



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

**EFFECTIVENESS OF EMPLOYEES
PERFORMANCE APPRAISAL
AT COMMERCIAL BANK OF ETHIOPIA
NORTH ADDIS DISTRICT**

BY: MIHRET GIRMA

**JANUARY 2018
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**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF
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List of Abbreviations and Acronyms

PA	:	Performance Appraisal
CBE	:	Commercial Bank of Ethiopia
HR	:	Human Resource
HRM	:	Human Resource Management
SPSS	:	Statistical Package for Social Science
MIS	:	Management Information System

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Abstract

The main purpose of the study was to explore the effectiveness of performance appraisal at Commercial Bank of Ethiopia, Addis Ababa city-branches. In order to achieve the objective of the study, descriptive survey method was employed. Questionnaire was an instrument for the primary data collection. Accordingly, 80 respondents from 323 employees working in four branches of CBE were selected using sample size determining table. The data gathered through questionnaire were analyzed using both quantitative instruments: mean & standard deviation, and qualitative instruments: percentage, frequency & correlation with the help of Statistical Package for Social Science (SPSS) version 20.. The descriptive study revealed that appraisal job objectives are mismatching with organization standards, lower acceptance and minimized knowledge of appraisal measurement techniques, missing relevant aspects of performance in the appraisal, rater's bias, inconsistent measure of performance, lack of ongoing performance measure and decrease employee commitment, motivation and job satisfaction. The inferential study also revealed that there is a strong positive relationship between performance appraisal indicators with performance appraisal effectiveness. Hence, it is reasonable to conclude that the appraisal process was not clearly communicated before implementation resulting unacceptable appraisal of performance by employees; lack of covering all necessary aspects of performance while measurement and failing to conduct timely and continuous appraisal process highly affected the overall effectiveness of the performance appraisal of Commercial Bank of Ethiopia at large and personal development in particular. It is recommended that since fitting of appraisal with organization strategy, acceptability, validity and reliability are the most significant factors of all the performance appraisal indicators resulting in effective performance appraisal system, the management should conduct detailed study and assess critically on performance fitness, acceptability, validity, and reliability for it is a starting point in the design of effective performance appraisal.

Keywords: *Performance Appraisal, Fitting with Strategy, Acceptability, Validity, Reliability, Specific Feedback, Relevancy.*

CHAPTER ONE

INTRODUCTION

1.1. Background of the study

Performance appraisal as defined by many scholars is a contentious process of the evaluation of an individual performance in the organization. Performance appraisal is variously called employee rating, employee evaluation, performance review, performance evaluation, or results appraisal (Robert L. Mathis, 2010). Being called in different names, performance appraisal system is used in organizations to identify, measure and develop employees' performance and aligning it with the strategic objectives of their organization. Aligning employee's performance with the organization strategic objective is one purpose of performance appraisal system in organizations. Appraisal system links the organization's goals with individual goals, thereby reinforcing behaviors consistent with the attainment of organizational goals. Performance appraisal have purposes much more than this.

As per Auguinis definition, performance management systems can serve six important purposes: Strategic, Administrative, Communication, Developmental, Organizational maintenance and Documentation. Knowing the purpose of performance appraisal help employees benefit from the appraisal and make good efforts for better achievements in their work.

In recent years, appraisal has become a key feature of an organization's drive towards competitive advantage through continuous performance improvement. In many organizations, this has resulted in the development of integrated performance management systems (PMS), usually based on a competency framework (Gold, 2000). To know whether an employee has shown his/her best performance on a given job, performance appraisal is conducted. Also, evaluating employee performance without clear considerations of the extent to which an individual is contributing to organizational performance and about how performance will improve in the future is also not consistent with this definition of performance management.

As J.Dubrin, 2010 discuss many different reasons why employees are or become ineffective performers. The cause of poor performance can be rooted in the person, the job, the manager, or

the company. At times, the employee's personal traits and behaviors create so much disturbance that he or she is perceived as ineffective. Ineffective appraisal system might also be the reason for poor performance as it cannot assume employees as effective performers. Employees should have adequate knowledge on the appraisal system and its purpose. Performance appraisals are used to assess an employee's performance and provide a platform for feedback about past, current, and future performance expectations. With this they will be motivated to achieve the expected organizations objective. Finding out what motivates an employee, do not rely on a generalized theories or assumptions. Entering into a dialogue with each team member – help them to clarify what it is that motivates them – and use what you find to mutual benefit (Thomas, 2004)

Commercial Bank of Ethiopia (CBE) is currently the dominating bank in Ethiopia which implement performance appraisal system recently. The bank's history goes back in 1942 the year it was founded with a name the State Bank of Ethiopia with twin objectives; performing the duties of both commercial and central banking. In 1963, the commercial bank of Ethiopia was legally established as Share Company to take over the commercial banking activities of the state bank of Ethiopia. In the 1974 revolution, commercial bank of Ethiopia got its strength by merging with privately owned Addis Ababa bank. The state owned commercial bank of Ethiopia is one of the leading bank in Africa with 311Bilion Dollar capital (September 2015) and working with international banks. Commercial bank of Ethiopia has more than 1,200 branch in Ethiopia, five branch in east Africa (in Djibouti and south Sudan which are closed recently) and provide job opportunity for more than 33,000 employees.

CBE have four (4) quarters for a given year for the purpose of performance appraisal. In the end of each quarter employees are rated as per the given plan given at the beginning of the quarter. And the result is stated in quarterly business target setting and evaluation form for each employee appraisal score ranging from 5(five) point to 1(one). I.e. from exceptional to unsatisfactory.

The organization measure performance by listing goals for each quarter. The goals are to achieve specific target that are different for each job title; front maker, back-office maker, checker, interest free banking, foreign, auditor, accountant, customer relations officer, customer service

manager-marketing and operation, lobby man, cash boy/girl and branch manager. These targets are listed in the business target setting and evaluation form of CBE in the second section. The first and the third sections contain the general information about the employee, his/her place of assignment, the manager, period of the appraisal and final appraisal rating respectively.

In short, the focus of this paper is to assess the effectiveness of performance appraisal at Commercial Bank of Ethiopia concerning on the factors that hinder the appraisal system.

1.2. Definition of Terms and Concepts

Performance appraisal: is a systematic way of judging the relative worth of an employee while carrying out his work in an organization. (Aguinis, 2009, p. 3)

Acceptability: refers that performance appraisal must meet the practical of being acceptable to people who use it. (Khattak, 2013)

Validity: means the extent to which measurement tool actually measures what is intended to measure.

Reliability: refers to consistency of the results that the performance measures will delivers.

Feedback: Comment or idea to each employee occur as part of the daily work routine. (D.Pulakos, 2004)

Effectiveness: the degree to which something is successful in producing a desired result.

Performance standards; are what we use to differentiate between acceptable and unacceptable behavior. (Eastern Illinois University, n.d.).

1.3. Statement of the Problem

Appraisal is recognized as a crucial step towards the development of human resources and their performance (Analoui, 2004). This crucial step needs to be carefully developed and followed to fully capitalize on the talents and efforts of employees. In banking industry, they majorly depend on the competitive marketing strategy that determines their growth and success (Hafiz Waqas Kamran, 2016). So the banks must apply effective performance appraisal system that benefit all who are incorporated in the organization.

Inadequate knowledge on the purpose of performance appraisal by the employees have negative effect on the effectiveness of performance appraisal. Objectives of performance appraisal should be clearly and specifically stated for employees to cooperate. Because if an employee thinks the appraisal is used to blame employees, he/she may not co-operate for the appraisal. But if the objective is in positive terms, employees will openly accept it & may even suggest areas of improvement or suggest new directions of performance appraisal. This has been observed on the target setting and evaluation form of CBE. The other issue here in the appraisal is each employee should have contribution to the organization. As organizational performance is the sum total of the whole employee performance, the whole should contribute to the organization unlike the situation in CBE. Some job positions achieve the maximum performance and others only exist with minimum purpose. This leads to minimum consideration of some job positions.

For employees' performance to meet organizations objective, both employees and the organization must have mutual objective. Employees' performance objectives should always be aligned with those of the organization as a whole (Stredwick, 2005). For this alignment performance appraisal system serves as a linkage between individual and organizational performance. The performance management system sets out to communicate the link between an organization's mission and strategic direction and the required employee performance. With this alignment organizations can have effective appraisal system achieving expected performance. Additionally, employee performance has to be closely planed, 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 CBE 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 performance appraisal system is always questioned in terms of its effectiveness and the problems of validity. For instance, research has indicated that a gap often exists between actual job performance and the ratings of the work. It is always difficult to know whether what is appraised is what was supposed to be appraised (Anon.). If the actual performance of employees is not measured accurately, the purpose of the appraisal will be missed. Missing the intended purpose of the appraisal make some to believe that performance evaluations are unnecessary part

of work because of vague rating terms, self-interest, and/or deception on the part of rating managers.

Performance management systems are often under - utilized and also misused. But if implemented well performance appraisal process allows individuals to receive feedback not just on what they have achieved but also how they did this. (Cook, 2008). Here the issue of appraisal review is underlined as important because feedback should be given to employee's performance. In the current situation of CBE, performance appraisal is not implemented at a full scale. It is only being used to know the performance level of employees. Employees will not be sensitive for the results of the appraisal unless performance is attached to financial or non-financial rewards or punishments.

Generally, poorly done performance appraisal lead to disappointing results for all concerned, and there is reason to believe that evaluations can cause bad feelings and damaged relationships if not managed well. In fact, in many organizations, poorly implemented performance management systems can do more harm than good (James W. Smither and Manuel London, 2009). So this paper tries to analyze the impact of the problems raised above on the current appraisal system that significantly determine effectiveness of the performance appraisal using explanatory variables of fitting with strategy, acceptability, validity, reliability, feedback and relevancy. Lastly, assessment on the current appraisal system is presented answering the following study questions.

1.4. Study Questions

The study aims to answer the following questions:

1. To what extent the performance appraisal system of CBE fits with the bank's business strategy?
2. How much acceptable is CBE's performance appraisal system by employees?
3. To what extent does the appraisal system of CBE is valid?
4. How reliably is CBE's appraisal system conducted?
5. What specific feedback does the performance appraisal system of CBE provide to employees?
6. What benefits does CBE's performance appraisal system bring to its employees?

1.5. Objectives of the Study

The study consists of both general and specific objectives as discussed below.

1.5.1 General Objective

To examine and evaluate the effectiveness of performance appraisal system on the required performance level of CBE.

1.5.2 Specific Objectives

From the general objectives of the study the following specific objectives are derived and presented below:

1. To identify how the performance appraisal system of CBE fit with business strategy.
2. To assess the acceptability of CBE's performance appraisal system by all employees.
3. To identify weather the appraisal of CBE measures the necessary aspects of performance.
4. To analyze if the appraisal process of CBE is conducted continuously and timely.
5. To identify if CBE's performance appraisal system provide specific feedback.
6. To evaluate benefits of CBE's performance appraisal system.

1.6 Significance of the Study

The study would be of great importance to Commercial Bank of Ethiopia, the managers and employees in the organization as well as other industry in designing policies on improving employee performance appraisal. This is because the findings of this study will enable them understand the factors hindering performance appraisal effectiveness. Managers and employees can also be benefited by easily understanding the successes and challenges of the appraisal process of Commercial Bank of Ethiopia and its effect on the organization performance. This will enable them to achieve better in the process of performance appraisal.

The study would also be of great help to the human resource academic field and practitioners as it will give new empirical evidences and further theoretical elaborations. This will in turn expend

the depth of available knowledge on performance appraisal system and its effectiveness. This will also shape the performance appraisal practice across the organization in regards to aligning appraisal effectiveness to optimize employee performance and meet organizational objectives. Finally, the study would be of importance to future scholars as it will form foundation for their future studies in related field. The study will also give suggestions for further studies which will guide the future scholars in selecting their topics for research.

1.7. Scope of the Study

The study was delimited timely, conceptually, geographically as well as methodologically. Timely, the applicability of the findings of this study covers the current objective situation in CBE at district level. Despite the fact that data will be collected from four branches located in North Addis District in Addis Ababa area, application of appraisal system in CBE throughout the country is substantially similar. The selected branches are one from each four grade levels of special grade, grade four, three and two.

On the other hand, conceptually, despite many criteria to measure effectiveness of performance appraisal this research focus only on six criteria. These are fitting with business strategy, acceptability, validity, reliability, specific feedback and relevancy of the performance appraisal system.

Methodologically, the research used mixed design of descriptive and explanatory research designs. With the descriptive design information about the current status of performance appraisal system is obtained. And explanatory design enables to find the extent of performance appraisal determining variables effect on its effectiveness. On the other hand, this research is a sample survey research. The main source of this data is questionnaire. As CBE rely majorly on technological results and managers' intervention is very low on the appraisal, interview was not believed to be necessary by the researcher. The questionnaire distributed and collected to employees who queue in the selected branches of CBE.

1.8. Limitation of the Study

The limitations of this study arise from the scope of the study. This study mainly focus the effectiveness of the current performance appraisal system only from six determining factors. But

there might have various intervening factors beyond these six variables but this research is limited due to time constraint. Therefore, other factors beyond the six determining criteria of effective appraisal system cannot be addressed by this study.

The other problem encountered in the study was trustworthiness of some respondents that may lead to inaccurate conclusion if false information was provided. Some respondents were hesitating to give information. In addition, the problem of inadequate funds limited the extent to which the researcher was able to move around to collect data.

1.9. Organization of the Study

This thesis is organized into five chapters. The first chapter is the introduction of the research consisting background of the study, problem statements, research questions, objectives of the study, significance of the study, scope and limitation of the study. The second chapter addresses review of related literatures which consists theoretical discussions on research topic, review of the empirical literature, conceptual framework and research hypothesis. The third chapter consists of the research design and methodologies of the study. Chapter four focus on the data analysis and interpretation. Finally, the fifth chapter, which is the closing chapter, consist of findings, conclusions and recommendations.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1. Theoretical Literature

2.1.1. Performance Appraisal: Definitions and Concepts

Performance appraisal is a continuous process of identifying, measuring, and developing the performance of individuals and teams and aligning performance with the strategic goals of the organization (Aguinis, 2009, p. 3). Note that the key components of this definition are that this is a continuous process and that there is an alignment with strategic goals. In addition to its continuousness and linkage creativeness of individual and organizational performance, it involves activities of identifying, observing, measuring, recording and developing the job-relevant strengths and weaknesses of employees.

The issue of aligning individual and organizational performance having common ground for both is basic for the achievement of organizational objectives. Stephen P. Robbins & Mary Coulter (2012), also discuss it their book, *Management*, as work practices that lead to both high individual and high organizational performance (known as high-performance work practices). The common thread among these practices seems to be a commitment to involving employees; improving the knowledge, skills, and abilities of an organization's employees; increasing their motivation; reducing loafing on the job; and enhancing the retention of quality employees while encouraging low performers to leave.

Becker and Huselid (1998) also describe a high-performance work system as an internally consistent and coherent HRM system that is focused on solving operational problems and implementing the firm's competitive strategy. They suggest that such a system is the key to the acquisition, motivation and development of the underlying intellectual assets that can be a source of sustained competitive advantage. This is because it has the following characteristics of linking the firm's selection and promotion decisions to validated competency models, developing strategies that provide timely and effective support for the skills demanded to implant the firm's strategies, enacting compensation and performance management policies that attract, retain and motivate high-performance employees. (Armstrong, 2009)

Shih et al (2005) as cited by Armstrong(2009, pp.236), listed high performance work system components; job infrastructure, training programs to enhance employee skills, Information sharing and worker involvement mechanisms, and Compensation and promotion opportunities that provide motivation.

2.1.2. Performance Appraisal Process

The performance appraisal system of one organization may vary from other organizations, though there are basic steps that organizations follow. First the organization specifies which aspects of performance are relevant to the organization by establishing performance standards. These decisions are based on the organization environment and overall objectives as well as job analysis. Then the next step is communicating the Standards Set for an employee to acknowledge what it expected from him/her in terms of performance. Next the organization measures the actual performance by conducting performance appraisal. This step of performance appraisal process is stated on the book (HRM process) of Armstrong (2009), as the most crucial in the process. After measuring comparing actual performance with standards Set in the beginning is made. A comparison between actual or desired standard may disclose the deviation between standard performance and actual performance and will allow the evaluator to carry on with the discussion of the appraisal with the concerned employees. Finally through performance feedback sessions, managers give employee information about their performance so they can adjust their behavior to meet the organization goals. When there are performance gap, the feedback session should include effort to identify and resolve the underlying problem.

2.1.3. Benefits of Performance Appraisal

Performance appraisal is one of the key factors influencing levels of commitment, (Purcell et al 2003, as cited in Armstrong, 2009). Furthermore, Commitment is defined as sense of belonging – is enhanced if there is a feeling of ‘ownership’ among employees: not just in the literal sense of owning shares (although this can help) but in the sense of believing they are genuinely accepted by management as key stakeholders in the organization. This concept of ‘ownership’ extends to participating in decisions on new developments and changes in working practices that affect the individuals concerned. They should take part in making those decisions and feel that their ideas have been listened to and that they have contributed to the outcome.

As Armstrong discussed it in his book, effective performance appraisal system can be of benefit to three parties. They are for organization, for appraiser and for the appraisee. For the organization, performance appraisal help achieving better performance throughout the organization, due to successful communication of the objectives and values of the organizations, sense of being close to the organization, loyalty and improved relationships between managers and staff. Overall improvement can also be achieved in the duties performed by each employee of the organization. This is due to performance appraisal of employees' new ideas for improvement in their work. Other benefits of performance appraisal for the organization are generations of long-term plans, clear identification for need of training and development, and sustainable improvement can be assured.

Performance appraisal gives an opportunity to the appraiser to develop a general idea of individual jobs and departments. For every new or difficult situation new idea is generated for improvement or for overcoming that problem. It also gives an opportunity to integrate team and individual objectives and targets with departmental and organizational objectives. Other benefits of performance appraisal for the appraiser is it enables for more productive relationship with staff based on mutual trust and understanding and gives opportunity to explain the amount of work expected by manager from teams and individuals and focus more on targets.

Benefit of performance appraisal for the appraisee is the last one. Increased motivation, job satisfaction, sense of personal value and morale of an employee are some of the benefits.

Other benefit of performance appraisal is as it help employees to know their strength and weaknesses. An employee should express his emotional needs and his value system which is considered to be important. This also comes to the ground with the help of performance appraisal.

2.1.4. Purposes of Performance Appraisal

Organizations establish performance management systems to meet three broad purposes: strategic, administrative and developmental (Sandra L.Steen, 2009) . Strategic purpose means effective performance management helps the organization achieve its business objectives. It does this by helping to link employees' behavior with the organization's goals.

The administrative purpose of performance management system refers to how organizations use the system to provide information for day-to-day decisions about salary, benefits, and

recognition programs. Performance management can also support decision making related to employee retention, termination, and hiring or layoffs.

Finally, performance management has developmental purpose, meaning that it serves as a basis for developing employees' competencies. Even employees who are meeting expectations can become more valuable when they hear and discuss performance feedback.

2.1.5. Criteria for Effective Performance Measures

Effective performance appraisals are commonly associated with clear goals that are attached to specific performance criteria and are well-accepted by both appraiser and appraisee (Daud, 2012). So, for performance appraisal system to be called effective it must fulfill many criterion which determine appraisal effectiveness. These includes: fit with strategy, reliability, validity, acceptability, specific feedback and relevancy.

2.1.5.1. Fitting With Business Strategy

The first criterion of effective performance appraisal system is fitting with strategy. Performance management system should ensure the organization strategic goals are translated into specific unit, function and individuals goals and objectives. By starting with the broadest organizational objectives and then drilling down through the function that affect their achievement, employee can be reminded that all goals are independent across organizational unit and levels. Performance management system should aim at achieving employee behavior and attitudes that support organization strategy, goals and cultures. Performance appraisal should measure whether employee are engaging in those behaviors. Feedback should help employee improves in those areas. When an organization strategy changes, human resources professional should help mangers assess how the performance management system should change to serve the new strategy.

2.1.5.2. Acceptability

Acceptability of PA, the second criteria, refers that performance appraisal must meet the practical of being acceptable to people who use it. For example, the people who use performance measure must believe that it is not too time consuming. Likewise, if employee believes the measure is unfair, they will not use the feedback as basis for improving their performance.

Moreover, appraisals having dual, both administrative and developmental purpose, were perceived as more accurate than appraisals having purely administrative purpose (Khattak, 2013).

2.1.5.3. Validity

The third criteria validity of PA means the extent to which measurement tool actually measures what is intended to measure. In the case of performance appraisal, validity refers to whether the appraisal measures all the relevant aspects of performance and omit irrelevant aspects of performance. Valid information is an information that is gathered and relevant not contaminated or deficit. Performance measure should minimize both contamination and deficiency of information.

2.1.5.4. Reliability

The next in the list of performance criteria's is reliability. It describes the consistency of the results that the performance measures will delivers. The issue of timeliness and periodic measurement should also be focused.

2.1.5.5. Specific Feedback

Specific feedback of PA is the fifth criteria that performance measure should communicate to employees' what is expected of them and how they can meet those expectations. Being specific helps performance management meet the goals of supporting strategy and developing employees. If a measures does not specify what an employee must do help the organization achieve its goals, it does not support its strategy. In addition, feedback is to mean results of the appraisal that should be given to the employee. If the measure fails to point out employee's performance gaps, they will not know how to improve it. The other point to the issue of feedback is its ongoing ness. Research has shown that for feedback to have the most value, it needs to be given in close proximity to the event. It does not help employees to receive feedback nine months after something has happened. And, their performance will likely not improve on its own while the supervisor is waiting for the end-of-year review session to occur. (D.Pulakos, 2004)

2.1.5.6. Relevancy

Relevancy of PA is the final criteria for this study. It is agreeable for any system to be implemented in an organization it must be beneficial and must add some value. Who should be beneficial depends on the outcome of the system that here performance appraisal should benefit the employee, the whole organization and stakeholders. Performance appraisal have several benefits as many sources indicate, some of them are: for generations of long term plans, creating sense of loyalty and closeness to the organization, help identify the need for training and development, developing employees' competency, knowledge and understanding, increase employees' motivation and job satisfaction, assists in the prediction of future performance and providing appropriate information for decision making related to employees promotion, demotion, recognition, hiring and layoffs.

2.1.6. Performance Appraisal Measurement Methods

From reviewing the literature, there appears to be no one single best method of Performance Appraisal, although there are certain common elements throughout all effective methods. Performance system should be correlated with the organization's strategies and mission, cover assessment of performance as well as potential for development, look after the needs of both the individual and the organization, help create a clean environment, rewards linked to achievements, generate information for personnel development and career planning, suggesting appropriate person task matching etc. (Pallavee Srivastava, Usha Kiran Rai, Dec.-2012,). This indicates that organizations should choose appropriate appraisal method that goes with their situation.

Behaviorally based measures, ongoing feedback, multiple raters and peer evaluation measures can be adopted for improving effectiveness of performance appraisal system as suggested in Fundamentals of Human Resource book. Behaviorally Based Measures are those the research strongly favors behaviorally based measures over those developed around traits. On the other hand multiple raters are used if a person is evaluated by a large number of superior then chance of getting more frequent information increases. And peer evaluations are measures conducted by employees' co-workers, people explicitly familiar with the jobs involved mainly because they too are doing the same thing, they are the person who know the co-workers' day to-day work

behavior and should get a chance to provide the management with some feedback. Finally, ongoing feedback measures are used when employees like to know how they are performing the duties assigned to them. Having effective, ongoing performance conversations between managers and employees is probably the single most important determinant of whether or not a performance appraisal system will achieve its maximum benefits from a coaching and development perspective.

2.1.7. Problems of Performance Appraisal

Performance appraisal technique is very beneficial for an organization for taking decisions regarding salary fixation, demotion, promotion, transfer and confirmation etc. But it is not free from problem. Some of these problems as discussed on the book (Anon., 2006) are as follows:

1. Biasness in rating employee: It is the problem with subjective measure i.e. the rating which will not be verified by others. Biasness of rater may include:
 - ✓ Halo Effect: It is the propensity of the raters to rate on the basis of one trait or behavioral consideration in rating all other traits or behavioral considerations. One way of minimizing the halo effect is appraising all the employees by one trait before going to rate on the basis of another trait.
 - ✓ The Central Tendency Error: It is the error when rater tries to rate each and every person on the middle point of the rating scale and tries not to rate the people on both ends of the scale that is rating too high or too low. They want to be on the safer side as they are answerable to the management.
 - ✓ The Leniency and Strictness Biases: The leniency biasness exists when some raters have a tendency to be generous in their rating by assigning higher rates constantly. Such ratings do not serve any purpose.
 - ✓ Personal prejudice: If the raters do not like any employee or any group, in such circumstances he may rate him on the lower side of the scale, the very purpose of rating is distorted which might affect the career of employees also.
 - ✓ The Recent Effect: The raters usually retain information about the recent actions of the employee at the time of rating and rate on the basis of recent action taken place which may be favorable or unfavorable at that point of time.

2. The superiors may be unsuccessful in conducting performance appraisal of employees and post-performance appraisal interviews.
3. The performance appraisal is mostly based on subjective assessment.
4. The performance appraisal techniques have a low reliability and validity in terms of result.
5. Ratings an employee on the negative side may disturb interpersonal relations and industrial relations system.
6. Appraiser's opinion on the performance of the employee may lead to setback on production.
7. An organization may give emphasis to punishment if an employee has not done a good job rather than providing training.
8. Few ratings are based on guess work.

2.1.8. Performance Appraisal and Motivation

The goal-setting theory, introduced in the late 1960s by Edwin Locke, proposed that intentions to work toward a goal are a major source of work motivation. Goals, in essence, tell employees what needs to be done and how much effort should be expended. In general, the more difficult the goal the higher the level of performance expected.

Managers can set the goals for their employees, or employees and managers can develop goals together. One advantage of employees participating in goal setting is that they may be more likely to work toward a goal they helped develop. This makes employees to perform well. The management can also easily appraise employees' performance after setting a goal that motivate employees.

The other motivation theory introduced by Douglas McGregor (1960) produced his analysis of the different views about people and how they should be motivated. Theory X is the traditional view that the average human dislikes work and wishes to avoid responsibility and that, therefore, 'most people must be coerced, controlled, directed, threatened with punishment to get them to put forward adequate effort towards organizational objectives'. In contrast, theory Y emphasizes that people will exercise self-direction in the service of objectives to which they are committed

and that commitment to objectives is a function of the rewards associated with their achievement (Armstrong, 2009)

2.2. Empirical Review

According to (Dagmawit, 2013) study, aimed at measuring degree of correlation between performance appraisal dimensions versus personal improvement, & performance appraisal variables versus organizational development in Ethiopian Telecommunication Corporation, appraisal process and procedure played an important role in yielding a positive response to personal improvement and organizational development as it has a strongest correlation than any other performance appraisal dimensions: appraisal standards, understanding the purpose, and employee attitude toward the rater. The study recommended that management should conduct detailed study and assess critically on performance appraisal process and procedures for an input in the design of performance appraisal dimensions.

According to (Chemed, 2012) study aimed to identify and analyze the practices and problems of Performance Appraisal in Addis Ababa University and St. Mary's University College, information generated through PA is at the moderate level in both organizations in providing incentives and job promotion to those employees but difficult to say that it is used to diagnose the problems. And the form used for evaluation of majority of employees is not customized on the basis of their job characteristics. The study recommended both organizations to do a lot to minimize the risk of the existing scenario of weak relationship, between subordinate and supervisors which emanated from the problem of PA. Creating transparency within the system of PA, attaching the PA with motivations, and providing training to both rater and ratee can create an inviting atmosphere of working system. In order to sow and cultivate the fruit of PA in a way it maximizes (strengthens) the relationship of both subordinates and supervisors, continuous and transparent evaluations of levels of employees.

According to Zachary (2010), in the study effective performance appraisal –the relation between employer satisfaction and optimizing business results aiming to assess the purpose and outcome of the performance appraisal process and frequency of receiving clear feedback, raising and

maintaining employee's engagement lies in the hands of an organization and requires a balanced blend of time, efforts, commitment and investment.

According to (Solomon, 2016) the study aiming to assess performance appraisal practice in Abay Bank Share Company, criteria/instrument to measure the performance of employees is not clearly defined and is not objective oriented and raters rating bias exists. Supervisors do not provide continuous feedback for employees and there is absence of open communication. In addition conducting appraisal twice in a year is not sufficient to effectively measure employees' performance. The study recommended using PA for the improvement of their employees' performance by developing policy that guides and creating opportunities, for coaching, training and development programs, which can improve the performance of employees in their respective institutions.

According to (Bintu, 2014) the study aiming to assess the effectiveness of the Staff Performance Appraisal (SPA) system in Kwame Nkrumah University of Science and Technology (KNUST), the institution has in place an appraisal system with key performance criteria that have been developed and clearly identified. Effectively it came out that the process has helped in identifying systematic factors that are barriers to effective performance. Competent appraisal of individual performance in an organization or company serves to improve the overall effectiveness of the entity. The study recommended on the need to ensure that performance criteria is up to date, fairness in the appraisal process, regular feedback and effective supervision.

2.3. Conceptual Framework

This chapter tries to deal with review of literature on effectiveness of performance appraisal and its effect on the required level of performance. Attempts will be made to briefly begin with definition and overview of performance appraisal system followed by the general concepts of performance appraisal such as purpose, methods, benefits, process, criteria of effective performance appraisal and other related informations are presented in very precise manner.

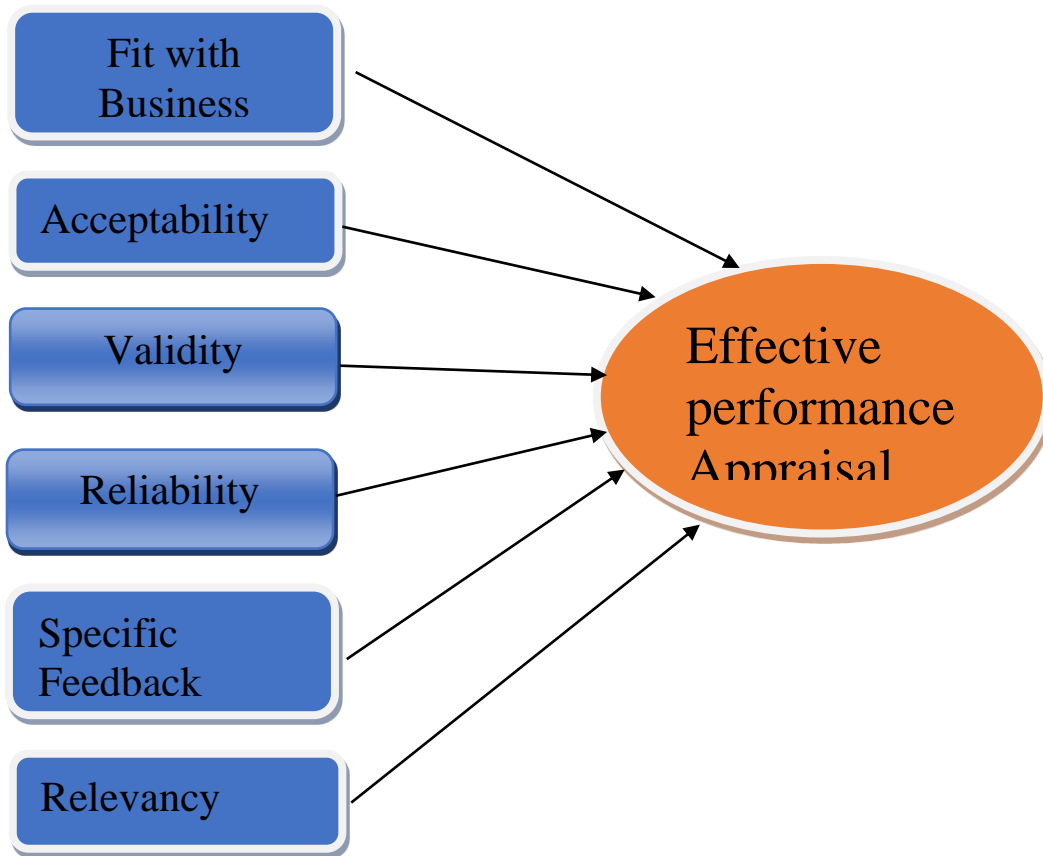


Fig.2.9.1 Conceptual framework of effective performance appraisal (Anon., 2006)

2.4. Research Hypotheses

Hypotheses developed to see the association between the dependent and independent variables; fitting with business strategy, acceptability, validity, reliability, specific feedback, relevancy and the dependent variable i.e. effective employee performance appraisal.

H1:-There is significant relationship between fit with business strategy and performance appraisal.

H0:-There is no significant relationship between fit with business strategy and performance appraisal.

- H2:- There is significant relationship between acceptability and performance appraisal.
- H0:- There is no significant relationship between acceptability and performance appraisal
- H3:- There is significant relationship between validity and performance appraisal.
- H0:- There is no significant relationship between validity and performance appraisal.
- H4:- There is significant relationship between reliability and performance appraisal.
- H0:- There is no significant relationship between reliability and performance appraisal.
- H5:- There is significant relationship between specific feedback and performance appraisal.
- H0:- There is no significant relationship between specific feedback and performance appraisal.
- H6:- There is significant relationship between relevancy and performance appraisal.
- H0:- There is no significant relationship between relevancy and performance appraisal.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1. Research Design and Approach

The most important factor affecting the selection of the research method is the objectives and purpose of the research. This study has been carried out through the use of descriptive research designs. Descriptive research design is chosen having the purpose of describing characteristics of the current performance appraisal system by answering questions of who is involved in the performance appraisal process, what factors affect the appraisal process, when and how it is conducted. It used to obtain information concerning the status of the current performance appraisal system and also it helps to estimate the proportions of a population that have particular characteristics. Within descriptive research design correlation instrument is used to discover relationship between the six variables: fitting with business strategy, acceptability, validity, reliability, specific feedback and relevancy, and effectiveness of the performance appraisal system.

Concerning the time dimension cross-sectional study is carried out for this research. Cross-sectional surveys are studies aimed at determining the frequency or level of particular attribute in a defined population at a particular point in time, (Lotta, 2012). Furthermore, the research focus on statistical study as it attempts to capture characteristics of a population from characteristics of the sample. And generalizations about findings are presented based on the representativeness of the sample.

Regarding the research strategy, the researcher followed both quantitative and qualitative approaches. A quantitative approach will be used for the data that was collected from respondents through questionnaire. And to provide a more complete picture of evaluation, this study used qualitative approaches from the secondary sources.

3.2 Population, Sample Size and Sampling Techniques

3.2.1 Study Population

The research participants or the population of the study were limited to employees of CBE North Addis District 102 branches, but only four branches of the bank which are located in Addis

Ababa are considered for the research. This is due to the difficulty that the researcher had faced while administering the questionnaire distributed. To strengthen the study and not to miss out relevant aspects resulting from variation of the levels (grades) of the branches, the population is stratified in grades of special grade, grade four, three and two. Then branches and employees were selected randomly since employees of CBE working in one branch can be represented by the others having same level of positions or job grade in all branches of the bank. Appraisal system is also applicable in all branches of the bank in the same way. The research includes employees who work in various positions of managerial and clerical post who have more than one year experience. The rationale of selecting these employees as a target population is because they have at least one time experience of performance appraisal in CBE.

Non-clerical staffs in CBE are not considered because majority of such employees are not literate and lacks basic understanding on how to fill questionnaires and openly participate in the study, so the researcher didn't consider such group of employees.

Table 3.2.1: Population of CBE North Addis District

Branch Name	Number of employees Population Size
Addis Ababa	183
Gulele	68
Wingate	40
Mikililand	32
Total population	323

Source: (MISDIVISION, 2017)

As the study tried to indicate in the above table, the total number of employees (total population) working in four selected branches of CBE is 323 as of November 31, 2017 (CBE Oracle Reports). The special branch which is Addis Ababa branch has relatively higher number of employees to be appraised. Grade four Gulele branch, grade three Winget branch and grade two Mikililand branch have lesser number of employees respectively.

3.2.2 Sample Size

Choosing an appropriate sample size is crucial to have a study that will provide statistically significant results. The population has a total of 323 employees' existing in four branches. To get a representative sample for the population under the study the following table is considered.

Table 3.2.2. Sample Size Determination

Population size	Sample size		
	Low	Medium	High
51-90	5	13	20
91-150	8	20	32
151-280	13	32	50
281-500	20	50	80
501-1,200	32	80	125
1,201-3,200	50	125	200
3,201-10,000	80	200	315
10,001-35,000	125	315	500
35,001-150,000	200	500	800

Source: (CARVALHO, 2005)

Based on the above information, the sample size (n) is taken from the target population of 323 considering the range between 281 and 500. And to minimize the error highest sample size is chosen, that is 80 samples. Therefore, the study's sample sizes of 80 were considered to represent the population.

3.2.3 Sampling Technique

The researcher was use a simple random sampling method to select the sample for the study as it gives the chance of being respondent for everyone. Each individual is chosen randomly and

entirely by chance, such that each individual has the same probability of being chosen at any stage during the sampling process. The branches and the employees were selected randomly since the employees of this bank working in one branch can be represented by the others because there is same level or job grade and position in all branches of the bank.

Then to decide on the sample size purposive sampling technique is followed with a purpose of assigning representative samples in proportion to size of employees in the four branches. i.e. how much sample to take from each branch was determined using the formula by Krecjie and Morgan, (1970) proportional allocation for branches is as follows:

$$s = \frac{XS}{P}$$

- P Where; s= Sub sample size for each branch
- X=Population of employees in each branch
- S=Total sample size for the study
- P=Total population

Based on this formula, a total sample size of 80 respondents was used and proportionally allocated for each branches as follows:

Table 3.2.3 Proportional Allocation for Branches

No.	Branch	Respondents
1.	Addis Ababa	45
2.	Gulele	17
3.	Wingate	10
4.	Mikililand	8

Source: (CBE, 2017)

3.3 Source of Data

The sources of data are both primary and secondary sources. Primary data was collected from eighty respondents of the questionnaire out of three hundred twenty three total population as a

purposive sample from the four branches of CBE located in Addis Ababa. And secondary sources of data were from different books, journals, websites, procedures, published and unpublished theoretical literatures, empirical studies and documents related with performance appraisal and its effectiveness.

3.4 Data Collection Instruments

In this study data is collected from primary and secondary sources. The primary data was gathered through structured questionnaire comprised of close ended questions. Questionnaire is chosen to allow respondents to answer the questions at their convenience. The questionnaire was the main method of gathering the relevant data in this study and it had been distributed to employees on different job position of the four branches. The design of close ended question comprised of 5 point likert scale method to measure the variables of effectiveness of performance measures: fit with strategy, validity, reliability, acceptability, specific feedback and relevancy are used as tools.

Furthermore, Secondary data was collected through reviewing different files, company manuals, brushes and annual reports of the branch and district. The relevant data that was collected from different data sources especially from journal article that help to fill the knowledge gap and understand the concepts, definitions, theories and empirical results through reviewing various relevant journals articles, published and unpublished theoretical literatures from internet sources.

3.5 Procedures of Data Collection

Steps followed in the process of data collection start with asking permission to the responsible organ in CBE. Then distributing sample questionnaires to the employees working in CBE's four randomly selected branches followed. After the questionnaire distributed, it was filled by the respondents and collected from all the four branches.

3.6 Pilot Testing

Pilot testing was done by distributing twenty copies of the questionnaire. This was done to find out whether the developed instruments measures what it was meant to measure and also to check

the clarity, length, structure, and wording of the questions. This test also helped the researcher to get valuable comments to modify some questions.

3.6.1. Validity

Validity refers to the extent to which the measurement instrument actually measures what it intended to measure. It is used to suggest determining whether the findings are accurate from the standpoint of the researcher, the participant, or the readers an account (Creswel, 2003).

(Kothari, 2004), Validity is the most critical criterion and indicates the degree to which an instrument measures what it is supposed to measure.

In order to ensure the quality of this research design content validity of the research instrument, that is questionnaire, were checked. The content validity was verified by the advisor of this research, who looks into the appropriateness of questions and the scales of measurement. Peer discussion with other researchers was also conducted since it is another way of checking the appropriateness of questions.

3.6.2. Reliability

Reliability has to do with the accuracy and precision of a measurement procedure. When instruments are robust and perform well at all times under different conditions.

Cronbachs alpha is a coefficient of reliability. It is commonly used as a measure of the internal consistency or reliability of the instrument. According to statistical interpretation, the closer the reading of Cronbach's Alpha to digit 1, the higher the reliability is in internal consistency. In general, reliabilities less than 0.60 are considered to be poor, those in the 0.70 range, acceptable and those over 0.80 good.).

Cronbach's Alpha was calculated to test the reliability of the research instrument. The researcher was used this measurement to know the instruments are consistent based on time and conditions of the instrument.

Table 3.6.2.1 Reliability Analysis for the Independent Variables

Variables	Cronbach's Alpha
Fitting with Business Strategy	.875
Acceptability	.902
Validity	.811
Reliability	.849
Specific Feedback	.807
Relevancy	.906

(Source: SPSS, 2017)

Therefore, according to the above statistical interpretation this indicates that the reliability of the scales is very good depicting a strong internal consistency among the measurement items and the selected instrument can accurately measure the variables of the study.

3.7. Methods of Data Analysis

After the questionnaires had been collected the researcher check if there were unintended participants who had filled the questionnaire distributed to the samples and had organized returned questionnaire. Then the researcher performed the analysis process for the collected valid data using Statistical package for social science (SPSS) version 20.

Descriptive and inferential statistics were employed for the data analysis process. The descriptive statistics includes means and standard deviation. The explanatory/inferential statistics (correlation analysis and regression analysis) were used to see the relationship between the variables that affect effectiveness of performance appraisal. Tables were also used to ensure easily understanding of the analysis.

3.8 Ethical Considerations

Every questionnaire reached out to respondents was with the presence of the researcher physically in all the branches which explains clearly the purpose of the survey. Also, a brief introduction of the researcher and an estimated time required to complete the survey were

pointed in the questionnaire. The questionnaire didn't require respondents' names to protect their anonymity and confidentiality. The confidentiality of the respondents will be preserved and their identities will not be given in the final dissertation. Finally the study makes sure of all sources of the study are duly acknowledged.

CHAPTER FOUR

DATA PRESENTATION ANALYSIS AND INTERPRETATION

The respondents of the questionnaire are employees of selected four of Commercial Bank of Ethiopia North District branches located in Addis Ababa. By providing 80 sample questionnaires to the employees, as stated in the previous chapters, the required data was collected and analyzed.

Out of the 80 questionnaires dispatched, all the 80 were filled and returned giving a response rate of 100%. Given that this is well within the acceptable response rate for a survey (Baruch & Holtom, 2008), the questionnaires were thus sorted and analyzed as entailed in this chapter.

The questionnaire consists of two sections: the first section provide general information about respondents like gender, age, educational background, employees' years of service and their current job position in the organization. The second section is about opinion of respondent on effectiveness of performance appraisal based on the variables that measure appraisal effectiveness.

The responses of employees of CBE on the questionnaire was organized in terms of percentage by using frequency tables, graph and chart. And after each table and charts, interpretation will be given. In this part detailed discussion will be made with the help of secondary data compiled from books, journals, articles, and also research papers to support the meanings of the interpretation.

4.1 Demographic Profile of Respondents

The demographic characteristics of the respondents was analyzed and given below. This was done purposely to determine the suitability of the respondents to provide the needed information for the validity of the study. The following tables and figures reveal the total demographic characteristics of the respondents.

Table 4.1. Demographic Characteristics of Respondents

Variables	Category	Frequency	Percent
Gender	Male	58	72
	Female	22	28
	Total	80	100.0
Age	18-30	58	72
	31-50	22	28
	Total	80	100.0
Level of Education	Diploma	2	2.5
	First Degree	62	77.5
	Above Degree	16	20
	Total	80	100.0
Year of Service in the Bank	1 year	6	7.5
	2 years	20	25
	3 years	30	37.5
	4 and above years	24	30.0
	Total	80	100.0
Employee Current Position	Managerial	10	20.0
	Non managerial	70	80.0
	Total	80	100.0

The above table demonstrate respondent's gender, age, educational background, number of years they serve the bank and their current position in the bank. Of the respondents 72% (58) were male and the remaining 28% (22) were females. This implies majority of the respondents are male. And with regard to respondents` age category, 58 (72%) of the respondents fall under the age category of 18-30. The other age group were 22 (28%) employees which fall under age categories of 31-50. Younger age group dominated from all respondents of the questionnaire the study. Though majority of the respondents are from the age of 18 up to age of 30, the age of all the respondents of the questionnaires generally is from 18-50 years. This shows they are matured enough to equipped the researcher with all the necessary information.

The above table also demonstrates educational background of the respondents. Accordingly, 62 (77.5%) of the total respondents were holders of First degree followed by above Degree holders

16 (20%). And only 2 (2.5%) diploma holders were found from the total respondents. This indicates that majority of the respondents are educated and have adequate knowledge to respond to the questionnaire. So the study it can conclude the chosen method of data collection met its objective.

The next figure in the above table is the tenure of respondents. Accordingly, 6 (7.5%) of the respondents have 1 year of service, followed by 20 (25%) of respondents with having 2 years of service, 30 (37.5%) of respondents with the highest number of respondents have 3 years of service and the remaining 24 (30%) of the respondents belong to group of 4 and above years of service. Thus, respondents have greater than or equal to one year of sufficient experience on the performance appraisal, conducted annually. This indicates us that such ample years of service in the company is adequate enough to reply to the various issues raised concerning employee performance appraisal effectiveness in CBE.

Regarding the current position of respondents, 10 (20%) of them were working in the managerial position and the remaining 70 (80%) fall under the category of non-managerial position. Considering the proportion of managerial and non-managerial positions in each branches, the researcher believed the percentage of both job positions can represent the real situation. Non managerial positions are much higher than managerial positions in each branches.

4.2. Data Analysis Pertaining to the Study

The research will provide careful examination of the collected and recorded data from the questionnaires filled by employees of CBE and the secondary data. For the questions a five point Likert-scale was used with values of 1 meaning given to strongly disagree, and 5 to strongly agree. This section of the study deals with the statistical testing of hypothesis and interpretation of the result making use of SPSS version 20 software.

The objective of the study was to determine effectiveness of performance appraisal system. To determine this, the study had first selected 6 criteria that determine effective performance appraisal system. These six criteria are namely fitting with Business Strategy, acceptability, validity, reliability, specific feedback and relevancy of the appraisal system. According to the

tool used in the study, the researcher identified the following as the main determinant of performance appraisal effectiveness explained by their mean and standard deviation below.

4.2.1. Fitting of Performance Appraisal with Business Strategy

Performance appraisal must fit with the overall business strategy of Commercial Bank of Ethiopia. This means objectives of performance appraisal system must match with the objectives of the organizations overall strategy. The following table shows if performance appraisal system of CBE is effective or not with respect to fitting with business strategy.

Table 4.2.1: Employees Response on Fitting with Business Strategy

Statements	Mean	Standard deviation
The performance appraisal objectives are tied to the strategic objectives of organization's each activity to be measured.	3.50	1.102
The appraisal objectives of each job matches with the standards set by the organization.	3.12	1.236
Employee's individual objective match with the organization's objective.	3.55	1.292
Employee's attitude support organization's strategy and objectives.	3.62	1.381

Source: Researcher's own survey (2017)

Table 4.2.1. As shown above it is possible to know that majority of respondents agree that appraisal fitness with strategy result from tightness of appraisal objectives and strategic objectives (mean 3.50, standard deviation 1.102). This shows that it is possible to conclude that one of the fitness with strategy indicator of CBE is to tie appraisal objectives and strategic objectives.

Additionally, most of the respondents agree that the overall appraisal fitness with strategy is the sum of each employee's individual objective matching with the organization's objective (mean 3.55, standard deviation 1.292). This explains that once employee's objective and their organization's objectives are the same, it is easy for the appraisal to fit with the business strategy.

On the statement indicating the appraisal fitness with strategy as a contribution from employees support organization's strategy and objectives, majority of the respondents agree (mean 3.62, standard deviation 1.381). This clarifies that while conducting appraisal, employees support and cooperation is necessary for the appraisal system to go paralleled with the overall organization.

Meanwhile, the agreement is relatively weak on the item that each job appraisal objectives match with the standard set for it (mean 3.12, standard deviation 1.236). This indicates that some respondents have negative response about appraisal objective standard matching with the standards set by the organization.

This finding shows that CBE’s appraisal system as perceived by respondents is effective being fit with the organizations’ strategy. All the matching of the appraisal and employees individual objective to the organization strategic objective assures its effectiveness.

4.2.2 Acceptability of Performance Appraisal

Acceptability is to mean the practical of being acceptable by the employees believing the performance appraisal system as fair. If employees have adequate knowledge on appraisal system and consider it beneficial they will accept it. In the following table employees’ response on acceptability level of performance appraisal in CBE is presented.

Table 4.2.2: Employees View on Acceptability of PA Acceptability

Statements	Mean	Standard deviation
The appraisal system communicates the performance standards to be achieved by employees.	3.25	1.164
Employees assume the performance appraisal measurement system as fair.	2.43	1.209
Key performance terms are commonly used and understood across the organization.	2.95	1.078
The performance appraisal system is acceptable by all employees of CBE.	2.40	1.289
The appraisal system enhances employee commitment and job satisfaction.	2.65	1.450

Source: Researcher’s own survey (2017)

Table 4.2 above shows that the respondents agree that the appraisal system communicates the performance standards to be achieved by employees (mean 3.25, standard deviation 1.164). This indicates that the performance appraisal acceptability, as perceived by the respondents, results from well communication of performance standards to the employees.

Meanwhile, respondents are neutral on the fact that key performance terms are commonly understood across the organization (mean 2.95, standard deviation 1.078), indicating in the current appraisal system of CBE, employees are not familiar with the key performance terms. This followed by lesser contribution of employees for the effectiveness of the appraisal system.

Additionally, CBE's appraisal system as perceived by the respondents, fail in employee commitment and job satisfaction (mean 2.65, standard deviation 1.450). The negative effect of the current appraisal system pushes employees to reject the system in a way contributing to appraisal system ineffectiveness.

Concerning the level of agreement on the issue of performance appraisal system fairness, respondents disagree (mean 2.43, standard deviation 1.209). This indicates the appraisal system being not fair results in rejecting the system by the employees of CBE. This in a long run results in less effective appraisal system.

To sum up, the items mentioned in the acceptability of performance appraisal i.e. appraisal system fairness, understandability of performance terms, enhancement of job satisfaction and commitment were all treated negatively by the respondents expect communication of performance standards to the employees.

2.3. Validity of Performance Appraisal

Performance appraisal validity is necessary as much as the application of the system itself. This is to mean validity of performance appraisal is meeting the intended purpose of the appraisal system. If the aim of applying such system is not met, the reason of its existence in the first place will fall in question. Generally, validity refers to performance appraisal accuracy with reducing error in the process to serve its intended purpose. In the following table validity of performance appraisal system in CBE is shown.

Table 4.2.3: Employees Attitude on Validity of PA

Statements	Mean	Standard deviation
The performance appraisal system establishes performance standards considering the organization environment and overall objectives.	3.10	1.169
The information gathered for measuring performance is relevant.	3.15	1.137
The performance appraisal system use of appropriate measurement technique.	2.70	1.060
The appraisal measures all relevant aspects of performance.	2.65	1.069
The appraisal process is free from rater's bias.	2.95	1.202

Source: Researcher (2017)

Table 4.2.3 above shows that the respondents agree that the appraisal system establishes performance standards considering the organization environment and overall objectives (mean 3.10, standard deviation 1.169). From this it is possible to know, establishing performance standard play much in directing the right way to measure employees performance. This enables the system of performance appraisal to be effective with respect to measuring actual performance of employees.

Concerning respondents' agreement on the information gathered for measuring performance is relevant (mean 3.15, standard deviation 1.137), the appraisal system of CBE done much in

collecting and using relevant information for the appraisal system. This enables the appraisal system to effectively provide valid output.

On the statement that the appraisal measures all relevant aspects of performance, respondents disagree (mean 2.65, standard deviation 1.069). From this response it is possible to conclude the appraisal system miss some relevant aspects. This may result from inappropriate measurement technique used for appraisal measurement as the respondents disagree on the points.

Meanwhile, respondents are almost neutral on whether the appraisal process is free from rater's bias (mean 2.95, standard deviation 1.202). This indicates that even if rater's bias affect validity of the system, it is not possible to detect whether or not it exists in CBE from the response.

4.2.4 Reliability of Performance Appraisal

As performance appraisal system is conducted annually the issue of its timeliness have effect of its effectiveness. Appraisal system should be consistent, timely and predictable to fulfill reliability criterion of performance appraisal system. In CBE, reliability of performance appraisal is checked with the response of employees for the following reliability questions in this study as shown below.

Table 4.2.4: Employees Opinion on Reliability

Statements	Mean	Standard deviation
The performance appraisal standard consistently and objectively measure employee performance.	2.80	1.289
The same exact activity and result performed by employee is measured and valued exactly the same.	2.96	1.290
The performance measure reflects all aspects of the organization.	2.85	1.202
The appraisal system measures performance of employees for a specified period of time.	3.22	1.180
The appraisal system sufficiently measure both past and on-going performance.	2.62	1.140

Source: Researcher's own survey (2017)

Table 4.2.4 above shows that majority of the respondents agree that the appraisal system measures performance of employees for a specified period of time (mean 3.22, standard

deviation 1.180). This statement of agreement on the issue of measuring performance for a specified time result in reliability of the appraisal system.

Concerning the statement the same exact activity and result performed by employee is measured and valued exactly the same, most respondents are neutral (mean 2.96, standard deviation 1.290), which cannot indicate whether or not there is a uniform measurement of performance.

However respondents disagree on performance appraisal standard consistently and being objectively measure of employee performance (mean 2.80, standard deviation 1.290). In addition respondents disagree that the appraisal system sufficiently measure both past and on-going performance.

4.2.5 Feedback of Performance Appraisal

In performance appraisal process, after the actual performance is measured, the results must be provided to the employee. This is called feedback that refers to communication with employees for the results of performance appraisal system. Communicating results help employees identify their strength and weakness an also it helps in decision making. The following table provide how performance appraisal feedback is sufficiently available in CBE from responses of employees.

Table 4.2.5: Employees Response on Specific Feedback of performance appraisal

Statements	Mean	Standard deviation
The appraisal feedback specifies how much employees met their expectations.	3.13	1.216
The appraisal system helps employees to know their strength and weakness.	3.28	1.211
Employees can actively engage and allowed to use the performance feedback information in their continuous process improvement effort.	3.28	1.102
The feedback report information is appropriately presented, reported and documented.	3.17	.952
The performance feedback is constructive and helpful for future tasks.	3.43	1.145
The performance report is used internally to support decision making such as promotion, demotion, recognition, layoff, etc.	3.37	1.162

Source: Researcher's own survey (2017)

Table 4.2.5 above shows that respondents agree that the performance feedback is constructive and helpful for future tasks (mean 3.43, standard deviation 1.145) and majority agreed that the performance report is used internally to support decision making (mean 3.37, standard deviation 1.162). half of the respondents agreed employees can actively engage and allowed to use the performance feedback information in their continuous process improvement effort help them to know strength and weakness. However respondents were neutral about appraisal feedback report specify how much employees met their expectations and properly presented, reported and documented.

4.2.6 Relevancy of Performance Appraisal

Relevancy refers to the benefits from the performance appraisal system. For any system to be accepted by employees, it must be beneficial. As it adds value to the current situation, it can be applicable. Appraisal benefit all parties in the organization; the appraiser, the appraisee and the organization. This research tries to identify the current appraisal system benefits with the following related questions shown in the table below.

Table 4.2.6: Employees Perception on Relevancy of Performance Appraisal

Statements	Mean	Standard deviation
The appraisal system is being used for generations of long term plans.	3.30	1.107
The performance appraisal system creates sense of loyalty and closeness to the organization.	3.28	1.211
The appraisal provide appropriate information for decision making related to employees promotion, demotion, recognition, hiring and layoffs.	3.32	1.240
The appraisal system help identify the need for training and development.	3.58	1.188
Performance appraisal serves as a basis for developing employees' competency, knowledge and understanding.	3.50	1.079
The appraisal system increase employees' motivation and job satisfaction	2.93	1.339
The current performance appraisal assists in the prediction of future performance.	3.40	1.208

Source: Researcher's own survey (2017)

Table 4.2.6, above shows respondents agree that the appraisal system help identify the need for training and development (mean 3.58, standard deviation 1.188), Performance appraisal serves as a basis for developing employees' competency, knowledge and understanding (mean 3.50, standard deviation 1.079), the current performance appraisal assists in the prediction of future performance (mean 3.40, standard deviation 1.208). on the other side respondents disagree that the appraisal system increase employees' motivation and job satisfaction.

However respondents were neutral on the performance appraisal system creating sense of loyalty and closeness to the organization and also respondents were indifferent about the application of the appraisal system for generations of long term plans.

Though more than half of the respondents agree the appraisal provide information for decision making related to employees promotion, demotion, recognition, hiring and layoffs, recognizable number respondents responded that they disagree the appraisal information is providing appropriate information for decision making. Thus this implies that decision making related to employees is made based on inappropriate appraisal information.

4.2.8. Descriptive Analysis

When some concepts are measured by several items (questions), the items can be summarized to calculate the mean values. This is called calculating total scale scores. To conduct the analysis and to test the hypothesis, total scale scores was calculated for each variables of the study as depicted in the table below.

Table 4.2.8, Descriptive Analysis

Variables	No. of Observation	Mean
Fitting with Business Strategy	80	3.45
Acceptability	80	2.74
Validity	80	2.27
Reliability	80	2.88
Specific Feedback	80	3.27
Relevancy	80	3.33

The above table shows the mean and standard deviation of selected variables and employee performance appraisal given by respondents of the study, when the researcher observe the mean value for fitting with business strategy, it is 3.45, which makes it possible to conclude that majority of the respondents agrees to the items raised under the fitting with business strategy section. And this indicates that most of the employees have a positive opinion regarding the issues of the current performance appraisal being fit with the overall business strategy of CBE.

The second variable is about acceptability of the performance appraisal system, the mean value 2.74 which implies that majority of the respondents disagree on the raised questions regarding the acceptability of appraisal practice of the bank and performance appraisal is not acceptable by the employees of the organization.

The third variable is about validity of the appraisal system being employed; here the mean value is 2.27, which indicates that the majority respondents do not assume the current performance appraisal system as valid.

With respect to the fourth variable i.e. Reliability, the mean value 2.88, which implies that majority of the respondents responded disagree on the raised questions regarding the reliability of appraisal system of the bank and the appraisal is not effective with respect to reliability.

When coming to the next variable i.e. Specific Feedback, the mean value is 3.27, which makes it possible to conclude that more than 50% of respondents do have a good attitude towards the appraisal system offering specific feedback to employees.

The final variable among independent variables i.e. Relevancy, having a mean value of 3.33, implies that more than half of the respondents agree on the significance of the current appraisal system and they believe the appraisal system have benefits.

The last variable on the above table is the dependent variable of the study i.e. Effective Employee Performance Appraisal and its mean value is 2.97, which implies majority of the respondents do not agree that CBE's employee performance appraisal being used is effective. And this indicates that most of the employees have a negative opinion regarding the issues of employee performance appraisal.

When we compare the overall mean values for all variables of the study, acceptability, validity and reliability scores are the least ones; this indicates that CBE did not considered validity, reliability and acceptability of performance appraisal system well. Therefore, the bank needs to work on that in order to improve the effectiveness of performance appraisal.

4.2. Correlation Analysis

In this section, the researcher tried to accomplish the goal of the study through applying Pearson’s correlation as it is the most widely used method of measuring the degree of relationship between two variables. The dependent variable effective employee performance appraisal and independent variables below.

The relationship between two variables will be: a correlation of .10 is described as a small effect size, a correlation of .30 is described as a medium effect size and a correlation .50 is described as a large effect size (Pallant, 2005).

$r=.10$ to $.29$ or $r=-.10$ to $-.29$	small
$r=.30$ to $.49$ or $r=-.30$ to $-.4.9$	medium
$r=.50$ to 1.0 or $r=-.50$ to -1.0	large

Source: Cohen (1988)

The correlation among selected independent variables and employee performance appraisal was computed and presented in the table below:

Table 4.3. Correlation Analysis

Independent Variables	No. of observations	Pearson Correlation	Sig. (2-tailed)
		Effective Employees performance Appraisal	
Fitting with Business Strategy	80	0.368**	.000
Acceptability	80	0.028**	.000
Validity	80	0.243**	.000
Reliability	80	0.305**	.000
Specific Feedback	80	0.005**	.000
Relevancy	80	0.229**	.000

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

4.3.1. Fitting with Business Strategy and Performance Appraisal

H1:- Fitting with business strategy is positively related to performance appraisal.

H0:- There is no positive relationship between fitting with business strategy and performance appraisal.

The result on the above table shows that fitting with business strategy ($r=0.368$, $p<0.01$) is positively and on average significantly related with performance appraisal. This means being fit or not with the strategy of the organization will bring corresponding change in effectiveness of employee performance appraisal. Thus, the null hypothesis is rejected.

4.3.2. Acceptability and Performance Appraisal

H2:- Acceptability is positively related to performance appraisal.

H0:-There is no positive relationship between acceptability of PA and performance appraisal.

From the above table it can be seen that acceptability ($r=0.028$, $p<0.01$) is positively related with performance appraisal. Implying that a change in the acceptability of performance appraisal will have a corresponding change on performance appraisal. Thus, the null hypothesis is rejected.

4.3.3. Validity and Performance Appraisal

H3:- Validity is positively related to performance appraisal.

H0:-There is no positive relationship between validity of PA and performance appraisal.

From the above table it can be observed that Validity of PA ($r=0.243$, $p<0.01$) is positively but less significantly related with effective performance appraisal. This means that working on validity of PA will have a corresponding change on effective performance appraisal. Thus, the null hypothesis is rejected.

4.3.4. Reliability and Effective Performance Appraisal

H4:- Reliability is positively related to performance appraisal.

H0:-There is no positive relationship between reliability and performance appraisal.

The above table reports that reliability ($r=0.305$, $p<0.01$) is positively related with effective performance appraisal. Implying that the more reliable performance appraisal is, the more effective PA is. Thus, the null hypothesis is rejected.

4.3.5. Specific Feedback and Performance Appraisal

H5:- Specific feedback is positively related to performance appraisal.

H0:- There is no positive relationship between specific feedback and performance appraisal.

From the above table it can be seen that working conditions ($r=0.005$, $p<0.01$) is positively correlated with employee performance. This means that a change in the working conditions will bring corresponding change on the performance of employees. Thus, the null hypothesis is rejected.

4.3.6. Relevancy and Performance Appraisal

H6:- Relevancy is positively related to performance appraisal.

H0:- There is no positive relationship between relevancy and performance appraisal.

From the above table it can be seen that relevancy of PA ($r=0.229$, $p<0.01$) is positively correlated with effective performance appraisal. This means that a change in the relevancy will bring corresponding change on the performance appraisal of employees. Thus, the null hypothesis is rejected.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND ECOMMENDATIONS

This chapter deals with summary of major findings of the study, conclusions and recommendations of possible solutions for the problems identified.

5.1. Summary of Major Findings

Based on the study data analysis the following major findings were presented.

1. Descriptive statistics was used to indicate that the means for fitting with business strategy, acceptability, validity, reliability, specific feedback and relevancy of performance appraisal. These are fitting with business strategy (3.45), acceptability (2.74), validity (2.27), reliability (2.88), specific feedback (3.27) and relevancy (3.33). The result has shown that performance appraisal of the bank have worked better on fitting PA with the organization business strategy, giving specific feedback and being relevant for the whole organization and employees. The lowest mean was observed for acceptability, validity and reliability of PA, which implies the bank have a poor performance appraisal practice of providing valid and reliable performance appraisal system and the bank fail to implement PA system that can be acceptable by all employees.
2. Correlation coefficient was computed for the purpose of determining the relationship between the independent variables and the dependent variable i.e. effective employee performance appraisal. There was a positive and statistically significant relationship between the variables mentioned above. For fitting with business strategy ($r=.368$, $p<0.01$), acceptability of PA ($r=.028$, $p<0.01$), Validity of PA ($r=.243$, $p<0.01$), reliability of PA ($r=.305$, $p<0.01$), specific feedback of PA ($r=.005$, $p<0.01$) and relevancy of PA ($r=.229$, $p<0.01$). All variables show positive and significant relationship with employee performance.
3. The regression analysis was done to ascertain the extent to which the variables mentioned explain the variance in employee performance. The value of Adjusted $R^2=.61.9$ which indicates 61.9% of variance in employee performance is explained by the variables fitting with business strategy, acceptability, validity, reliability, specific

feedback and relevancy. It supported the hypothesis that the effective PA criteria have a significant effect on performance appraisal system effectiveness.

5.2. Conclusions

Commercial bank of Ethiopia is expected to make an effort to modify and take necessary measure to establish effective employee performance appraisal system. The purpose of this study was to examine the criteria that bring effective PA in the process of improving the effectiveness of performance appraisal of employees to deliver the service required from them for the purpose of meeting the organizational goal. Based on the study and the analysis made, the following conclusions can be made. Human resources are generally regarded as the most important asset in an organization. It is people who provide experience, talent, skills and knowledge necessary to achieve the organizational goals. The survival or progress of an organization depends on its ability to identify, select, train and retain the right people. In all this processes of employees work experience their performance level is needed to be known and for this applying effective performance appraisal system is necessary.

The researcher addresses the research questions on each of the six independent variables and the dependent variable raised based on the findings from the study and the following points states the conclusions made on the basis of the results.

1. **Fitting of PA with the organization business strategy:** The study finding indicated that fitting with business strategy is significantly related with performance appraisal. This means being fit with the strategy of the organization will help much for the effectiveness of employee performance appraisal. Briefly, performance appraisal objectives and employee's individual objective match with the organization's objective assuring all of the employees, the appraisal system and the whole organization work together for the same objective.
2. **Acceptability of PA:** As the findings shows that acceptability of PA is positively related implying employees acceptability of PA work much more on its effectiveness. This is a factual truth as PA is for employee's performance measurement. For

employees to accept the system of PA, performance standards must be communicated. CBE's employees have positive opinion on this, as shown in the findings, but they do not assume the system as fair. Therefore, CBE performance appraisal is not acceptable by its employees.

3. **Validity of PA:** The third variable that affect effectiveness of performance appraisal is validity of the appraisal system being employed. CBE establishes performance standards and gathered relevant information for measuring performance the appraisal fail to measures all relevant aspects of performance. This may result from inappropriate measurement technique used for appraisal measurement as the respondents disagree on the points. As per the findings of the study the current performance appraisal system is not valid.
4. **Reliability of PA:** Appraisal system of CBE measures the actual performance of employees for a specified period of time as in the findings. However the performance appraisal standard does not consistently, sufficiently and objectively measure all aspects of employee performance in CBE. From this the study can conclude that CBE's performance appraisal system is not reliable.
5. **Specific Feedback of PA:** findings of the study showed CBE's performance appraisal system provide specific feedback that have significant and positive effect on effectiveness of performance appraisal. And the feedback is constructive, supportive for future tasks, internally used for decision making, and help to know strength and weakness. But the appraisal system have problems of proper presentation, reporting and documentation of appraisal results.
6. **Relevancy of PA:** Relevancy is the last variable that have positive effect on performance appraisal, as for any system to be considered effective it should be beneficial. CBE's performance appraisal system serve as a basis for developing employees' competency, knowledge and understanding. It also help identify the need for training and development

assisting in the prediction of future performance. However, as discussed in the study findings, CBE's appraisal system fail in increasing employees' motivation, job satisfaction, creating sense of loyalty and closeness to the organization, and using the system for generations of long term plans.

Generally, CBE's employee performance appraisal being used is not effective having a mean value of 2.97 as indicated in the findings of the study. A comparison of mean values is made with the study and from this it can be concluded CBE did not considered validity, reliability and acceptability of performance appraisal system well. Therefore, the bank needs to work on that in order to improve effectiveness of performance appraisal.

5.3. Recommendations

Acceptability, validity and reliability of performance appraisal system are found to be the problem areas of the current appraisal system of CBE.

Deviation from fair measurement system followed decreased job satisfaction and commitment resulted in objection on performance appraisal by employees. Therefore, it is recommended to apply fair measurement system using commonly understood key performance terms throughout the appraisal process. Open communication and making the purpose of performance appraisal developmental will also help employees accept the system by increasing job satisfaction and commitment.

The current appraisal system of CBE failed to use appropriate technique that measures all relevant aspects of performance and the system is found to be biased. It is therefore important to focus on reducing error and improving the accuracy of performance appraisal. To eliminate errors appropriate technique must be employed that measures all relevant aspects of performance. And also rated performance that consistently lower than, exceed or falls in middle of rating scale irrespective of true score performance of employees must be avoided. This brings an appraisal result that is free from any bias.

The other gap found to be improved is on the reliability of performance appraisal, that it should follow uniform, consistent, objective and trustworthy measurement technique of employee

performance. Additionally, the appraisal should recognize the relative importance of certain tasks and responsibilities and has the ability to prioritize to ensure that deadlines are met. Performance appraisal must be dependable in performing all job-related tasks of the organization sufficiently.

Although gaps are identified on acceptability, validity and reliability of PA in the study, it does not mean the other factors are free from errors. For instance, in fitting of PA to the organizations strategy, it is detected that appraisal objectives of each job do not match with the standards set by the organization as it should be. Therefore, it is necessary to collide the standard and objective of jobs both in the appraisal system and in the overall organization activities even for a specific job. In Commercial bank of Ethiopia employees have a positive attitude towards the specific feedback provided from performance appraisal system; this doesn't mean the bank must keep the current practice as it is, however the bank must still work on the appraisal feedback report information appropriateness, i.e. feedback report must continually presented, reported and documented appropriately. And as explained in the analysis and the findings appraisal feedback must specify how much employees met their expectations.

The other point that the appraisal must consider is that the relevancy of it and improvement needed in the future. The appraisal must benefit all parties in the organization. Even if the organizations have a relevant performance appraisal system, if it doesn't get improved from time to time, it cannot address the timely needs of employees.

Lastly, effective performance appraisal is vital in the day-to-day performance of employees' tasks. Sequentially, employee performance appraisal of any organization is improved by making it go with the strategy and acceptable, valid& reliable, and take benefit out of it to satisfy all employees.

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APPENDEX - Questionnaire

St. Mary University

General MBA Program Research on Effectiveness of Employee Performance Appraisal Questionnaire

A questionnaire to be filled by Commercial Bank of Ethiopia staffs

Dear respondent:

This questionnaire is designed to collect data for the study entitled ‘**effectiveness of employee performance appraisal in commercial bank of Ethiopia**’. Hence, I kindly request you to fill in this questionnaire while assuring you that the information that you provide will be kept with confidential and shall only be used for the purpose of this academic research. I would like to remind you that your honest and impartial response will make this research very successful.

Thank you for your cooperation

Sincerely,

Please respond to each item by putting a tick (✓) mark in the appropriate box and fill in the blank on the number which best reflects your own perception.

Part I: Demographic variables of respondents (please do not include your name)

1. What is your gender?

Male Female

2. Which is your age category?

18 – 30

31– 50

Greater than 50

3. What is your educational background?

Diploma

Degree

Above Degree

Other, please specify _____

4. For how long have you been working in CBE?

One year

1-2 years

3-4 years

Above 5 years

5. What is your current position?

Managerial

Non-managerial

Part II: Opinion Investigation on Performance Appraisal Effectiveness

Please indicate the extent to which you agree\disagree with the following statements. Strongly Disagree carries the least weight of 1 while strongly Agree carries the highest weight of 5. Please put (√) mark accordingly.

I: Fitting with business strategy		Rating Scale				
No.	Statements	SD (1)	DA (2)	N (3)	A (4)	SA (5)
1.	The performance appraisal objectives are tied to the strategic objectives of the organizations' each activities to be measured.					
2.	The performance objectives of each job matches with the standards set by the organization.					
3.	Employee's individual objective match with the organization's objective.					
4.	Employee's attitude support organization's strategy and objectives.					

II: Acceptability		Rating Scale				
No.	Statements	SD (1)	DA (2)	N (3)	A (4)	SA (5)
1.	The appraisal system communicate the performance standards to be achieved by employees.					
2.	Employees assume the performance appraisal measurement system as fair.					
3.	Key performance terms are commonly used and understood across the organization.					
4.	Employees believe the performance appraisal system is acceptable by all employees.					
5.	The performance appraisal enhances employee commitment and satisfaction for their job.					

III: Validity		Rating Scale				
No.	Statements	SD (1)	DA (2)	N (3)	A (4)	SA (5)
1.	The performance appraisal system establishes performance standards considering the organization environment and overall objectives.					
2.	The information gathered for measuring performance is relevant.					
3.	The performance appraisal system use appropriate measurement technique.					
4.	The appraisal measure all the relevant aspects of performance.					
5.	The appraisal process is free from rater's bias.					

IV: Reliability		Rating Scale				
No.	Statements	SD (1)	DA (2)	N (3)	A (4)	SA (5)
1.	The performance appraisal standard consistently and objectively measure employee performance.					
2.	The same exact activity and results performed by employee is measured and valued exactly the same.					
3.	The performance measure reflects all aspects of the organization. (both financial and non-financial)					
4.	The appraisal system measures the actual performance of employees for a specified period of time.					
5.	The appraisal system sufficiently measure both past performance and on-going processes.					

V: Specific Feedback		Rating Scale				
No.	Statements	SD (1)	DA (2)	N (3)	A (4)	SA (5)
1.	The appraisal feedback specifies how much employees meet their expectations.					
2.	The appraisal system helps employees to know their strength and weaknesses.					
3.	As an employee, I can actively engage and allowed to use the performance feedback information in the continuous process improvement effort filling their gaps.					
4.	The feedback report information is appropriately presented, reported and documented.					
5.	The performance feedback is constructive and helpful for employees in their future task.					
6.	The performance result information is used internally to support decision making such as promotion, demotion, recognition, layoff, etc.					

VI: Relevancy		Rating Scale				
No.	Statements	SD (1)	DA (2)	N (3)	A (4)	SA (5)
1.	The appraisal system is being used for generations of long-term plans.					
2.	The performance system helps the organization by creating sense of being close to the organization & sense of loyalty.					
3.	The appraisal provide appropriate information to support decision making related to employees promotion, demotion,					

	recognition, hiring, layoff, etc.					
4.	The appraisal system help identify the need of training and development.					
5.	Performance appraisal serves as a basis for developing employees' competency, knowledge and understanding.					
6.	The appraisal system increase employees' satisfaction & motivation for their job.					
7.	The current performance appraisal assists in the prediction of future performance.					

Finally, write any ideas or comment about CBE's performance appraisal system that are not incorporated in the above questionnaire.

Declaration

I, the under signed declare that this thesis is my original work and has not been presented for a degree in any other University, and that all sources of the material used for the thesis have been duly acknowledged.

Name: Mihret Gitma

Signature: _____

Date: January, 2018

This thesis has been submitted for examination with my approval as a University advisor.

Advisor: _____ Signature: _____ Date: _____

ENDORSEMENT

This is to certify that Mihret Girma has carried out his research work on entitled “Effectiveness of Performance Appraisal in Commercial bank of Ethiopia” for the partial fulfillment of Masters of Arts in General Business Administration at St. Mary’s University. This work is original and it is suitable for submission of Masters of Arts in General Business Administration.

Shoa Jemal (Asst.Prof)
Advisor

Signature and Date