentiating employee performance; it virtually eliminates problems of leniency, central tendency, and strictness. This is especially valuable if the results of the measures are to be used in making administrative decisions such as pay raises and promotions. In addition, such systems are relatively easy to develop and in most cases easy to use; thus, they are often accepted by users. One problem with these techniques, however, is their common failure to be linked to the strategic goals of the organization. Although raters can evaluate the extent to which individuals' performance support the strategy, this link is seldom made explicit. In addition, because of the subjective nature of the ratings, their actual validity and reliability depend on the raters

themselves. Some firms use multiple evaluators to reduce the biases of any individual, but most do not. At best, we could conclude that their reliability and validity are modest.

### **2.5.2 The Attribute Approach**

The attribute approach to performance management focuses on the extent to which individuals have certain attributes (characteristics or traits) believed desirable for the company's success. The techniques that use this approach define a set of traits-such as initiative, leadership, and competitiveness- and evaluate individuals on them.

#### **Graphic Rating Scales**

The most common form that the attribute approach to performance management takes is the graphic rating scale. List of traits is evaluated by a five-points (or some other number of points) rating scale. The manager considers one employee at a time, circling the number that signifies how much of that trait the individual has. Graphic rating scales can provide a number of different points (a discrete scale) or a continuum along which the rater simply places a check mark (a continuous scale). These appraisals consisted of supervisors' rating subordinates on a number of undefined dimensions such as volume of work, quantity of work, job knowledge, dependability, and cooperation (Noe et al, 2008).

#### **Mixed-standard Scales**

Mixed-standard scales were developed to get around some of the problems with graphic rating scales. To create a mixed-standard scale, we define the relevant performance dimensions and then develop statements representing good, average, and poor performance along each dimension. These statements are then mixed with the statements from other dimensions on the actual rating instrument. Note that mixed-standard scales were originally developed as trait-oriented scales. However, this same technique has been applied to instruments using behavioral rather than trait-oriented statements as a means of reducing rating errors in performance appraisal (Noe et al, 2008).

## **Evaluating the Attribute Approach**

Attribute-based performance methods are the most popular methods in organizations. They are quite easy to develop and are generalize across a variety of jobs, strategies, and organizations. In addition, if much attention is devoted to identifying those attributes relevant to job performance and carefully defining them on the rating instrument, they can be as reliable and valid as more elaborate measurement techniques (Noe et al, 2008). However, since different raters often provide extremely different ratings and rankings, both the validity and reliability of these methods are usually low (Noe et al, 2008).

### **2.5.3 The Results Approach**

As per Noe et al (2008) the results approach focuses on managing the objective, measurable results of a job or work group. This approach assumes that subjectivity can be eliminated from the measurement process and that results are the closest indicator of one's contribution to organizational effectiveness. The researcher examined two performance management systems that use results: management by objective and the productivity measurement and evaluation system.

#### **Management by Objectives**

Management by objectives (MBO) is popular in both private and public organizations. The original concept came from the accounting firm of Booz, Allen, and Hamilton and was called a "manager's letter." The process consisted of having all the subordinate managers write a letter to their superiors, detailing what their performance goals were for the coming year and how they planned to achieve (Noe et al 2008).

In an MBO system, the top management team first defines the company's strategic goals for the coming year. These goals are passed on to the next layer of management, and these managers define the goals they must achieve for the company to reach its goals. This goal-setting process cascades down the organization so that all managers set goals that help the company achieve its goals. These goals are used as the standards by which an individual's performance is evaluated (Noe et al 2008).

## **Productivity Measurement and Evaluation System (ProMES)**

The main goal of ProMES is to motivate employees to higher levels of productivity. It is a means of measuring and feeding back productivity information to personnel. ProMES consists of four steps. First, people in an organization identify the products, or the set of activities or objectives, the organization expects to accomplish. The organization's productivity depends on how well it produces these products. At a repair shop, for example, a product might be something like "quality of repair." Second, the staff defines indicators of the products. Indicators are measures of how well the products are being generated by the organization. Quality of repair could be indicated by (1) return rate (2) percentage of quality-control inspections passed. Third, the staff establishes the contingencies between the amount of the indicators and the level of evaluation associated with that amount. Fourth, a feedback system is developed that provides employees and work groups with information about their specific level of performance in each of the indicators. An overall productivity score can be computed by summing the effectiveness scores across the various indicators. (Noe et al 2008).

### **Evaluation of the Result Approach**

The results approach minimizes subjectivity, relying on objective, quantifiable indicators of performance. Thus, it is usually highly acceptable to both managers and employees. Another advantage is that it links an individual's results with the organization's strategies and goals. However, objective measurements can be both contaminated and deficient contaminated because they are affected by things that are not under the employee's control, such as economic recessions, and deficient because not all the important aspects of job performance are amenable to objective measurement. Another disadvantage is that individuals may focus only on aspects of their performance that are measured, neglecting those that are not.

#### **2.5.4. The Quality Approach**

Thus, far we have examined the traditional approaches to measuring and evaluating employee performance. Two fundamental characteristics of the quality approach are a customer orientation and a prevention approach to errors. Improving customer satisfaction is the primary goal of the quality approach. Customers can be internal or external to the organization. A performance management system designed with a strong quality orientation can be expected to

- i. Emphasize an assessment of both person and system factors in the measurement system.
- ii. Emphasize that managers and employees work together to solve performance problems.
- iii. Involve both internal and external customers in setting standards and measuring performance.
- iv. Use multiple sources to evaluate person and system factors.

Statistical process control techniques are very important in the quality approach. These techniques provide employees with an objective tool to identify causes of problems and potential solutions. These techniques include process-flow analysis, cause-and-effect diagrams, Pareto charts, control charts, histogram, and scatter grams (Noe et al 2008).

### **Evaluation of the Quality Approach**

The quality approach relies primarily on a combination of the attribute and results approaches to performance measurement. However, traditional performance appraisal systems focus more on individual employee performance, while the quality approach adopts a systems-oriented focus. Many companies may be unwilling to completely abandon their traditional performance management system because it serves as the basis for personnel selection validation, identification of training needs, or compensation decisions. Also, the quality approach advocates evaluation of personal traits (such as cooperation), which are difficult to relate to job performance unless the company has been structured into work teams (Noe et al 2008).

### **2.6. Empirical Literature Review**

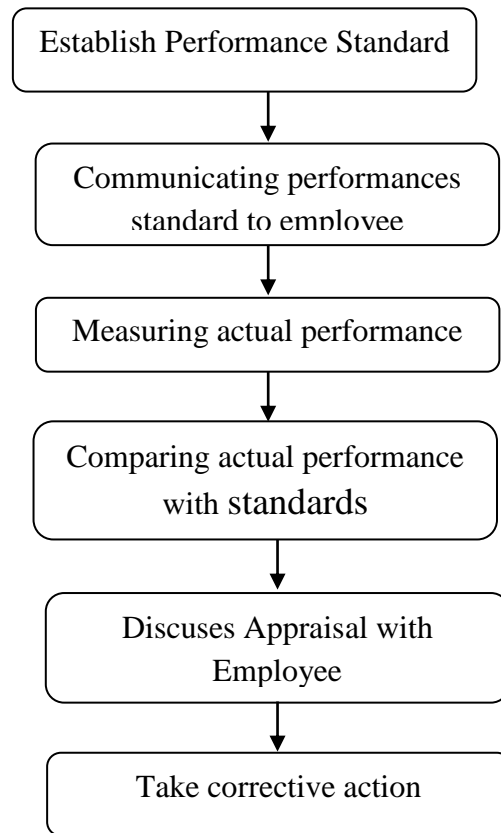
In the research of comparative study on India's employees' perception towards performance appraisal Mahalawat and Sharmaze found out that perception level of public banking sector was comparatively low and suggested that there is an urgent need to redesign the appraisal system. They recommend the challenge in design/appraisal format such as introduction of 360 degree feedback, BSC, or online appraisal. Another area where they think improvement can be carried out is on providing of training to the raters regarding conductance of fair appraisal by making them realize the importance of setting clear-cut goals, giving accurate rating, providing clear and constructive feedback to the ratees. Moreover, building up strong appeal system to bring in more transparency in the public banks and training of raters by private bank to minimize appraisal

related politics and introduction of post appraisal counseling sessions in both banking sectoring in India to reduce appraisal related anxieties of the employee were the other important points concluded from the study.

Tassew (2010) in his paper entitled “performance appraisal and its significant as human resource management tool” conducted a study on seven cities in US and found out that all of them follow adequate performance appraisal practices. The content of their PA guidelines and evaluation forms are analogous to the evaluation methods procurers, which are commonly known in human resource management (HRM). The PA process in one of the city is not tied to merit pay and the other six cities maintain the pass/fail PA based on performance up on which salary increment and bonuses are awarded during good economic times. However, the result of the study reveals that the existing economy shortfall at the time of the research has negatively affected the customary pass/fail merit pay practices, particularly blocking salary increases of better performing employees of the cities. The study shows how the economic downturn impedes rewarding performance, and the major focus is how layoffs and furloughs balance the budget. In the existing bad condition of the economic performance appraisal could possibly result in demonization and less productivity. Hence, this study shows the strong impact of external environment on employees’ performance. Capitalizing on the non monetary reward system to encourage better performing employees is the major coping mechanism recommended by the researcher.



## 2.7. Conceptual Framework



Source: Researcher's own framework

## **CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY**

This chapter of the research deals with the research methodologies that were used in collecting data for the study. It contains the research design, source of data, population and sampling technique, data gathering instrument, procedures for methods and data analysis.

### **3.1. Research Design and Approach**

The type of research design that the researcher employed under this study is descriptive. The major purpose of descriptive research is to describe the state of affairs as it exists at present.

The research approach employed in this study is both quantitative and qualitative sources of data collection. As the study mainly focused on describing and assessing the performance appraisal practice, descriptive research design was applied. The survey research design is suitable choice because it is cross-sectional study and a survey helps gather wide-reaching information.

Quantitative business research is a research that addresses research objective through empirical assessments. It involves numerical measurement and analysis approach (Zikmund, 2010) through the use of large-scale survey research, using methods such as questionnaires or structured interviews.

Quantitative research was applied by sending questionnaires to the employees and qualitative analysis is used for the answers collected from interview, opinion and observation. Unstructured interviews with human resource department and higher level manager were conducted.

### **3.2. Population, Sample Size and Sampling Techniques**

#### **3.2.1. Population**

As the study assesses the performance appraisal practices in Oromia International Bank, the employee of the bank has been taken as the population. According to the database of the OIB, there are currently 3240 employees working in the organization, of them 324 managerial, 1872 clerical and 1044 non clerical out of these employees 1271 of them are working at Addis Ababa city branches and have got more than one year experience.

### 3.2.2. Sample Size and Sampling Technique

For this study the researcher use sample from the total population due to time, resource and proper organization of data. From the given scope, sample only take from head office organs and seventeen branches in Addis Ababa , ( Head office organs, Merkato, Geda, Anwar Mekid, Ayer-Tena, wedesa, Fifine, Boku, Mesalemia, Abiet, Awtobis-tera, Mexico, Africa-godana, Oda, Bole, Babo, Doka bora, and Betel) the branches are selected purposely. The reason selecting purposive sampling is that proximity to my work area in order to collect data easily.

Since the study was delimited to Addis Ababa city the population size of employees working in Addis Ababa who have one year experience and above were 1271. Therefore as calculated using Yamane's, 1967, the sample size for population size of 1271 is 304. Therefore, 304 were used as sample size for this study. The numbers of staffs who have more than one year experiences were listed as follows.

Head office organs 110 staffs, Merkato 12 staffs, Geda 13, Anwar Mekid 10, Ayer-Tena 8, wedesa 14, Fifine 15, Boku 9, Mesalemia 11, Abiet 8, Awtobis-tera 8, Mexico 7, Africa-godana 14, Oda 13, Bole 15, Babo 12, Doka bora 13, and Bete 10). The total numbers of samples from the branches are 194 employees and the remaining 110 was taken from different departments in head office by using proportionate random sampling technique. The reason for making the number of samples from branches more than head office was based on the proportion of the number of staff found at branches. Therefore, by considering these issues sample size to collect data through questionnaire for this research was determined by using Yamane's (1967) formula.

$$n_i = \frac{N_i * n}{N}$$

Where:

$n_i$ = sample size for individual branches in each bank

$N_i$ = the total number of employees in each bank

$N$ =the total number of employees in the selected banks

$n$ =the total sample size for selected banks

Source: (Yamane's, 1967).

$$nt = \frac{NT}{1 + NT (e)^2}$$

Where:

NT=the study population

e = the level of precision

1 = designates the probability of the event occurring

$$\text{Therefore: } nt = \frac{NT}{1 + NT (e)^2} \quad nt = \frac{1271}{1 + 1271 (0.05)^2} = 304$$

Therefore, 304 respondents were used as sample for this study to gather data through questionnaire.

### **3.3. Data Collection Instruments**

#### **3.3.1. Questionnaire**

The layout of the questionnaire will be kept very simple to encourage meaningful participation by the respondents. The questions are kept as brief as possible and great care will be taken to the actual wording and phrasing of the questions. Greater emphasis has also given for the appearance and layout of the questionnaire because they play greater role and are important in any data collection process where the questionnaire is to be completed by the respondent. The questions included in the questionnaire were five-point likert scale types. The type of scales that were employed to measure the items on the instrument were continuous scales (strongly agree to strongly disagree).

#### **3.3.2. Secondary Sources**

Secondary data from policy papers was used to provide additional information where appropriate. Besides, annual report of the bank and research papers, websites are reviewed to make the study fruitful, with due recognition.

### **3.4. Method of Data Analysis**

Analysis is simply the application of reason in the process of understanding the data collected by using appropriate analytical techniques that are in line with the characteristics of the research design and the nature of data gathered (Sounders et al., 2009). And hence, the data gathered from primary sources were tallied; they were systematically organized, tabulated and summarized in items based on tables, graphs or charts. Quantitative data obtained from primary sources were statistically analyzed using the Statistical Package for Social Science (SPSS) version 20 and Microsoft office excel 2007.

Descriptive statistics used to organize the data through closed ended questions with the help of SPSS version 20. Analysis has been done according to the objective of the study. Summary of statistics has organized in the form of qualitative and quantitative measures by using frequencies and percentage. Regarding to the interpretation for the variables use on likert five scale: measurement used on the basis of survey 1=strongly disagree, 2=disagree, 3=neutral, 4=agree and 5=strongly agree.

### **3.5. Reliability and Validity**

The reliability of instruments measures the consistency of instruments. Creswell (2009) considers the reliability of the instruments as the degree of consistency that the instruments or procedure demonstrates. In this study each statement will be rated on a 5 point likert response scale which included strongly agree, agree, neutral, disagree and strongly disagree. Based on this an internal consistency reliability test will be conducted. Validity is the degree to which a test measures what it purports to measure. Validity is defined as the accuracy and meaningfulness of the inferences which are based on the research results. It is the degree to which results obtained from the analysis of the data actually represents the phenomena under study. Creswell (2009) contends that the validity of the questionnaire data depends on a crucial way the ability and willingness of the respondents to provide the information requested .A pilot study was conducted to purify the test instrument such as the questionnaire before administering the final phase. Questionnaires were tested on potential respondents to make the data collecting instruments objective, relevant, suitable to the problem and reliable as recommended by John Adams et al. (2007). Issues raised by respondents will be corrected and questionnaires are refined. Besides,

proper detection by the advisor will also take to ensure the validity of the instruments. Finally, the improved version of the questionnaires are printed, duplicated and dispatched.

Cronbach Alfa was calculated for this research on sample of 20 questioners and the table result is depicted in the following table.

**Table: 3.1 Reliability Table**

Cronbach's alpha	N of Items
.813	44

### **3.6. Ethical Issues**

All the research participants that participated in this study are appropriately informed about the purpose of the research and their willingness and consent will be secured before the commencement of distributing questionnaire and asking interview questions. Regarding the right to privacy of the respondents, the study surely maintained the confidentiality of the identity of each participant. In all cases, names are kept confidential thus collective names like 'respondents' will be used.

## **CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS**

This chapter deals with analysis, interpretation and discussion of the data collected through questionnaire.

Questionnaires were prepared and 304 of them distributed to respondents. Of these questionnaires distributed, 298 were collected and used for data analysis purposes and the collected data through the questionnaire were summarized and presented by using tables. Hence, in the subsequent paper respondent profile and data analysis pertaining to the study are presented.

### **4.1. Demographic Characteristic of Respondent**

In this part of the questionnaire the demographic information of the participant employees of Oromia International Bank S.C is presented for analysis. The analysis tries to provide information related to gender, age, educational background and years of service of respondent employees.

**Table 4.1. Demographic Characteristic of Respondent**

<b>Gender of the respondent</b>		<b>Frequency</b>	<b>Percentile</b>	<b>Validity percent</b>
	Male	208	69.8	69.8
	Female	90	30.2	30.2
Total		298	100	100%
<b>Age of the respondent</b>				
	Below 25	71	23.8	23.8%
	25-35	199	66.8	66.8%
	36-45	22	7.4	7.4%
	46-55	6	2	2%
	Above 55	-	-	-
Total		298	100%	
<b>Educational States of the Respondent</b>				
	Masters degree	16	5.4	5.4%
	Bachelor degree	224	75.2	75.2%
	Diploma	45	15.1	15.1%
	High school complete	13	4.4	4.4%
Total				100%
<b>Employee Year of Experience</b>				
	1-5 years	199	66.8	66.8
	6-10	85	28.5	28.5
	11-15	14	4.7	4.7
	Above 15	-		-
Total		298	100%	100%

As can be seen from Table 4.1., majority of the respondents are male that is 69.8% and 30.2% are female. This shows that there is low number of females are employed at Oromia International Bank. This shows that there is unequal distribution of sex in the organization.

While the majority 66.8% of employees are in the category of between 25 and 35 years age. And the second majorities 23.8% of employees are in the category of below 25 years age. Other



employees who are in the categories of 36 to 45 years and 46 to 55 are 7.4% and 2% respectively. Generally, 90.6% of the respondents are below the age 40. As can be seen from the table, many of employees are youngsters which are under the age of 40.

It is possible to understand from the above table that the majority 75.2% of work forces are in the category of BA, additionally the table above shows the second category is Diploma that is 15% and other level of educational is high school complete and MA are 4.4% and 5.4% respectively. This shows that majority of the employee in the organization is well educated. Therefore, it can be concluded that almost all employee are capable of understanding and answering the questioner.

On the other hand, majority (66.8%) of employees are in the category of 1 to 5 years of experience, while year of experience of 6 to 10 and 11 to 15 are 28.5% and 4.7 years respectively. This means most of the respondent has experience below five. Therefore they need training and some short courses in order to enhance their experience with the environment and to let them have good knowledge about the day to day activities performed in the organization.

#### **4.2. Data Analysis Pertaining to the Study**

Descriptive statistics like table, frequency and percentages are used to analyze the quantitative data through statistical method of analysis using descriptive statistic through SPSS version 20. While summary and narration are used to analyze the qualitative data.

Out of the total number of 304 questioners distributed 298 of them were returned and used for the study. Therefore, the respondent rate can be indicated as 98%.  $((298/304)*100)$  which increase the representativeness of the sample.

**Table 4.2: Business Strategic Plan of Oromia International Bank**

Statements	Level of argument						Total
		SD	D	N	A	SA	
The organization has clearly defined its strategic objective	N	25	14	15	187	57	298
	%	8.4	4.7	5	62.8	19.1	100%
I am communicated the organization's strategy	N	45	64	6	56	27	198
	%	15.1	55	2	18.8	9.1	100%
The organization's strategy is clearly understandable	N	29	27	15	204	23	298
	%	9.7	9.1	5	68.5	7.7	100%
The organization's strategy linked with performance appraisal	N	14	7	31	177	69	298
	%	4.7	2.3	10.4	59.4	23.2	100%

From the table above, the majority of the respondent (81.9%) agreed, while 13.1% disagreed and 5% are indifferent that the bank has clearly defined its strategic objective. This implies Oromia International bank has clearly defined its strategic objectives. The strategy of the bank is still performable. And also most of the respondent replied that 54.7% agree, 19.8% disagree and 25.5% remain indifferent. So that it can be said that the organization's strategy is performable. However, most of the respondents disagree on strategic communication of the organization that 70.1% of them disagree, 27.9% agree and 2% indifferent. These indicate that even though Oromia international Bank is good on most of strategic variable, communicating the strategies to employee is poor. Therefore, organization has to work on how to improve this. Therefore in order to aware employee effectively, the bank has to strive more how to communicate the entire organizational strategic objectives to the employees.

**Table 4.3: Employee Job Performance Standards**

Statements	Level of argument						Total
		SD	D	N	A	SA	
The standard set for performance appraisal is clearly defined and non ambiguous	N	15	24	12	205	42	298
	%	5	8.1	4	68.8	14.1	100%
Standards are attainable by a nominal employee	N	48	57	39	98	56	298
	%	16.1	19.1	13.1	32.9	15.8	100%
Standards are related to the desired result of each job	N	28	38	20	136	76	298
	%	9.4	12.8	6.7	45.6	25.5	100%
Performance standards are clear to both the appraiser and appraisee.	N	82	116	43	34	23	298
	%	27.5	38.9	14.4	11.4	7.7	100%
Standards are set according to the organization goal and objective	N	35	38	45	132	48	298
	%	11.7	12.8	15.1	44.3	16.1	100%
Standards are established according to individual job description	N	78	127	18	55	20	298
	%	26.2	42.6	6	18.5	6.7	100%

As most of the respondent (67.4%) said, performance standard are not clear to both appraiser and appraisee, 19.1% agree and 14.4% of them are indifferent whereas 68.8% of the respondent disagree with the statement that says standard are establishes according to individual job discretion and only 25.2% of them agree. So this shows that there is gap between actual job and organizational job descriptions. Therefore the organization has to provide training to evaluators how they are going to carry out the performance appraisal process and to employees how they are going to be evaluated.

On the same way, employees only have to be evaluated based on the organization standards. Whenever employees are evaluated based on other criteria out of job description, it will be difficult to identify the actual gap of the employee. Therefore, evaluators have to understand each employees job description and evaluate based on job description and provide training whenever there is a gap.

In an MBO system, the top management team first defines the company's strategic goals for the coming year. These goals are passed on to the next layer of management, and these managers define the goals they must achieve for the company to reach its goals. This goal-setting process cascades down the organization so that all managers set goals that help the company achieve its goals. These goals are used as the standards by which an individual's performance is evaluated (Noe et al 2008).

**Table 4.4: Communicating Performance Standard**

Statements	Level of argument						Total
		SD	D	N	A	SA	
Employees are clearly communicated organizational standards	N	71	168	31	18	10	298
	%	23.8	56.4	10.4	6	3.4	100%
Organizational standards are included in the operational manual	N	51	73	36	93	45	298
	%	17.1	24.5	12.1	31.2	15.1	100%
Employees understand their roles and know what exactly is expected from them	N	55	150	37	43	13	298
	%	18.5	50.3	12.4	14.4	4.4	100%
The standards also communicated to the evaluators	N	66	78	52	71	31	298
	%	22.1	26.2	17.4	23.8	10.4	100%
The standards can also be modified according to the relevant feedback from the employees or the evaluators.	N	69	181	18	21	9	298
	%	23.2	60.7	6	7	3.1	100%
Employees are communicated and clearly explained the purpose as well the process of appraisal	N	73	132	18	56	19	298
	%	24.5	44.3	6	18.8	6.4	100%

As you can see from the table, most of the respondent disagrees about organizational communication as a whole. That is employee are not communicated organizational standards, employees neither understand their roles nor know what is exactly expected from them, the standard are not also communicated to the evaluator, organizational standards cannot be modified according to feedback from employee and evaluator and finally, employees are not

clearly explained the purpose as well as the process of appraisal. These show that Oromia international bank has problem of clearly communicating of standards to the employees. For the appraisal system to attain its purpose, employee must understand the criteria against which their performance is measured.

As (wether and davis, 1996), stated to hold employees accountable, a written record of the standard should exist and employees should be advised of those standards before the evaluation occurs. Providing the opportunity for employee clearly understand the performance standards will enhance their motivation and commitment towards their job.

**Table 4.5: Measuring the Actual Performance**

Statements	Level of argument						Total
	N	SD	D	N	A	SA	
The actual performance of the employee is measured based on the performance standard	N	44	118	54	51	31	298
	%	14.8	39.6	18.1	17.1	10.4	100%
The measurement carry out with careful selection of the appropriate techniques of measurement	N	62	114	11	62	49	298
	%	20.8	38.3	3.7	20.8	16.4	100%
Personal bias has not been affected the outcome of the appraisal process	N	90	192	2	6	8	298
	%	30.2	64.4	0.7	2	2.7	100%
The overall evaluation process is formalized, standardized and made as objective as possible	N	51	65	22	83	77	298
	%	17.1	21.8	7.4	27.9	25.8	100%
The employee performance appraisal of the organization perfectly evaluate the employee	N	58	178	12	44	6	298
	%	19.5	59.7	4	14.8	2	100%

Most of the respondent said that Oromia International bank measurement is not carry out with careful selection of appropriate process technique of measurement, 94.6% of the respondent said that personal bias affect the outcome of appraisal process. So this shows most of the time evaluator measures performance appraisal depending on their personal interest. Lastly as the

table shows majority of the respondent said that the employee performance appraisal of the organization does not evaluate the employee.

Once employees have been hired, their continued performance and progress should be monitored in a systematic way. This is the responsibly of the immediate boss to observe the work performance of subordinate and evaluate it against the already established job performance standards and requirements. The aim of performance measure is to detect departure from expected performance level (Wether and Davis, 1996).

**Table 4.6: Comparing Actual Performance with Performance Standards**

Statements	Level of argument						Total
		SD	D	N	A	SA	
The comparison tells the deviation in the performance of the employee from the standards	N	39	60	41	92	60	298
	%	13.1	20.1	13.8	30.9	22.1	100%
Employees are evaluated only based on performance standards	N	50	177	20	35	19	298
	%	16.	58.	6.7	11.7	6.4	100%
Whenever there is gap between employee performance and standers, the employee will be provided training	N	89	112	20	56	21	298
	%	29.	37.	6.7	18.8	7	100%
Result of the appraisal is communicated and discussed with the employees on one-to-one basis	N	11	32	8	162	85	298
	%	3.7	10.	2.7	54.4	28.	100%
Performance review meeting will be prepared in order to discuss the appraisal result	N	77	160	6	41	14	298
	%	25.	53.	2	13.8	4.7	100%

As can be observed from the table majority of the respondent (53%) said that the comparison doesn't tell the deviation in the performance of the employee from the standards this is to mean that employee and performance standard are going in different way. and 33.2% of the respondents agree that the comparison tells the deviation. Similarly, majority of the respondent 75.2% said that employees are not evaluated only based on organizational standards. Therefore, this tells that employees are not evaluated based on standards. As can be seen from the table,

employees are not provided training whenever there is gap between employee performance and standards. In addition to this, majority of the respondent 79.5% said that performance review meeting will not be prepared in order to discuss the performance appraisal with the employee however some of them (18.5%) said that review meeting will be prepared.

After evaluating and measuring employee job performance, it is necessary to compare it with the set standards to know whether there is deviation or not. When one compare performance with standard either performance match standard or performance does not match standards (wether and Davis, 1996).

Therefore, in order to identify actual result, employees should be evaluated based on the right appraisal technique and the organization should set proper and standardized appraisal technique. In this case the right employee gap will be identified and corrective action will be taken accordingly.

**Table 4.7: Providing Feedback**

Statements	Level of argument						Total
		SD	D	N	A	SA	
All feedbacks are written in objective terms and speak to employee in a professional and positive manner	N	84	142	9	44	19	298
	%	28.2	47.7	3	14.8	6.4	100%
The problem and possible solutions are discussed with the aim of the problem solving and reaching agreement	N	51	52	31	124	40	298
	%	17.1	17.4	10.4	41.6	13.4	100%
The feedback is given with a positive attitude since this can have an effect on the employees' future performance	N	55	66	45	84	48	298
	%	18.5	22.1	15.1	28.2	16.1	100%
The performance appraisal feedback task is done very carefully	N	35	170	28	57	8	298
	%	11.7	57	9.4	19.1	2.7	100%
The standards will be modified according to the relevant feedback from the employees or the evaluators.	N	53	114	49	41	41	298
	%	17.8	38.3	16.4	13.8	13.8	100%

As the table shows, majority of the respondent (55%) said that problems and possible solutions are discussed with the aim of the problem solving and reaching agreement however number of respondent which is not insignificant (34.5%) disagreed. On the other hand, in contrary of the agreement, majority of the respondent disagree with the following statements, which are, feedbacks are not written in objective terms and doesn't speak to employee in a professional and positive manner (75.9%), they also said most of (68.7%) performance appraisal feedback task is not done very carefully and 56.1% of the respondent said that standards will not modified according to the relevant feedback from the employees or the evaluators.

For the appraisal system to be effective, the employees must actively participate in the design and development of performance standards. The participation will enhance employee motivation, commitment toward their jobs, and support of the evaluation feedback. In other words, employee must understand it, must feel it is fair, and must be work oriented enough to care about the result. After the evaluation, the rater must describe work related progress in a manner that is mutually understandable. According to (Baird et.al 1990), feedback is the foundation up on which learning and job improvement are based in an organization. The rater must provide feedback on the result that the employee achieved that meet or exceed performance expectation.



**Table 4.8: Taking Corrective Action**

Statements	Level of argument						Total
	N	SD	D	N	A	SA	
The objective of corrective action is to correct and resolve employee performance problems		17	44	21	150	66	298
	%	5.7	14.8	7	50.3	22.1	100%
The corrective action is given after fair and objective investigation is made	N	69	151	29	26	23	100%
	%	23.2	50.7	9.7	8.7	7.7	298
The corrective measure matches with the seriousness of the offense	N	23	26	29	189	58	100%
	%	4	7	6	63.4	19.5	298
Employees will be provided coaching, counseling retraining when there is incapability	N	56	202	20	20	0	100%
	%	18.8	67.8	6.7	6.7	0	298

Majority of the respondent (72.4%) also said that corrective action is not given after fair and objective investigation has been made and also and also employee will not be provided coaching and retraining when they are in need. This shows that Oromia International bank employees did not believe that the performance appraisal system served its purpose, the purposes of performance appraisal being counseling, coaching, developing and training for those employees.

Giving the right corrective action can enhance employee performance appraisal and can used to improve current as well as future performance of employees, provide timely feedback, increase motivation, identify training needs, identify potential of the employee, let individual knows what is expected from them, focuses on career development, award salary increase and solve job problems. It can be used to set out job objective, provide information to human resource planning and career success, assess the effectiveness of the selection process and as a reward or punishment (Walsh and Fisher 2005).

**Table 4.9: Challenge of Performance Appraisal**

Statements	Level of argument						Total
		SD	D	N	A	SA	100%
The evaluator is influenced by personal liking and disliking when evaluating my performance.	N	19	36	8	172	63	298
	%	6.4	12.1	2.7	57.7	21.1	100%
The employee does not know the measurement tool of performance appraisal.	N	57	125	28	50	38	298
	%	19.1	41.9	9.4	16.8	12.8	100%
Unqualified person rates my work.	N	31	73	41	118	35	298
	%	10.4	24.5	13.8	39.8	11.7	100%
Evaluators are not experienced and they don't have necessary training to carry out the appraisal process objectively.	N	4	57	5	6	172	298
	%	1.3	19.1	1.7	20.1	57.7	100%
Old aged appraisal criteria are used to evaluate employees.	N	22	42	14	164	56	298
	%	7.4	14.1	4.7	55	18.8	100%
The performance appraisal is not free from discrimination on ground of sex, race and disability.	N	20	45	5	195	33	298
	%	6.7	15.1	1.7	65.4	11.1	100%

The above table shows most of the challenge of performance appraisal. Therefore, as can be seen from the table many challenges are witnessed by respondent that are, majority of the respondent (78.8%) said that evaluator is influenced by personal liking and disliking when evaluating my performance, majority of them (51.5%) also said that they are rated by unqualified person so that this may lead to wrong appraisal result. In the same way, most of them (77.8%) said evaluators are not experienced and they don't have necessary training to carry out the appraisal process, 73.8% of the respondent said old aged appraisal criteria are used to evaluate them and finally the table shows that 76.5% of the respondent said that there are discriminations on ground of sex, race and disability while conducting performance appraisal.

According to Mathis and Jackson (1997), rater bias occurs when a rater's values or prejudices distort the rating. Rater bias may be unconscious or quite intentional. If a manager has a strong dislike of certain ethnic groups, this bias is likely to result in distorted appraisal information for some people. Age, religion, seniority, sex, appearance, or other arbitrary classifications may be reflected in appraisals if the appraisal process is not properly designed. Examination of rating by higher level managers may help correct this problem.

## **CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1. Summary of Major Finding**

This part of the study aims to summarize the findings that have emerged from the data analysis presented in the previous chapter.

The study attempted to look in to the existing practice of performance appraisal in OIB. It aims to describe the existing phenomena and tried to reveal the problems related to performance appraisal practices. Furthermore, the paper tried to look at where the attitude of employees of the bank lies with respect to performance appraisal lies.

Most of the respondent agreed that the organization has clearly defined strategic plan and they linked with performance appraisal practice of the bank. However, majority of the respondent are not communicated about the business strategies of the bank. This indicates that even though OIB is good on most of strategic formulation. However, majority of the respondent declared that organizational strategy was not communicated to employees.

Even though performance appraisal practice is very important task, it is not being executed in the bank in an effective way majority of the respondents indicated that the appraisal practice is not carried out with careful selection of appropriate technique of measurement.

Majority of respondent said that standards is not be modified according to the relevant feedback from employees or evaluators. In the same way feedbacks are not written in objective terms and don't speak to employee in a professional and positive manner.

Corrective action is not given after fair and objective investigation has been made and also and also employee is not be provided coaching and retraining when they are in need. This shows that the bank's employees did not believe that the performance appraisal system served its purpose.

Majority of the respondent said that evaluator is influenced by personal liking and disliking when evaluating my performance, they also said that we are rated by unqualified person. Therefore, this may lead to wrong appraisal result. The table shows that most of the respondent said that

there are discriminations on ground of sex, race and disability while conducting performance appraisal.

The study identifies that standards used for measuring performance appraisal are similar for all job categories. On the other way the measured attitude of employees toward the practice is presented in the study. In addition employee attitude found to be lower with respect to many attributes of performance appraisal: involvement of performance appraisal practice, relation of performance appraisal practice with reward, nature of performance appraisal, fairness of performance appraisal rating and improving performance of employee in general.

## **5.2. Conclusions**

Based on major findings the following conclusions are drawn.

- ✚ Oromia International bank's standard set for performance appraisal is clearly defined and non ambiguous and the standard are also attainable and related to the desired result of each job and as per the organizational goal and objective. However, performance standard are not clear to both appraiser and appraisee so this shows that there is gap between actual requirement and employee job descriptions.
- ✚ The other weakness observed is that Employees are not communicated organizational standards and neither understands their roles nor knows what is exactly expected from them. Standards are not also communicated to the evaluator. Organizational standards cannot be modified according to feedback from employee and evaluator and employees are not clearly explained the purpose as well as the process of appraisal.
- ✚ The overall appraisal process is formalized, standardized and made as objective as possible. However, the measurement is not carry out with careful selection of appropriate process technique of measurement and personal bias affect the outcome of appraisal process. So this shows most of the evaluator measures performance appraisal depending on their personal interest. Therefore the performance appraisal of the organization does not evaluate the employee properly and performance appraisal is not on the base of employees' accomplishments and achievements.

- ✦ Employee performance appraisal and standard are going in parallel way which does not tell the actual deviation of performance from the standers and employees are not evaluated based on standards. Therefore, employees are not provided training whenever there is actual gap between employee performance and standers.
- ✦ The other conclusion drawn from result is on how feedback is provided to employees so that feedback is not given with a positive attitude and are not written in objective terms and doesn't speak to employee in a professional and positive manner so that performance appraisal feedback task is not done very carefully.
- ✦ Oromia International bank is not providing opportunities to their employees to participate in the design of form used to evaluate their employees' performance. The form used for evaluation of majority of employees' performance appraisal is not customized on the basis of their job characteristics.
- ✦ Employees are not promoted or demoted based on the appraisal result. Therefore, the purpose of conducting employee performance appraisal is not for making decision about employee without bias. In addition decision made by HRM about employees rewarding, promotion, transfer and suspension/dismissal are not dependent upon performance appraisal so that majority decision taken by HRM doesn't exactly match with performance appraisal result and employee benefit are not decided based on performance appraisal.
- ✦ On the other hand there are member of challenges observed while conducting the appraisal process. Evaluator is influenced by personal bias when carrying out performance appraisal. And being rated by unqualified person is also the other problem which may lead to wrong appraisal result. In the same way evaluators are not experienced and they don't have necessary training to carry out the appraisal process. Similarly old aged appraisal criteria are also the other problem.

### 5.3. Recommendations

On the basis of analysis and its findings, the following recommendations have been given:

- ✓ In order to communicate all procedures, manuals and other to employees, the organization has to change its strategy to the way that forces all employees to struggle to know all information in the organization. Therefore, may enable both the evaluator and the evaluated to properly appraise and work the job in accordance with organizational standards respectively. In this case the gap between actual performance and employee job descriptions will be related.
- ✓ In order to obtain better result of appraisal process, it is important to engage employees through the process. Whenever there is active participation of employees, weak points will be discussed so that the problems will be eradicated.
- ✓ It will be advantageous to the bank to revise its appraisal process to better and powerful method. Modern methods such as 360 degree appraisal enhance the current one to one process conducted at the bank. Therefore, by doing this most of the problem like biasness, personal liking and disliking and other discrimination issues can be solved.
- ✓ The organization has to use only its standards in order to carry out the appraisal process and provide training by looking into the actual gap of the employees.
- ✓ Evaluators have to provide feedback to employee with positive attitude in objective terms so that by providing feedback very carefully, employee grievance will be reduced.
- ✓ Performance appraisal should be linked with promotion and other employee benefit. On contrary to this the transfer and demotions also has to be based on the appraisal result.
- ✓ In order to avoid most of appraisal related problem especially problems related with personal interest, it has to be automated to the system that the bank is using in order to carry out its day to day activity so that the system carry out the appraisal process by itself and relatively it provides unbiased appraisal result.

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## Appendix

### **MBA Research on Assessment of Employee Performance Appraisal Practice: the care of Oromia International Bank.**

Research on performance appraisal practice in case of Oromia International Bank in selected Addis Ababa branches and head office.

#### **A. Questionnaire**

**Dear Respondents,**

The Purpose of this opinion is to collect primary data for conducting a study in titled, “Assessment of Performance Appraisal Practice in Oromia International Bank Share Company.”

As partial fulfillment to the completion of Master Program at St. Mary University

In this regard, I kindly request you to provide me reliable information so that the findings from the study would meet the intended purpose. I strongly assure you the confidential treatment of your answers and would like to extend my deep-heart thanks in advance for being a volunteer to devote your valuable time in filling this questionnaire.

#### **Part I – Demographic Profile of the Respondents**

##### **Instruction**

No need to write your name

Answer by making ‘X’ mark

1. Gender:

Male       Female

2. Age:

Below 25       25-35

36-45       46-55       Above55

3. Educational Background: High school complete  Diploma  First degree  Master degree and above

4. Years of experience (in present organization) \_\_\_\_\_

## Part II- Opinions on Performance Appraisal

Please read each statement carefully and show the extend of your agreement on the statements by putting "x" mark in the boxes using the following rating scales (likert scales): Strongly agree (SA)=5, Agree(A)=4, Neutral(N)=3,Disagree(D)2, and Strongly disagree (SD)=1

### Business Strategic Plan

Statements	Level of Agreement				
	SD	D	N	A	SA
The organization has clearly defined its strategic objective					
I am communicated the organization's strategy					
The organization has smart strategy that can easily be performed					
The organization's strategy is clearly understandable					
The organization's strategy has linkage with my job					

### Employee Job Performance Standards

Statements	Level of Argument				
	SD	D	N	A	SA
The standard set for performance appraisal is clearly defined and non ambiguous					
Standards are attainable by a nominal employee					
Standards are related to the desired result of each job					
Performance standards are clear to both the appraiser and appraise.					
Standards are set according to the organization goal and objective					
Standards are established according to individual job description					

### Communicating the Performance Standards

Statements	Level of Agreement				
	SD	D	N	A	SA
Employees are clearly communicated organizational standards					
Organizational standards are included in the operational manual					
Employees understand their roles and know what exactly is expected from them					
The standards also communicated to the evaluators					
The standards can also be modified according to the relevant feedback from the employees or the evaluators.					
Employees are communicated and clearly explained the purpose as well the process of appraisal					

## Measuring the Actual Performance

Statements	Level of Argument				
	SD	D	N	A	SA
The actual performance of the employee is measured based on the standard of the organization					
The measurement carry out with careful selection of the appropriate techniques of measurement					
Personal bias does not affect the outcome of the appraisal process					
The overall evaluation process is formalized, standardized and made as objective as possible					
The employee performance appraisal of the organization perfectly evaluate the employee					

## Comparing Actual Performance with Standards

Statements	Level of Argument				
	SD	D	N	A	SA
The comparison tells the deviations in the performance of the employee from the standards					
Employees are evaluated only based on organizational standards					
Whenever there is gap between employee performance and standers, the employee will be provided training					
Result of the appraisal is communicated and discussed with the employees on one-to-one basis					
Performance review meeting will be prepared in order to discuss the performance appraisal with the employee					

## Providing Feedback

Statements	Level of Argument				
	SD	D	N	A	SA
All feedbacks are written in objective terms and speak to employee in a professional and positive manner					
The problem and possible solutions are discussed with the aim of the problem solving and reaching agreement					
The feedback is given with a positive attitude since this can have an effect on the employees' future performance					
The performance appraisal feedback task is done very carefully					
The standards will be modified according to the relevant feedback from the employees or the evaluators.					

## Taking Corrective Action

Statements	Level of argument						Total
	N	SD	D	N	A	SA	
The objective of corrective action is to correct and resolve employee performance problems and retain employee productive		17	44	21	150	66	298
	%	5.7	14.8	7	50.3	22.1	100%
The corrective action is given after fair and objective investigation is made	N	69	151	29	26	23	100%
	%	23.2	50.7	9.7	8.7	7.7	298
The corrective measure matches with the seriousness of the offense	N	23	26	29	189	58	100%
	%	4	7	6	63.4	19.5	298
Employees will be provided coaching, counseling retraining when there is incapability	N	56	202	20	20	0	100%
	%	18.8	67.8	6.7	6.7	0	298

## Challenge of Performance Appraisal

Statements	Level of Agreement				
The evaluator is influenced by personal liking and disliking when evaluating my performance.					
The employee does not know the measurement tool of performance appraisal					
Unqualified person rates my work					
Evaluators are not experienced and they don't have necessary training to carry out the appraisal process objectively					
Old aged appraisal criteria are used to evaluate employees					
The performance appraisal is not free from discrimination on ground of sex, race and disability					

## **B. Interview**

Unstructured interviews administrated to Human Resource Management

1. To what extent the organization appraisal practice are linked with the organization strategic objective?
2. What factors are considered to provide training to employees?
3. How well informed are the employee about the performance appraisal objective?
4. What methods do use to follow up the performance appraisal?
5. Do you believe that the appraisal process properly applied?
6. How is the performance appraisal evaluated?
7. What are the main challenges of performance appraisal practice in the organization?
8. What is your suggestion to improve the current situation with regards to performance appraisal practice in your organization?

## **DECLARATION**

I the under signed, declare that this thesis is my original work, prepared under the guidance of my Advisor Shoa Jemal (Asst. Prof) all sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part of in full to any other higher learning institution for the purpose of earning any degree.

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Name

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Signature

St. Mary's University, Addis Ababa

May, 2018



## **ENDORSEMENT**

This thesis has been submitted to St. Mary's university school of business for examination with my approval as university advisor.

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Name

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Signature

St. Mary's University, Addis Ababa

May, 2018