



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

**ASSESSMENT OF EMPLOYEES PERFORMANCE APPRAISAL
PRACTICES AND CHALLENGES AT ABAY BANK S.C**

**By
Selamawit Siyoum**

**June, 2018
Addis Ababa, Ethiopia**

**ASSESSMENT OF EMPLOYEES PERFORMANCE APPRAISAL
PRACTICES AND CHALLENGES AT ABAY BANK S.C**

**By
Selamawit Siyoum**

**A THESIS SUBMITTED TO: ST. MARY'S UNIVERSITY,
SCHOOL OF GRADUATE STUDIES
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR
THE AWARD OF THE DEGREE OF MASTER OF BUSINESS
ADMINISTRATION**

**JUNE, 2018
ADDIS ABABA, ETHIOPIA**

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

**ASSESSMENT OF EMPLOYEES PERFORMANCE APPRAISAL
PRACTICES AND CHALLENGES AT ABAY BANK S.C**

**By
Selamawit Siyoum**

APPROVED BY BOARD OF EXAMINERS

Dean, School of Business

Advisor

External Examiner

Internal Examiner

Signature

DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Asst. Professor Shoa Jemal. All sources of material used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institutions for the purpose of earning any degree.

Name

St. Mary's University, Addis Ababa

Signature

June, 2018

ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate studies for examination with my approval as a university advisor.

Shoa Jemal

Advisor

St. Mary's University, Addis Ababa

Signature

June, 2018

ACKNOWLEDGEMENTS

First and foremost, I would like to thank Almighty GOD for every breath since my birth and His involvement in my life successes and failures. Everything happened for a reason.

I would like to express my deeper gratitude to my advisor Shoa Jemal (Asst. Prof) for his kind support and follow up. Close to my heart is also my mother Wro. Genet Debebe for your every support and guidance, I am proud to be your Daughter.

My great thanks also go to all Abay Bank S.C employees who were willing to cooperate the data collection and respond the questionnaires. The Human Resource Department Director Ato Ayalkibet Amdemariam for his cooperation for an interview.

LIST OF ACRONYMS

PA	Performance Appraisal
HR	Human Resource
HRM	Human Resource Management
SPSS	Statistical Package for the Social Sciences
BARS	Behaviorally Anchored Rating Scale
BSC	Balanced Score Card
SD	Standard Deviation

TABLE OF CONTENTS

Acknowledgments	I
List of Abbreviations	II
Table of Contents	III
List of Tables	VI
List of Figures	VII
Abstract	VIII

CHAPTER ONE: INTRODUCTION

1.1. Background of the Study.....	1
1.2 Statement of the Problem	3
1.3 Research Questions	5
1.4. Objective of the Study	5
1.4.1. General Objective	5
1.4.2. Specific Objectives	5
1.5 Significance of the Study	6
1.6 Scope of the Study	6
1.7 Definition of Terms	6
1.8. Structure of the Study	7

CHAPTER TWO: REVIEW OF RELATED LITERATURE

2.1. Meaning of Performance	8
2.2. Performance Management and Appraisal Overview	8
2.3 Performance Appraisal	9
2.3.1 Meaning of Performance Appraisal	9
2.4 Performance Appraisal Approaches	10
2.5 Performance Appraisal System	11

2.6 Performance Appraisal Methods	12
2.7 Who performs the Performance Appraisal?	14
2.8 Performance Appraisal Process	16
2.9 Reasons for Conducting Performance Appraisal	18
2.9.1 Effectiveness of Performance Appraisal systems	19
2.10 Solving Problems in Performance Appraisal.....	19
2.11 Challenges Affecting Performance Appraisal Practice	20
2.12 Conceptual Framework	23

CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY

3.1 Research Design & Approach	24
3.2 Target Population and Study Size	24
3.3 Sample and Sampling Technique.	25
3.4 Data Collection Procedure	26
3.5 Tools for data collection	27
3.5.1 Questionnaire	27
3.5.2 Interview	27
3.6 Measuring Data Analysis	28
3.7 Pilot Testing	28
3.7.1 Validity.....	28
3.7.2 Reliability	28
3.8 Ethical Considerations	29

CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION

4.1 Demographic Profile of the Respondents.....	30
4.2 Data Analysis Pertaining to the Study.....	32

4.3 Major Challenges that Affect the performance Appraisal	43
4.4 Descriptive Statistics Results	45
CHAPTER 5: FINDINGS, CONCLUSIONS AND RECOMMENDATIONS	
5.1 Summary of Major Findings	47
5.2 Conclusions	49
5.3 Recommendations.....	50
5.4 Limitation of the Study	51
References	53
Appendices	55
Appendix 1	55
Appendix 2	59

LIST OF TABLES

Table 3.1: Total Population	25
Table 3.1 Reliability Analysis	29
Table 4.1.2 Demographic Nature of the Respondents	31
Table 4.2.1: Respondents Opinion on Strategic Objective of the Bank	33
Table 4.2.2: Respondents Opinion on Performance Appraisal Standards of the Bank	34
Table 4.2.3: Respondents Opinion on Communication of Performance Standards	36
Table 4.2.4: Respondents Opinion on Actual Performance Measurement	37
Table 4.2.5: Respondents Opinion on Comparison of Actual Performance with Standards	39
Table 4.2.6: Respondents Opinion on Feedback System	41
Table 4.2.7: Respondents Opinion on Use of Performance Appraisal Results	42
Table 4.3: Respondents Opinion on Major Challenges Affecting Performance Appraisal	43
Table 4.4: Descriptive Statistics Summary.....	45

LIST OF FIGURES

FIGURE1. Conceptual Framework	23
-------------------------------------	----

ABSTRACT

A primary goal of every organization is achieving effective performance of human resources. Similar to any organization, banks evaluate their employees' performance by aiming performance improvements. The objective of the study was to assess performance appraisal practices and its challenges in Abay Bank S.C. The scope of the study was delimited to only Addis ababa branches by taking 15 branches. The sampling method used was a cluster sampling and random sampling for the questionnaire and target sampling for interview conducting. The study employed descriptive research design supplemented with both qualitative and quantitative approach. Quantitative data was collected using questionnaires and qualitative data was using interview method. The interview results were analyzed by using narration while SPSS was used to analyze the questionnaire results. Moreover the findings indicate that the strategic objective of the bank isn't clear; The bank has a gap in informing employees about objectives and performance standards; all non managerial employees are appraised by their managers ; Staffs in different job position compared with same standards; the bank have a gap in giving feedback and identifying corrective actions. Moreover the major challenges that affect the performance appraisal system were stated. The result suggests that communicating employees about the business strategy and performance standards; the bank needs to keep up on the preset standards but, it should be job related, and managers and subordinates should agree on performance expectations; raters should get training; the bank should participate others for appraising employees and use appraisal result to make most of administrative and developmental decisions.

Key words: *Performance appraisal, strategic objectives, rater errors, performance standard*

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

A primary goal of every organization is achieving its objective through effective performance of human resources. In this view, performance appraisal practice of human resource management provides to the basis of evaluating and developing employee performance in order to get better organizational accomplishment. Similar to any organization, banks evaluate their employees' performance for effective human resource management.

There are several important human resource management practices that could support the organization's business strategy. An organization performs well when all of personnel practices are managed well. At companies with effective human resource management, employees and customers have a tendency to be more satisfied, and the companies tend to be more pioneering, have greater productivity, and develop a more encouraging standing in the community.

Performance management is defined as the process by which executives, managers, and supervisors work to align employee performance with the firm's goals. (J.M.Ivancevich, 2004) he also stressed that the alignment of employee performance with firm's goals.

Performance appraisal is a formal method for evaluating how well an individual employee is performing with respect to set goals of the organization. Its vital purpose is to communicate individual objectives, encouragement and motivate good performances, provide useful feedback, and set the stage for an effective organizational plan. Performance appraisal is not a onetime activity instead it has a formal process to follow and should be done continually.

As per Greg and Kenneth (2009) performance appraisal is the process of measuring what employees contribute to the organization. It is the necessary but difficult part of managing others. Indeed, for many managers, performance appraisal is near the top of the list of undesirable duties. What makes this task so tough? One reason managers dislike performance appraisal is the difficulty of capturing all areas of contribution. Employees contribute in a number of different

ways, and it is often hard to accurately evaluate their efforts with a numerical score. Another reason is that many employees seem to feel that performance ratings are biased. They see the process as sometimes unfair. A starting point for thinking about performance measure is to consider ways in which evaluations can be inaccurate. Performance appraisal is the specific and formal evaluation of an employee to determine the degree to which the employee is performing his or her job effectively.

Armstrong, M. (2009), stated that among the objectives of performance appraisal is communication which serves as a two-way channel for communication about roles, expectations (objectives and competency requirements), relationships, work problems and aspirations. Feedback is important for it can enhance self - awareness by highlighting strengths and can facilitate growth by pointing out areas in need of development. We learn from the outcomes of our behavior, and feedback is an important factor in helping us improve our performance.

1.1.1 Back ground of Abay Bank S.C

Ethiopia's mighty river, the Great Abay, is a dramatic spectacle and a symbol of natural strength and grandeur. It is not only a magnificent sight to visit, but also a river with immense potential for our country's development.

This tremendous natural strength similarly explains why they are named Abay. They are here to foster growth and development by promoting and financing different sectors, thereby generating employment opportunities and accelerating capital formation, by ensuring a safe, stable and sound financial system.

As a number of travelers coming to visit the river Abay find them surrounded by curious and polite children dressed in simple woolen garments, our dedicated employees supported by the state-of-the art banking technology will welcome you with blue shirts and serve you with diligence and efficiency.

Abay River Ethiopian's jewel has the potential of being the major catalyst for growth and development. By the same token, our Bank aspires to be an engine of growth and development in

the financial sector for the farmers, business men and other customers. We are here to lead the way to financial empowerment.

Abay Bank is here to create awareness on the efficient utilization of various financial services including consulting various projects and eventually financing them. Abay Bank is committed to the community in which it operates. Their ultimate objective is to grow with their clients and make sure we achieve success along the way.

Abay Bank is governed by Board of Directors who are elected by the General Assembly. The number of Bank's permanent employees has reached more than 1400. Most importantly, the Bank is endowed with highly committed top management and staff that can fulfill the vision and mission of the Bank.

Abay Bank has more than 3,700 shareholders all over the country, and the composition of the shareholders are the public mainly farmers, cooperatives, unions and businessmen. The paid-up capital of the Bank reached Birr 720 Million as of June 30, 2016 and its subscribed capital was around Birr 728 Million. To enhance its competitiveness and strength, the Bank recently raised its capital from ETB 500 Million to ETB 1 Billion, and is undergoing extensive sales of its share to the public. On this occasion, we are pleased to inform you that you can buy the highly profitable share of Abay Bank and own the Bank.

Source: www.abaybank.sc.com.et

1.2 Statement of the Problem

“The most important and overriding goals of HRM is improving the performance on productivity of their organization and this also be realized through the sum total of performance achieved by all employees. Performance has to properly planned, coached and appraised by giving consideration to the interest of the organization.” (Armstrong, 2010).

According to Ramasamy(1998) the management may take the following measures to make the appraising more effective. Single employee is rated by two raters. Then, the comparison is made to get accurate rating, a separate department may be created for effective performance appraisal, the plus points of an employee should be recognized, at the same time, the minus points should not be highlighted too much but they may be hinted to him, the standard for each job should be

used for performance appraisal to each job according to the nature of the job, Separate printed forms should be used for performance appraisal to each job according to the nature of the job, The measurement should create confidence in the minds of employees and Continuous and personal observation of an employee. Obviously the form filled by the employees of different departments should be different because of the nature of the job however the observation of the researcher noticed that all departments without consideration of the nature of the job the bank has the same appraisal form at all level and departments.

As per DeCenzo (2010) no performance appraisal system is perfect. Mistakes made by raters are a major source of problems in performance appraisal. There is no simple way to completely eliminate these errors, but making raters aware of them through training is helpful. Ratter errors are based on the feelings and it has consequences at the time of appraisal. Some of the mistakes are recency effect, central tendency, leniency, strictness, and rater bias, horns and halo effect.

The bank has done a performance appraisal for the previous years and the researcher has made a survey by informal interview through telephone to randomly selected employees on some branches and from their responses the researcher understood that no feedback is given to an employee instead, the bank collects the performance evaluation form which is filled by supervisors of the branches and signed by the employee who is evaluated.

The usual practice done by employees is signing on the evaluation form after a mark filled by the supervisors carelessly sometimes even without reading the paper. The reason behind the careless action of the employees is mostly they believe that it brings nothing to them or on them (in other words no reward or punishment is followed) due to the evaluation mark. It was better to give trainings to low performer employees but, it hasn't seen before trainings that are conducted based on the performance of the employees in Abay Bank S.C. It is also most of the respondents feel that mostly managers fill the performance evaluation forms subjectively which they favor some employees who don't deserve and the reverse for others and on the other side there are supervisors who give higher score to all employees without considering their performance and the reverse. Due to such reasons it is usual to hear employees that "He/she (supervisors) gave me this much" and "X branch manager gives above some amount to all employees in the branch" this clearly indicates that the operational level staffs think that the performance is done subjectively.

As per the observations made by the researcher in different web sites and in the university library even if there are a lot of researches that have been done regarding performance appraisal practice and challenges, there was no research that was done to assess performance appraisal practice and challenges in Abay Bank Share Company. Therefore, in this study the researcher assessed performance appraisal practice and challenges in detail in Abay Bank Share Company.

1.3 Research questions

To recognize the point of this study the researcher tried to answer the following research questions.

1. Does the performance appraisal is aligned with the strategic goal of the bank?
2. How performance appraisal is practiced in Abay Bank s.c?
3. What are the major challenges that affect the performance appraisal in Abay Bank S.C.?

1.4 Objective of the study

Based on the research problem stated and the major questions raised the researcher aimed to meet objectives as follows:

1.4.1 General objective

The major objective of the study was to assess performance appraisal practice and its challenges in Abay Bank Share Company.

1.4.2 Specific objectives

The specific objectives that help the researcher to achieve major objectives of the study were the following:

1. To assess weather the performance appraisal is aligned with the strategic goal of the bank.
2. To assess the performance appraisal practice of the bank.
3. To identify the major challenges that affects the employees' performance appraisal in Abay Bank S.C.

1.5 Significance of the Study

The importance of this study comes from the interest in Performance management in the world in general, and in Ethiopia in particular, to develop, improve and upgrade the performance of human resource to achieve the required level of effectiveness and to remain successful.

The result of this study expected to be taken up by the sector to improve; to find out areas which need improvement and areas which the bank is doing sound based on the findings. It also used to provide important information for decision makers of the sector. Thus, the findings of the study specifically would be significant for the following reasons:

A. The study provides valuable input and directions to the sector human resource development and administration directors in designing, executing, and evaluating Performance management Programs.

B. The study helps the sector to identify the major problems of Performance management and to take corrective measures.

C. The study may also encourage as initial reference for others who want to conduct in depth further study on the area.

1.6 Scope of the Study

For a reason of time constraint that is fairly expected to occur due to wide geographical coverage of the branches, homogeneity of the contents of the jobs and job description and uniformity of the appraisal format, the study covered those employees with at least a minimum of one year of experience working at the fifteen selected branches located at the capital city- Addis Ababa only at bole sub city. This research was only focused on the performance appraisal practice and challenges in the bank. The scope of this research did not include other elements of the organization's human resource management programs, nor does it address other elements of the company's overall business practice.

1.7 Definition of Terms

Performance: The accomplishment, execution, carrying out, working out of anything ordered or undertaken.

Performance Management: “a process by which executives, managers, and supervisors work to align employee performance with the firm’s goals.” (John M. Ivancevich, 2004)

Performance Appraisal: Performance Appraisal is the process of measuring what employees contribute to the organization. (Greg and Kenneth, 2009)

Performance Standard: An expected performance expected to be achieved by an individual.

Rater: a person who conduct the appraisal process.

1.8 Structure of the Study

This paper is categorized into five parts Chapter one included the introduction, followed by statement of the problem, significance of the study, limitation and delimitation of the study. Under chapter two, the literature review is presented. Chapter two includes various views of theorists with regard to the importance, process and effects of performance management system were analyzed and discussed. Chapter three is the methodology part and discussed the reasons why the various research strategies are selected and the rationale for the sample selection process. Chapter four presented the findings of the study and contains data presentation, analysis and interpretation. The last Chapter comprised of four sections: major findings of the study, the conclusions of the study, the recommendations and limitations. The Chapter is able to address the problem stated in the initial Chapters of the study.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1. Meaning of Performance

The Oxford English Dictionary defines performance as: The accomplishment, execution, carrying out, working out of anything ordered or undertaken. This means performance refers to outcomes/end results (accomplishment) but also states that performance is about doing tasks/works as well as being about the results achieved. Performance could therefore be seen as behavior the way in which organizations, teams and individual employees get work done.

Job performance is a function of two different things: what is to be accomplished by an individual and how the jobs are done. Some people can be observed well at accomplishing some jobs and not good at other jobs.

According to Aguinis (2007) performance means both behaviors and results. Behaviors originate from the performer and convert performance from concept to action. These definitions of performance lead to the conclusion that when managing the performance of teams and individuals both inputs (behavior) and outputs (results) need to be considered.

2.2 Performance management and Appraisal Overview

Many people are confused about (equate) performance management with performance appraisal. This is a common misunderstanding. Performance management is the term used to refer to activities, tools, processes, and programs that companies create or apply to manage the performance of individual employees, teams, departments, and other organizational units within their organizational influence. In contrast, performance appraisal refers to the act of appraising or evaluating performance during a given performance period to determine how well an employee, a vendor or an organizational unit has performed relative to agreed objectives or goals, and this is only one of many important activities within the overall concept of performance management.

Performance management is often conflated with performance appraisal and vice versa. Performance appraisals are concerned with individual performance, whereas performance management looks at individual, team, and organizational performance. The appraisal may be just another HR technique used by an organization, while performance management attempts to link the appraisal process to the wider values and objectives of the firm (David and Geoffrey, 2009).

2.3 Performance Appraisal

Competitiveness in many of today's industries is based on the effectiveness of human assets-on the ability of employees to create, to apply their skills and accumulated knowledge, to work effectively collectively, and to treat customers well. Yes, physical and financial assets are often essential, but in many instances, creativity and human resourcefulness are more important as "differentiators" and as sources of long-term competitive advantage. Perhaps this is the case in many industries (Harvard, 2006).

The importance of human assets in business competition explains why every company and every manager needs a system for making the most of the company's people resource. Everyone benefits when an organization has effective performance management:

1. Shareholders observe better results, because the human assets of the organization are top-notch and working in unison toward key goals.
2. Managers are more successful, because their subordinates are doing the right things well.
3. Employees experience greater job security, career advancement, and fatter paychecks, thanks to outstanding performance (Harvard 2006).

2.3.1 Meaning of Performance Appraisal

As mentioned above in the beginning of this chapter Performance is often defined simply in output terms the achievement of quantified objectives. But performance is a matter not only of what people achieve but how they achieve it. *The Oxford English Dictionary* confirms this by including the phrase 'carrying out' in its definition of performance: 'The accomplishment, execution, carrying out, working out of anything ordered or undertaken.' High performance results from appropriate behavior, especially discretionary behavior, and the effective use of the required knowledge, skills and competencies. Performance management must examine how

results are attained because this provides the information necessary to consider what needs to be done to improve those results.

Performance appraisal is a formal method for assessing how well an individual employee is doing with respect to assigned goals. Its ultimate purpose is to communicate personal goals, motivate good performance, provide constructive feedback, and set the stage for an effective development plan (Harvard 2006).

As per Greg and Kenneth (2009) performance appraisal is the process of measuring what employees contribute to the organization. It is the necessary but difficult part of managing others. Indeed, for many managers, performance appraisal is near the top of the list of undesirable duties. What makes this task so tough? One reason managers dislike performance appraisal is the difficulty of capturing all areas of contribution. Employees give in a number of different ways, and it is often hard to accurately evaluate their efforts with a numerical score. Another reason is that many employees seem to feel that performance ratings are biased. They see the process as sometimes unfair. A starting point for opinion about performance measure is to consider ways in which evaluations can be inaccurate. Performance appraisal is the specific and formal evaluation of an employee to determine the degree to which the employee is performing his or her job effectively.

2.4 Performance Appraisal Approaches

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

- **The behavioral approach:** The behavioral approach to performance management attempts to define the behaviors and employee must exhibit to be effective in the job. The various techniques define those behaviors and then require managers to assess the extent to which employees exhibit them (Noe, 2008).

- **The comparative approach:** The comparative approach to performance measurement requires the rater to compare an individual's performance with that of others. This approach usually uses some overall assessment of an individual's performance or worth and seeks to develop some ranking on the individuals within a work group. At least three techniques fall under the comparative approach: ranking, forced distribution, and paired comparison (Noe et al 2008).
- **The attribute approach:** The attribute approach to performance management focuses on the extent to which individuals have certain attributes (characteristics or traits) believed desirable for the company's success. The techniques that use this approach define a set of traits-such as initiative, leadership, and competitiveness- and evaluate individuals on them (Ibid).
- **The Results Approach:** As per Noe et al (2008) the results approach focuses on managing the objective, measurable results of a job or work group. This approach assumes that subjectivity can be eliminated from the measurement process and that results are the closest indicator of one's contribution to organizational effectiveness. The researcher examined two performance management systems that use results: management by objective and the productivity measurement and evaluation system.
- **The Quality Approach:** The two fundamental characteristics of the quality approach are a customer orientation and a prevention approach to errors. Improving customer satisfaction is the primary goal of the quality approach. Customers can be internal or external to the organization. Statistical process control techniques are very important in the quality approach. These techniques provide employees with an objective tool to identify causes of problems and potential solutions. These techniques include process-flow analysis, cause-and-effect diagrams, Pareto charts, control charts, histogram, and scatter grams (Noe et al 2008).

2.5 Performance Appraisal System

Aguinis, (2007) indicated that performance management system usually include measures both behaviors (what an employee does) and results (the outcomes of an employee's behavior). In

order to realize the purpose of performance appraisal, organizations should carefully design appraisal system and implement accordingly.

According to (Noe et al, 2001), the first step in the performance appraisal process is identifying what is to be measured. This process seems fairly simple at first glance. In practice, however, it can be quite complicated. Identification of performance dimensions is the important first step in the appraisal process. If a significant dimension is missed, employee morale is likely to suffer because employee who do well on that dimension is missed, employee will not be recognized or rewarded. If an irrelevant or trivial dimension is included, employees may perceive the whole appraisal process as meaningless.

The Second step in performance appraisal process is measuring employees' performance. Measuring employee performance involves a number to reflect an employee's performance on the identified characteristics or dimensions. Technically numbers are not mandatory. Label such as "Excellent", "Good", "average" and "Poor" might be used instead. The third step in performance appraisal is managing performance.

The effective management of human performance in organizations requires more than formal reporting and annual rating. A complete appraisal process includes informal day to day interaction between managers and workers as well as formal face to face interviews. Although the ratings themselves are important, even more critical is what managers do with them.

2.6 Performance Appraisal Methods

According to Gilley, Quatro & Dixon (2009), there is a wide range of methods that can be used separately or in combination to appraise performance including:

- **Rating scales:** these approaches involve the predetermination of a number of factors against which performance will be evaluated and the identification of a 'quantity' measure of performance for each one.
- **Performance-based:** the manager rates specific job related requirements associated with an employee's position. Identifying where an employee falls on a "below expectations"

to “exceeds expectations” scale is a quick way to accurately assess performance. It involves filling out a standard rating-scale form, making the process fairly fast and simple. The job-related requirements that are measured must be the same for all employees who hold the same position, to be fair and equitable.

- **Behaviorally anchored rating scale (BARS):** Similar to standard rating scales but based on factors that reflect behaviors identified as necessary for the achievement of high performance in the job in question.
- **Ranking and forced distribution methods:** These seek to compare the performance achievement between all the employees being considered. In its simplest form, ranking seeks to provide a list of all employees from the highest performer to the lowest performer. Forced distribution seeks to categories all employees into performance bands based on set proportions in each band.
- **Critical incidents:** Assessing performance using this approach requires the boss to identify important events (critical incidents) that demonstrate effective and ineffective performance by the individual. These would then form the basis of the discussion about performance during the appraisal review.
- **Essay approach/Narrative:** This approach simply presents the boss with a blank sheet of paper and requires them to describe in their own words the performance of the subordinate. This would then be discussed with the individual during the appraisal meeting. This can be a very subjective means of evaluation, with the writer often discussing more personality based traits of the individual versus measurable job skills. It can be used as a way to “soften the blow” of a less than favorable appraisal. The effectiveness of a narrative is directly related to the writing skills of the manager. If used alone, it does not allow for a rating comparison of several employees.
- **Management by objectives:** This approach involves the identification of key tasks, projects and other objectives that the individual has to achieve during the review period. At the end of that period the achievement of each objective would be used to identify the performance implications.
- **Top-down:** Several management-level members rate the performance of an employee.
- **Upward:** The employee rates the performance and effectiveness of the manager.

- **Peer review:** Peers and team members rate the employee's performance. Care must be taken in choosing unbiased peers, and the manager must decide how much weight is given to each peer's feedback in order to reach a fair result. This method can be used when a manager has limited contact with the employee.
- **Self-assessment:** Employees rate their own performance. A self-assessment can be implemented into all Performance Appraisal methods.
- **360-degree review:** This method relies on feedback gathered from people throughout an organization, and at varying professional levels, who have worked with the employee. This includes the manager, peers, and customers (both internal and external).
- **Continuous feedback:** The appraisal process is conducted more than once per year (usually 2–4 times). This allows for constant monitoring, communication, feedback, and modification of performance and goals.
- **Follow-up reviews:** Continuation of the appraisal process when training/development opportunities are scheduled, short-term goals are evaluated, and progress is discussed. These are often conducted within several weeks of the main appraisal meeting.

2.7 Who performs the performance appraisal?

Another important aspect of performance appraisal is the determination of who conducts the appraisal and what information will be used. The most common appraisers are supervisors, peers, self-appraisal, subordinates and customers (Angelo and Ricky 2008).

- **Supervisors:** They are perhaps the most frequently used sources of information in performance appraisal. The assumption underlying this approach is that supervisors usually have the most knowledge of the job requirements and they have the most opportunities to observe employees performing their jobs. At the same time, it should also be recognized that supervisors are not necessarily a perfect source of information (Angelo and Ricky 2008).
- **Peers, colleagues, and coworkers:** They represent other potential sources of information for performance appraisal systems. An advantage of using peers in a performance appraisal process is that, by definition, they have expert knowledge of job content and they may also have more of an opportunity than does the supervisor to observe the performance of a given worker on a day-to-day basis. Friendship, group norms, and other

personal factors may intervene in this situation. And individuals may see their own performance as being significantly different than others perceive it in the group (Angelo and Ricky 2008).

- **Subordinates:** A third source of information in the performance appraisal process is subordinates of the individual being appraised. Subordinates are an especially important source of information when the performance of their own manager is being evaluated, and this information is perhaps most useful when the performance appraisal is focused on the manager's leadership potential (Angelo and Ricky 2008).
- **Self-Evaluation:** In many professional and managerial situations, individuals may frequently be asked to evaluate their own performance. The rationale for this approach is that, more than any other person in the organization, an individual is in the best position to understand his or her performance at an appropriate level. Of course, the biggest negative aspect of using self-rating is the tendency on the part of many people to inflate their own performance (Angelo and Ricky 2008).
- **Customers:** The inclusion of customers might be accomplished through techniques such as having customers fill out feedback forms or respond to mail surveys whenever they use the services of an organization. A final source of information in the performance appraisal system is customers. The advantage of this method is that customers are the lifeblood of an organization and it is very helpful to managers to know the extent to which customers feel that employees are doing a good job. On the other hand, this method may be expensive and may be able to tap only certain aspects of an employee's job (Angelo and Ricky 2008). One important detail for any manager to recognize is each source of performance appraisal information is subject to various weaknesses and shortcomings. As a result, many organizations find it appropriate and effective to rely on different information sources when conducting performance appraisal.
- **360-degree feedback** is an approach to performance appraisal that involves gathering performance information from people on all sides of the manager—above, beside, below, and so forth (Angelo and Ricky 2008).

2.8 Performance appraisal Process

As per DeCenzo (2010) performance appraisal process includes the following six steps.

1. Establish performance standards with employees.
 2. Communicate expectations.
 3. Measure actual performance.
 4. Compare actual performance with standards.
 5. Discuss the appraisal with the employee.
 6. If necessary, initiate corrective action.
- **Establishment of Performance Standards** The appraisal process begins with performance standards establishment in accordance with the organization's strategic goals. These should evolve out of the company's strategic direction and, more specifically, the job analysis and the job description. These performance standards should also be clear and objective enough to be understood and measured. Too often, standards are articulated in ambiguous phrases that tell us little, such as "a full day's work" or "a good job." What is a full day's work or a good job? A supervisor's expectations of employee work performance must be clear enough in her mind so that she will be able to, at some later date, communicate these expectations to her employees, mutually agree to specific job performance measures, and appraise their performance against these established standards (DeCenzo, 2010).
 - **Communicating Expectations** Once performance standards are established, it is necessary to communicate these expectations; employees should not have to guess what is expected of them. Too many jobs have vague performance standards, and the problem is compounded when these standards are set in isolation and without employee input. Communication is a two way street: mere information transfer from supervisor to employee is not successful communication (DeCenzo, 2010).
 - **Measuring Actual Performance** The third step in the appraisal process is performance measurement. To determine what actual performance is, we need information about it. We should be concerned with how we measure and what we measure. Four common sources of information frequently used by managers address how to measure actual performance: personal observation, statistical reports, oral reports, and written reports. Each has its strengths and weaknesses; however, a combination of them increases both the number of

input sources and the probability of receiving reliable information. What we measure is probably more critical to the evaluation process than how we measure. Selecting the wrong criteria can produce serious, dysfunctional consequences. And what we measure determines, to a great extent, what people in the organization will attempt to excel at. The criteria we measure must represent performance as it was mutually set in the first two steps of the appraisal process (DeCenzo, 2010).

- **Comparing Actual Performance with Standards** The fourth step in the appraisal process is the comparison of actual performance with standards. This step notes deviations between standard performance and actual performance. The performance appraisal form should include a list and explanation of the performance standards. It should also include an explanation of the different levels of performance and their degree of acceptability against the performance standard. This provides a valuable feedback tool as the manager moves on the next step, discussing the appraisal (DeCenzo, 2010).
- **Discussing the Appraisal with the Employee** As we mentioned previously, one of the most challenging tasks facing appraisers is to present an accurate assessment to the employee. Appraising performance may touch on one of the most emotionally charged activities—evaluation of another individual’s contribution and ability. The impression that employees receive about their assessment has a strong impact on their self-esteem and, importantly, on their subsequent performance. Of course, conveying good news is considerably easier for both the appraiser and the employee than conveying bad news. In this context, the appraisal discussion can have negative as well as positive motivational consequences (DeCenzo, 2010).
- **Initiating Corrective Action if Necessary** The final step in the appraisal is the identification of corrective action where necessary. Corrective action can be of two types: one is immediate and deals mainly with symptoms, and the other is basic and delves into causes. Immediate corrective action is often described as “putting out fires,” whereas basic corrective action touches the source of deviation and seeks to adjust the difference permanently. Immediate action corrects problems like mistakes in procedures and imperfect training and gets the employee back on track right away. Basic corrective action asks how and why performance deviated from the expected performance standard and provides training or employee development activities to improve performance. In some

instances, appraisers may diminish that they lack time to take basic corrective action and therefore must be content to continually put out fires. Good supervisors recognize that taking a little time to analyze a problem today may prevent the problem from deterioration of tomorrow (DeCenzo, 2010).

2.9 Reasons for conducting performance Appraisal

As just noted, most managers may be unhappy with various facets of the performance appraisal process, but most would agree that they are nevertheless very important (Angelo and Ricky 2008). One reason why appraisals are so important to organizations is that they provide a benchmark for assessing the extent to which *recruiting and selection* process are adequate.

Performance appraisal is also important because it is-or at least should be fundamentally linked to an organization *compensation* system. In theory, organizations prefer to provide greater rewards to higher-performing employees and lesser rewards to lower-performing employees. To provide this compensation on a fair and equitable basis, however, it is important that the organization can differentiate between its higher and its lower performing employees. Managers want to know that they are giving the appropriate rewards to employees for appropriate reasons. Performance appraisal plays a big role in this process (Angelo and Ricky 2008).

Performance appraisal is also important for legal reasons. Organizations must be able to demonstrate that their promotions, transfers, terminations, and reward allocations are based on merit (or the lack thereof), as opposed to some discriminatory factor such as gender or race. Performance appraisal, therefore, is the mechanism by which the organization can provide this *documentation*. Managers must be able to rely on performance appraisal information to demonstrate that all of their important employment related decisions have been based on the actual performance of those affected by the decisions. Without proper performance appraisal, an organization is subject to concerns or charges that there is at least the impression that promotions and other rewards may be based in a factor or factors other than actual performance (Angelo And Ricky 2008).

Performance appraisal also plays an important role in employee *motivation and development*. Most people want to know how well they are doing so that they can correct their deficiencies,

capitalize on their strengths, and improve their overall contributions to their jobs. Again, performance appraisal provides this information to employees. An individual who is told that he or she is doing well on three dimensions of his or her job performance but needs to improve on a fourth dimension recognizes how managers see him or her and knows where to allocate additional developmental work and effort in the future (Angelo and Ricky 2008).

Finally performance appraisal provides valuable and helpful information to the organization's *human resource planning* process. For example being aware of the distribution of qualified employees within the organizational system is an important factor for managers to know. And performance appraisal helps provide this information to managers (Angelo and Ricky 2008).

2.9.1 Effectiveness of Performance Appraisal Systems

To meet the vision, mission, objective, goals and targets of an organization or an institution, everyone should set clear and precise methods of PA system objectivity. If so, effective output of PA system leads an organization to prosper specially, in the environment where formal learning and other similar activities are held. As a result of, every employee's awareness leads to set and control how to implement effective PA system. Mathis et.al (1997 pp. 390) discusses that an effective PA system has about five main characteristics.

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

Reliability: comes from capturing evaluation from multiple sources and at different times over the course of the evaluation period.

Responsiveness: allows the person being evaluated some input in to the final outcome.

Flexibility: it opens to modification based on new information such as federal requirements.

Equitableness: results in fair evaluations against established performance criteria, regardless of individual differences.

2.10 Solving problems in performance appraisal

To alleviate the problems listed above in the problems of performance appraisal part of the literature review by Armstrong (2006) even if they cannot guarantee to eliminate them the approaches are to:

1. Ensure that the criteria for evaluating performance cover agreed objectives (quantified wherever possible), competences based upon proper role analysis and measures of day-to-day effectiveness, preferably stated as standards of performance.
2. Monitor performance throughout the year in relation to performance plans and agreed objectives, performance standards and behavioral requirements (competencies). Ensure that there is feedback at the time based upon evidence and record any critical incidents as they occur to assist in an overall assessment of performance.
3. Take steps to minimize bias (blue-eyed boy/girl syndrome), although gender, racial or other bias is difficult to eliminate. If the review process does not involve the delivery of judgments in the form of performance ratings, bias may not appear so obviously but it can still exist in subtle ways. Mentors and training can alert individuals to the risk of bias and assessments can be monitored by the manager's manager and HR.
4. Ensure that both managers and their staff understand the positive nature of the process. Train managers in the virtues of building on positives as well as how to make constructive criticisms (not more than two or three at a time) that are based on fact and not opinions about the employee's personality traits.
5. Encourage a positive approach by managers so that, by using constructive criticism rather than attaching guilt, they can reduce defensive behavior. Briefing for all those involved on the benefits of the process to both parties should also help. Getting individuals to assess their own performance (self-assessment, as discussed later in this chapter) is another way of reducing defensive behavior. There are at least three things you can do to minimize the impact of appraisal problems such as bias and central tendency.

2.11 Challenges affecting performance appraisal practice

The main problems that arise in conducting performance reviews are:

1. Identifying performance measures and criteria for evaluating performance;
2. Collecting factual evidence about performance;
3. The existence of bias on the part of managers;
4. Resolving conflict between reviewers and the people they review;
5. Defensive behavior exhibited by individuals in response to criticism.

There are no easy answers to these problems, no quick fixes. It is wise never to underestimate how hard it is for even experienced and effective managers to conduct productive performance review meetings. It was the simplistic assumption that this is a natural and not too difficult process that has been implied in many performance appraisal schemes over the years. This assumption has certainly resulted in neglecting to provide adequate guidance and training for reviewing managers *and*, importantly, those whom they review (Armstrong, 2006).

The following are common problems with performance appraisal measures: rater errors and bias, situational influences, and change over time.

- **Rater errors** Research suggests that raters commit a number of errors when they rate employee performance. Rating errors occur when raters provide assessments that follow an adverse pattern or when the rater does not properly account for factors that might influence assessments.
- **Rater Bias** Substantial problems occur when rater errors operate in such a way that people with certain characteristics are consistently rated lower than others. Consistently providing lower ratings to people with certain characteristics, such as women and minorities is known as rater bias (Greg and Brown 2009).
- **Halo error:** A rating error that occurs when raters allow a general impression to influence ratings on specific dimensions of performance.
- **Central tendency error:** a rating error that occurs when raters give almost all employees scores in the middle of the scale (Greg and Brown 2009).
- **Contrast error:** a rating error that occurs when raters unknowingly allow comparisons among employees to influence ratings (Greg and Brown 2009).
- **Similar to me:** is the error that the raters make when he/she judge those who are similar to him/her more highly than those who are not (Noe et al 2008).
- **Horns error:** works in the opposite direction to halo error: one negative aspect results in the rater assigning low ratings to all the other aspects (Noe et al 2008).
- **Recency error:** a rating error that occurs when raters place too much emphasis on performance observed right before the measure is taken.

- **Primacy error:** a rating error that occurs when raters place too much emphasis on performance observed at the beginning of the measurement period (Greg and Brown 2009).
- **Changes over time** Another complexity with measurement is that performance may not be consistent across time. Performance can vary over time because of differences in motivation. For example, an incentive like bonus may motivate employees to achieve high performance for a short period. Measuring this short-term achievement may result in an assessment that is quite different from an assessment that reflects typical performance on most days (Greg and Brown 2009).
- **Frame of reference training:** training that focuses on building consistency in the way different raters observe and evaluate behaviors and outcomes (Greg and Brown 2009).
- **Situational influence** Factors that affect performance but that are outside the control of the employee being rated. Research suggests that subjective ratings are frequently contaminated and deficient because raters fail to account for situational influences. However, it is at least possible for raters to adjust subjective evaluations to control for situational factors. Situational influences present a greater problem for objective, outcome-oriented performance measures (Greg and Brown 2009).

2.12 Conceptual Framework

The study framework is designed based on literature review and basic research questions.

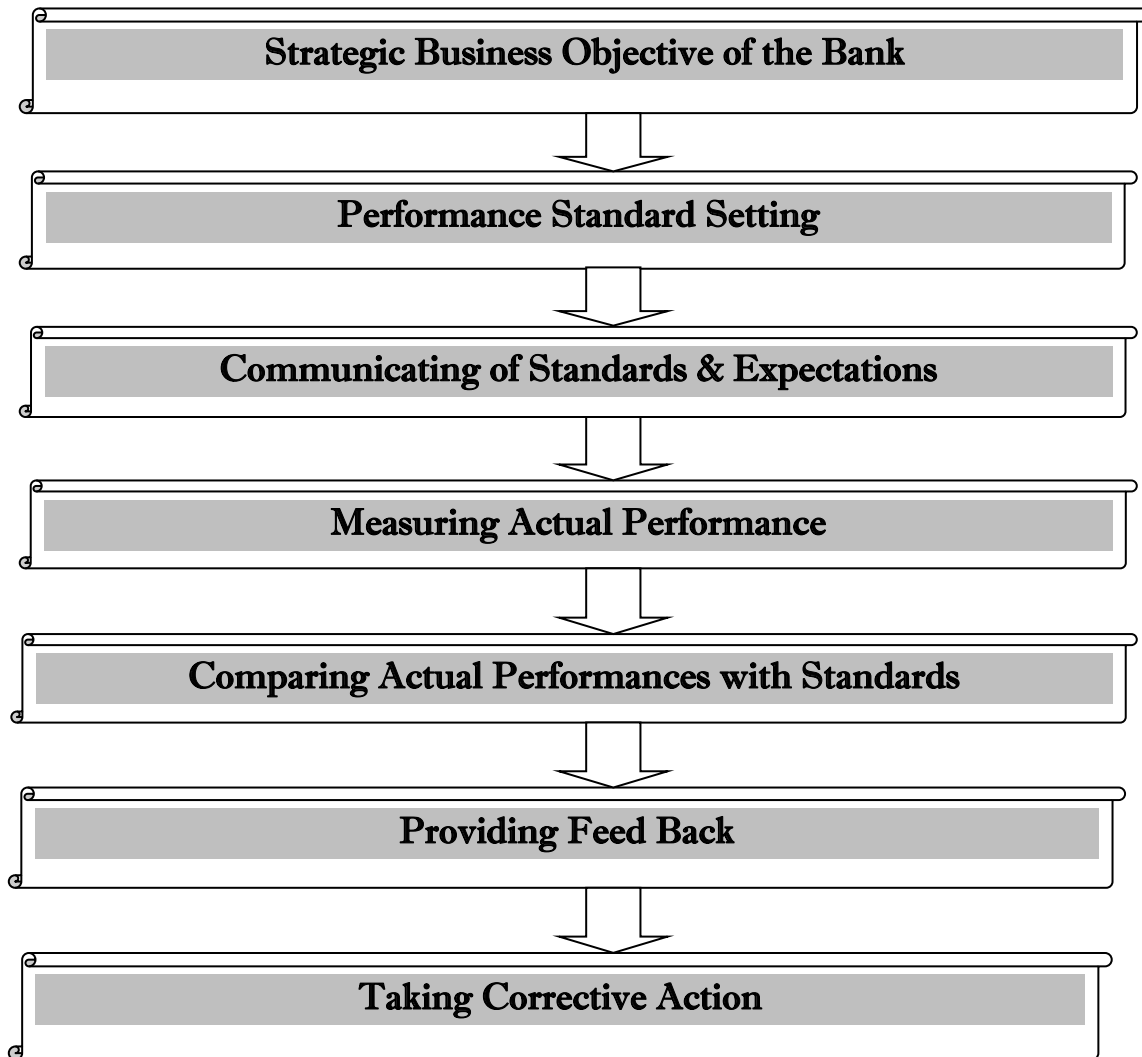


Figure1. Conceptual Framework

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

As it is mentioned in the objective part the major objective of the study was to assess performance appraisal practice and challenges of Abay Bank S.C. To achieve this objective the researcher designed the methodology as follows. This part includes research design, sample and sampling technique, instrument for data collection, procedure of data collection, method of data analysis, and ethicality issue.

3.1 Research Design & Approach

Since the objective of the study was to assess performance appraisal practices and challenges in Abay Bank S.C. the appropriate type of research to achieve this objective was descriptive research. Descriptive research is a research type which describes phenomena as they exist and it is used to identify and obtain information on the characteristics of a particular problem or issue. (Geoffrey et.al, 2005).

Descriptive research also helps to describe and assess a certain subject in detail. Data collected by using a questionnaire and interview. The questionnaire include both close ended and open ended questions with preset scale for response and open ended questions which provided respondents with freedom to express their perception. This study made prominence to measure and focus on variables such as performance appraisal methods, process, standards, challenges and the responsible person for conducting performance appraisal, feedback system and necessary post actions taken by the bank.

3.2 Target Population and Study Size

The target population of this study was mainly managerial, clerical and non-clerical employees of the bank who stayed in the bank for more than or equal to one year. These employees are selected as respondents because they at least face performance appraisal two times in Abay bank and it is believed that they have enough knowledge about appraisal practice of the bank. Thus, the study

excluded those employees who have less than one year experience. In addition, staffs of outlying branches are not considered because of the remoteness of data access. The study only limited to Addis Ababa Branches of the bank.

Table 3.1: Total population

	Branch name	No. of employees			Sample
		Managerial	Non Managerial	Total	
1	Bole Michael Branch	2	8	10	9
2	Gerji Branch	3	10	13	11
3	Bole Medhanialem Branch	3	10	13	7
4	Africa Avenue Branch	2	8	10	8
5	Air Port Branch	2	8	10	10
6	Bole 24 Branch	2	8	10	7
7	Bole Mellinium Branch	2	8	10	5
8	Atlas Branch	2	8	10	5
9	Goro-Semit Sub- Branch	2	6	8	4
10	Salite Miheret Branch	2	8	10	9
11	Ayat Gebeya Branch	2	8	10	10
12	Imperial Branch	2	8	10	6
13	Shala Branch	2	8	10	5
14	Jackrose Beshale Branch	2	8	10	6
15	Mehal Semit Branch	2	8	10	8
	Total	32	122	154	110

Source: Abay Bank HRM Department

3.3 Sample and Sampling Technique

For this study the researcher took samples from the total population due to shortage of time, resource and for proper organization of data. Since the scope is delimited to Addis Ababa samples were taken only from fifteen branches in Addis Ababa which are located in bole sub city. This include Bole Michael Branch, Gerji Branch, Bole Medhanialem Branch, Africa Avenue Branch, Air Port Branch, Bole 24 Branch, Bole Mellinium Branch, Atlas Branch, Goro-Semit Sub- Branch, Salite Miheret Branch, Ayat Gebeya Branch, Imperial Branch, Shala Branch, Jackrose Beshale Branch and Mehal Semit Branch. These fifteen branches are selected by a Cluster Sampling method by dividing the total population of Addis Ababa branches in to ten sub cities and obtain a simple random sample of sub city from all possible sub cities and

obtained data on every sampling unit in the randomly selected cluster. And for the interview with the top level managers of the bank target sampling was used.

while conducting the study as of April, 2018 the bank have 154 (One hundred fifty four) employees in the selected branches in different positions, therefore based on this population the researcher deployed the following formula to determine the sample size because the following formula has two advantage the first one is it measure the acceptable error the second one is easy to use the formula.

$$n = \frac{z^2 \cdot p \cdot q \cdot N}{e^2 (N-1) + z^2 \cdot p \cdot q}$$

Where P = sample proportion, e= acceptable error q = 1-p; Z = value on standardized normal distribution curve corresponding to the level of significance.

N = number of total population n = sample size required; Kothari (2004)

The researcher assume 95% level of confidence and 5% acceptable error which means z=1.96

And p=0.5 q=1-p q=0.5 N=154

$$n = \frac{1.96^2 \cdot 0.5 \cdot 0.5 \cdot 154}{0.05^2 (154-1) + 1.96^2 \cdot 0.5 \cdot 0.5}$$

n= 110 (approximately)

3.4 Data Collection Procedure

Before the distribution of questionnaires for collecting data it was checked by the advisor of the researcher and those persons who have enough knowledge in the area. When the researcher believes that the questionnaire was sufficient to collect the necessary data it was distributed to respondents and then by making the appropriate follow up the researcher himself collected the instruments from the respondents. For the data that was collected through interview with head of compensation regarding performance appraisal methods, process, standards, problems, responsibilities etc. Before the interview the researcher read/have background information about the topic area. And also the researcher asked the respondent about the time place and condition of making interview. During the interview the interviewer was following up the respondent, take

the response in the form of note when necessary in form of record. After the interview the interviewer have thanked the interviewee for his/her time, cooperation etc.

After the researcher was in a position of data collection stage questionnaires were developed. And show it to his advisor and distribute thirty six questionnaires as a pilot test. Based on the Pilot test some questions were modified, after modification the whole 121 questionnaires were distributed and 113 were collected. After the questionnaires collected the researcher took 110 valid questionnaires by rejecting some respondents filling the same scale for all the questions and don't respond to all the questions. After selecting the valid questionnaires the data were feed the data for the SPSS version 22.

3.5 Tools for data collection

The study used both primary and secondary data sources. Questionnaire and interview were used as of primary data collection tools. Secondary sources such as, published books, company appraisal forms, and various scholarly written journals and articles were consulted.

3.5.1 Questionnaire

In this study questionnaire was developed in order to collect data from employees that are found in all categories. The type of questions that were raised in the questionnaire was both open ended and close ended with the structured format. The questionnaires were distributed to all employees in the selected branches with experience equal to or more than one year. Because the researcher believe that those employees who have more than one year experience have faced performance appraisal at least twice, they have prior experience and better understanding about the topic under study.

3.5.2 Interview

Interview was used as one tool for collecting data regarding performance appraisal methods, process, standards, problems, responsibilities etc. For the interview the researcher has contacted a Director of human resource management department of the bank who was found at the head office. Since interview is the best way to gate depth insight about the issue and help to gate answers for questions that are not suitable to gate through questionnaire, it helps the researcher very much. Interview is also suitable to raise counter question with regard to the answers that are general, vague, and needs further explanation. Therefore interview was used as one of the major source for collecting data in this study.

3.6 Measuring Data Analysis

The data analysis had been done after the completion of relevant data collection and for this study to analyze the data. Data collection through interviews, open ended questions & document evaluations were analyzed by using narration. Regarding the interpretation for the variables used on likert scale: measurement was used on the basis of survey 1=strongly disagree, 2=disagree, 3=neutral, 4=agree and 5=strongly agree. Those data collected through questionnaires were analyzed by using Statistical package for social science (SPSS) version 22. The researcher has used frequency distribution, Standard deviation, mean and percentage.

3.7 Pilot Testing

The researcher has made a pilot test on 36 employees which were randomly selected.

3.7.1 Validity

Discussion with other researchers was also conducted since it is another way of checking the appropriateness of questions. Discussing with peers, the bank managers and persons who graduated in masters also conducted and their response took in to account. Moreover copies of the questionnaire were distributed to thirty six respondents as a pilot test. This was done to find out whether the developed instruments measures what it intends to measure & 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.

3.7.2 Reliability

To ensure the reliability of the response (internal consistency of items measuring the level of homogeneity of measures in the instrument and reliability over groups of respondents), the study did the reliability test to 36 selected target group respondents by calculating cronbach's alpha with all variable using SPSS version 22. Cronbachs alpha 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. (<http://www.ats.ucla.edu/stat/spss/faq/alpha.html>). The following table shows the reliability of instrument.

Table 3.2 Reliability Analysis

Reliability Statistics	
Cronbach's Alpha	N of Items
.806	36

(Source: survey questionnaire, 2018).

As shown in the above tables of reliability is in good range or the statistical interpretation and depicting a strong internal consistency among the measurement items and the selected instrument can accurately measure the variables of the study.

3.8 Ethical Considerations

The employees at Abay Bank S.C were treated fairly. Every individual involving in the study was entitled to the right of privacy and dignity of treatment, and no personal harm was caused to subject in the research. They are informed that the data filled by them in the questionnaire remained confidential and used only for academic purpose. To avoid humiliating situation for the employees and the research, no names and designations were taken in the questionnaire. For some of the questions even 'Neutral' option was given in case they are uncomfortable in answering. All assistance, collaboration of others and source from which information was drawn were acknowledged.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

In the subsequent pages demographic profile of the respondents and data analysis pertaining to the study are presented.

As stated on the research methodology, the researcher was expected to distribute 110 questionnaires but, by assuming the return rate of questionnaires 10% (11 questionnaires) were additionally used as a reserve and totally 121 questionnaires were distributed to 15 different Abay Bank S.C branches that were selected from the branches which are found in Addis Ababa. Out of the total 121 questionnaires 113(93.4%) were returned. Only 110 fully and regularly filled questionnaires were organized then the responses entered in to SPSS and by using the out puts interpretations were made. Data was collected and analyzed in order to assess the performance appraisal practices of the bank and its challenges. The data collected from employees through questionnaire is analyzed and presented by using tables followed by its interpretation based on the responses frequency and percentage.

4.1 Demographic Profile of the Respondents

Before proceeding analyzing and interpreting the collected data it is, desirable to discuss the demographic profile of the respondents' gender, age, marital status, educational background and their experience in Abay Bank S.C.

Table 4.1.2 Demographic Profile of the Respondents

No	Demography	Frequency	Percentage
1.	Gender		
	Male	67	60.9
	Female	43	39.1
	Total	110	100
2.	Age		
	18-25	47	42.7
	26-35	55	50.0
	36-45	4	3.6
	>45	4	3.6
	Total	110	100
3.	Marital Status		
	Single	62	56.4
	Married	44	40
	Divorced	4	3.6
	Widowed	0	0
	Total	110	100
4.	Educational Background		
	Diploma	12	10.9
	1 st Degree	90	81.8
	Masters & Above	8	7.3
	Total	110	100
5.	Experience in the bank		
	1-2	40	36.4
	3-4	52	47.3
	5-7	14	12.4
	>7	4	3.6
	Total	110	100

Source: Questionnaire, 2018

As shown in the above table, from the sample taken majority 67(60.9%) of the respondents were male and the remaining are 43(39.1%) female which shows the dominance of male employees on the gender distribution.

The age distribution on the table shows that the bank is dominated by young employees which 55(50%) of the age lies under the age group 26-35 and the next ranking 47(42.7%) age group is less than 25 years. Employees above 35 years covered the remaining share. As seen from the age distribution the bank could get a benefit from the energetic young employees on the other side it lacks experienced employees.

As seen from the above table there was no widowed respondent; only 4(3.6%) respondents were divorced; the 44(40%) are married and the majority 62(56.4%) of the respondents are single this could be a result of the majority lower age group of the respondents. The employees who have single status are less engaged in social and home responsibilities which helps the bank to have more committed employees.

The educational background of the respondents implies that the bank requirement for majority of the positions in the bank is first degree which covers more than 80% of the respondents. And the next 12(10.9%) of the employees have a diploma and the remaining 8(7.3%) is covered by employees who have master degree and above. It can clearly indicate that most employees in the bank are well educated and can have different opportunities in the market by different organization.

From the respondents 52(47.3%) work more than three years and less than four years. The second ranking work experience group is above one year but not more than two years which covers 36.4% of the respondents population and the remaining respondents serve the bank for more than five years. As stated above the bank could lose some benefits due to lack of experienced employees.

4.2 Data Analysis Pertaining to the Study

In this part analysis of data related to practice and challenges was discussed. The discussion was carried out in relation with strategic objective, standards, communication of standards;

measuring actual performance; comparing actual performance with the standards; providing feedback; taking corrective action; and challenges affecting the performance appraisal practices. The analysis of the collected data through questionnaire was triangulated with interview data. Moreover descriptive statistics summarized results were presented at the end.

4.2.1 Strategic Objective of Abay Bank S.C

Table 4.2.1: Respondents Opinion on Strategic Objective of the Bank

S.N Total	Statements		Level of agreement					
			SD	D	N	A	SA	
	Employees are participated in the formulating strategic objective.	Frequency	71	12	12	7	8	110
		Percent	64.5	10.9	10.9	6.4	7.3	100
	Employees can easily understand the strategic objective.	Frequency	41	41	14	7	7	110
		Percent	37.3	37.3	12.6	6.4	6.4	100
	The objective is measurable and achievable.	Frequency	61	38	8	3		110
		Percent	55.5	34.5	7.3	2.7		100
	Employee's individual jobs are aligned with the bank's objective	Frequency	69	34	7			110
		Percent	62.7	30.9	6.4			100
	Employees are well informed about the strategic objectives.	Frequency	67	40		3		110
		Percent	60.9	36.4		2.7		100

Source: Questionnaire, 2018

As seen from the respondents response to their participation in the formulation of strategic objective majority 64.5% of the respondents strongly disagree which indicates that the bank don't participate employees in the formulation of strategic objectives.

The data presented in the above table shows that on the statement 'Employees can easily understand the strategic objective.' 37.3 %(41 respondents) strongly disagree and the same number disagrees on the statement with 14 respondents (12.6%). It indicates that majority of the employees don't understand the strategic objective of the bank. It also means the employees don't know what they are exerting their effort for.

As the data presented on the table on the statement ‘The objective is measurable and achievable.’ With only 2.7% of the respondents agreement and 7.3% respondents’ neutral response the rest of the respondents believe that the objective of the bank is not measurable and achievable. This means since the employees of the bank don’t believe the goals are achievable and measurable they don’t have an aim to succeed and it will affect their work motivation.

As seen from the data presented on the table above on the statement ‘Employee’s individual jobs are aligned with the bank’s objective’ 69(62.7%) of the respondents strongly disagree and 34(30.9%) of the respondents disagree with only 7 (6.4%) neutral responses and with no agreement. From the responses we can easily understand that employees of the bank don’t believe in their individual jobs are aligned with the strategic objective of the bank meaning that majority of the employees believe that they might be exerting their effort to tasks unrelated or not directly support the bank to achieve its objectives. Unlikely from the interview response ‘The performance standards are based on the employee’s job descriptions which are derived to achieve the strategic goal of the bank.’ Show that the bank sets the standards in line with the strategic goals while the employees’ disagreement could generate from the poor applicability or misunderstanding.

The data presented in the table for the statement ‘Employees are well informed about the strategic objectives.’ Only 3(2.7%) agree on the statement and without any neutral responses the rest of the employees disagree the statement of which 67(60.9%) of the employees strongly disagree. Employees should be aware of the strategic objective of the bank but in reverse the employees aren’t aware of the strategic objective of the bank.

4.2.2 Performance Appraisal Standards of the Bank

Table 4.2.2: Respondents Opinion on Performance Appraisal Standards of the Bank

S.N	Statements		Level of agreement					
			SD	D	N	A	SA	
Total								
	The standards are clear and directly measure performances.	Frequency	81	26		3		110
		Percent	73.6	23.6		2.7		100
	The standard addresses quantity	Frequency	82	19		6	3	110

	or work unit expected to perform.	Percent	74.5	17.3		5.5	2.7	100
	The standards addresses quality such as accuracy, appearance, usefulness, or effectiveness	Frequency	62	45		3		110
		Percent	56.4	40.9		2.7		100
	The standards are aligned with the strategic goal of the bank.	Frequency	37	46	4	20	3	110
		Percent	33.6	41.8	3.6	18.2	2.7	100

Source: Questionnaire, 2018

From the statement about the clarity and directly measuring the performances of the employees majority of the respondents 81(73.6%) strongly disagree and 26(23.6%) disagree that the performance appraisal standards measure their performance which can lead them to refusing to accept worse results. Since they are not clear about the standards and believe that the measurement is not measuring their actual performance it will result in unreliability of the performance appraisal.

On the standard addressing the quantity or work unit expected to perform employees responded 82(74.5%) of the employees strongly disagree and 19(17.3%) of the respondents disagree and the rest of the respondents agree on the statement. This implies that employees don't achieve its goals.

As presented above the responses on the statement 'The standards addresses quality such as accuracy, appearance, usefulness, or effectiveness' 62(56.4%) of the respondents strongly disagree and 45(40.9%) of the respondents disagree and the remaining 3(2.7%) agree on the statement. It means the employees don't believe that the standards have a quality and usefulness and effectively used for the organizational achievement.

The statement 'The standards are aligned with the strategic goal of the bank.' was strongly disagreed by 37(33.6%) and disagreed by 46(41.8%) of the respondents while 4(3.6%) of the respondents prefer not to agree and disagree. 20(18.2%) agree and 3(2.7%) of the respondents strongly agree on the alignment of the standards with the strategic goal of the bank. The results show that majority of the employees believe that the performance appraisal standards of the bank don't work and aligned with the bank strategic objectives.

4.2.3 Communicating of Standards and Expectations to Employees

Table 4.2.3: Respondents Opinion on Communication of Performance Standards

S.N Total	Statements		Level of agreement					
			SD	D	N	A	SA	
	Employees are informed on the standards before evaluation.	Frequency	61	27	7	11	4	110
		Percent	55.5	24.5	6.4	10	3.6	100
	Employees clearly understand the standards and expectations.	Frequency	70	37		3		110
		Percent	63.6	33.6		2.7		100
	The standards are communicated by immediate supervisors.	Frequency	38	39	3	12	18	110
		Percent	34.5	35.5	2.7	10.9	16.4	100
	Managers and subordinates agree on performance expectations in advance.	Frequency	63	41	3	3		110
		Percent	57.3	37.3	2.7	2.7		100

Source: Questionnaire, 2018

From the data presented above 61(55.5%) of the respondents strongly disagree that ‘Employees are informed on the standards before evaluation.’ And 27(24.5%) of the respondents disagree the statement; 7(6.4%) of the respondents reserved from agreement and disagreement; 11(10%) of the respondents agree and only 4(3.6%) of the respondents strongly agree on the statement. It clearly shows that the employees’ are not informed about the standards before they are evaluated.

As it is seen from the numerical results Majority of the respondents 70(63.6%) of them don’t clearly understand the performance standards and performance expectations 37(33.6%) of the respondents also disagree on it and only 3(2.7%) shows their agreement. These numbers clearly shows that employees of the bank don’t clearly understand the performance standards and expected outcomes from them. It could be resulted from not being informed about the standards as stated in the above paragraph.

Human resource management department director of the bank was interviewed and asked ‘Who is carrying out the appraising of employee's performance in Abay Bank S.C.?’ and responded that “all non managerial employees are appraised by their managers which means the

branch and departmental managers and the managers themselves are measured and compared with the expected performance set to the branch or the department.’’ The bank’s appraisers are only the managers for their subordinates which ignore the hierarchical supervisors between the manager and the least non managerial staffs.

In line with the above paragraph 38(34.5%) of the respondents strongly disagree and 39(35.5%) disagree on the statement ‘The standards are communicated by immediate supervisors.’ and 3(2.7%) of the respondents were reserved to agree and disagree while only 12(10.9%) agree and 18(16.4%) of the respondents strongly agree that they are communicated about the standards by their immediate supervisors. The response indicates that the immediate supervisors’ aren’t informing the standards to their subordinates.

On the statement ‘Managers and subordinates agree on performance expectations in advance.’ 63(57.3%) of respondents strongly disagree and 41(37.3%) while 3(2.7%) of them were neutral and only the remaining 3(2.7%) of the respondents agree on it. It indicates that before the measurement of employee performance is conducted managers and subordinates don’t agree on the standards.

4.2.4 Measuring Actual Performance

Table 4.2.4: Respondents Opinion on Actual performance measurement

S.N Total	Statements		Level of agreement					
			SD	D	N	A	SA	
	The rater tries to measure employee actual performance.	Frequency	67	4	12	11	16	110
		Percent	60.9	3.6	10.9	10	14.5	100
	The rater has enough information on employee's real performance.	Frequency	81	19	7		3	110
		Percent	73.6	17.3	6.4		2.7	100
	The appraisal consisted of number of dimensions like work volume, quality, job knowledge, dependability, cooperation etc.	Frequency	66	33	8	3		110
		Percent	60	30	7.3	2.7		100
	Raters use different sources of information.	Frequency	73	31	3	3		110
		Percent	66.4	28.2	2.7	2.7		100

Performances are measured based on the preset standards.	Frequency	7	8	8	34	53	110
	Percent	6.4	7.3	7.3	30.9	48.2	100

Source: *Questionnaire, 2018*

From the total respondents 67(60.9%) of them strongly disagree on ‘The rater tries to measure employee actual performance.’ Additionally 4(3.6%) of the respondents disagree; 12(10.9%) of the respondents stayed neutral and the remaining 11(10%) and 16(14.5%) of the respondents agree and strongly agree respectively. This indicates that majority of the employees believe that the raters are more dependent on their personal or subjective judgment instead of depending on employees actual performance.

As the frequency data shows 81(73.6%) strongly disagree and additionally with 19(17.3%) of the respondents showing disagreement on the statement ‘The rater has enough information on employee's real performance.’ indicated their poor confidence on the raters’ information about their subordinates. These number results indicated that the employees believe that the performance appraisal measurement doesn’t represent their actual work performance because their raters don’t have sufficient information about their real performance so as a result it is dependent on the rater’s judgment. We can understand that the rater’s freedom and knowledge gap creates opportunity for bias.

The appraisal system consisting of number of dimensions like work volume, quality, job knowledge, dependability, cooperation etc was opposed by 66(60%) strong opposition and 33(30%) opposition while 8(7.3%) neutral respondents and only 3(2.7%) supported the statement. It can be argued that the appraisal is not multi dimensional which results the whole side of employees performance is not seen instead few side of their work is being measured. So it can be difficult to say it is a performance measurement.

With a total of 104(94.6%) opposition the raters use of different sources of information is disproved. As stated in the literature review an important aspect of performance appraisal is the determination of who conducts the appraisal and what information will be used. The most common appraisers are supervisors, peers, self-appraisal, subordinates and customers (Angelo and Ricky 2008). Unlikely as the above data and interview results revealed that the raters took

information collected by them only, which could be the major reason for deciding based on unfulfilled and not actual performance of their subordinates.

As responded for the statement ‘Performances are measured based on the preset standards.’ Majority of the respondents show their positive responses of which 53(48.2%) strong agreement and 34(30.9) agreement while 8(7.3%) of the respondents stayed neutral and on the opposite side 8(7.3%) of the respondents show their disagreement and the remaining 7(6.4%) show their strong disagreement. It means that the employees are measured based on the preset standards which is also confirmed by the interview responses.

4.2.5 Comparing Actual Performance with Standards

Table 4.2.5: Respondents Opinion on Comparison of Actual Performance with Standards

S.N Total	Statements		Level of agreement					TOTAL
			SD	D	N	A	SA	
	Staffs in different job description compared with same standards.	Frequency	6		4	39	61	110
		Percent	5.5		3.6	35.5	55.5	100
	Raters use behavioral oriented statements along each dimension.	Frequency	72	35			3	110
		Percent	65.5	31.8			2.7	100
	Raters compare every employee with every other in a work group.	Frequency	35	43	20	6	6	110
		Percent	31.8	39.1	18.2	5.5	5.5	100
	Appraisers get training on how to rate & measure employees.	Frequency	71	36	3			110
		Percent	64.5	32.7	2.7			100
	The rater rank employees within their departments.	Frequency	37	35	4	19	15	110
		Percent	33.6	31.8	3.6	17.3	13.6	100

Source: Questionnaire, 2018

From the responses 100(91%) of the respondents responded that Staffs in different job description compared with same standards. This statement is also supported by the interview results as ‘all the job positions don’t have their own performance standards instead most of the positions use the same standards in common’. There were also some comments on the open ended questions that stated about using the same standards is not fair and could not measure

employees actual performance. For instance, 'How could a front officer and back officer evaluated by cross selling activity? Who is having more access to customers? Is not considered by the appraisers' and the like comments were given.

As shown in the data collected to the statement 'Raters use behavioral oriented statements along each dimension.' 72(65.5%) of the respondents strongly disagree in addition to that 35(31.8%) of the respondents disagree on it, without any neutral response the rest of the respondents agree on the raters use of behavioral oriented statements using. This data clearly indicates that the raters don't use behavioral oriented statements. But, as stated in the literature review 'The behavioral approach to performance management attempts to define the behaviors and employee must exhibit to be effective in the job. The various techniques define those behaviors and then require managers to assess the extent to which employees exhibit them' (Noe, 2008).

The raters comparing every employee with every other in a work group was strongly disagreed by 35(31.8%) and additionally disagreed by 43(39.1%) of the respondents which covers majority of the respondents indicated that the bank is losing the performance improvement which could be gained from employee competition. On the other side gaining from the draw backs of individual competition like affecting team work. The comparative approach to performance measurement requires the rater to compare an individual's performance with that of others. This approach usually uses some overall assessment of an individual's performance or worth and seeks to develop some ranking on the individuals within a work group.(Noe etal 2008).

With no agreement and only 3 (2.7%) neutral responses the Appraisers get training on how to rate & measure employees is disproved. It is also supported by the interview responses as 'the bank believes the raters (managers) have enough experience and ability to appraise their subordinates' performances.' This can be meant as the bank believes that the raters have enough knowledge and experience. So, they don't need additional trainings. But, it contradicts with the reality.

As stated by Gilley, Quatro & Dixon (2009) in the literature review on the performance appraisal methods the Ranking and forced distribution methods inquire about comparing the performance achievement between all the employees being considered. In its simplest form, ranking needs to give a list of all workers from the highest to the lowest performer. These methods seek to

categories all employees into performance bands based on set proportions in each band. But, as it is shown from the data ‘The rater rank employees within their departments.’ ended with 72(65.4%) disagreement responses.

4.2.6 Providing Feedback

Table 4.2.6: Respondents Opinion on Feedback System

S.N	Statements		Level of agreement					
			SD	D	N	A	SA	
Total	The procedure allows employees to receive feedback.	Frequency	61	22	8	8	11	110
		Percent	55.5	20	7.3	7.3	10	100
	Immediate supervisor gives constructive feedback.	Frequency	38	25	16	19	12	110
		Percent	30.5	22.7	14.5	17.3	10.9	100
	Employees are allowed appealing appraisal results.	Frequency	50	37	8	8	7	110
		Percent	45.5	33.6	7.3	7.3	6.4	100
	The feedback helps to employees for improvement & motivation.	Frequency	54	53	3			110
		Percent	49.1	48.2	2.7			100

Source: Questionnaire, 2018

The procedure allows employees to receive feedback faced a strong opposition from 61(55.5%) of the respondents and 22(20%) disagreed on the statement. Which covers majority of the respondents reported that the bank’s procedure doesn’t allow employees to receive feedback. Unlikely, the interview response shows the procedure allows employees to receive feedback. So we can understand that even if the bank has the procedure which allows feedback receiving there is some gap on its applicability.

The data collected also shows that immediate supervisors aren’t giving constructive feedback to their subordinates. It is shown from 38(30.5%) strong disagreement and 25(22.7%) disagreement and 16(14.5%) neutral responses and the rest 31(28.2%) respondents agreement on the statement that Immediate supervisor gives constructive feedback.

About the opportunity of employees appeal on their results 50(45.5%) of the respondents strongly disagree and 37(33.6%) of the respondents disagree on the statement with minor number of respondents agreement. This is also supported by some comments on the open ended questions as

some employees feel that once the result is given by supervisors there is no way to change and some branch managers also stated that ‘once the head office evaluates the branch performance branch managers reasons aren’t acceptable the bank is only dependent on the numerical results. Since there is no space for appealing results the bank will face difficulties on knowing the reasons for unsatisfactory performances.

The feedback helping employees for performance improvement & motivation is highly opposed by only 3(2.7%) neutral responses and with no respondent agreement. It clearly indicated that the bank’s feedback has nothing to do with the employee improvement and motivation.

4.2.7 Improvements the Bank obtained from the Performance Appraisal

Table 4.2.7: Respondents Opinion on Use of Performance Appraisal Results

S.N Total	Statements		Level of agreement					
			SD	D	N	A	SA	
	Corrective actions identified finally to make necessary adjustment.	Frequency	63	29	4	7	7	110
		Percent	57.3	26.4	3.6	6.4	6.4	100
	The results practically used to make personnel decisions.	Frequency	61	31	4	6	8	110
		Percent	55.5	8.2	3.6	5.5	7.3	100
	Trainings are based on the performance evaluation result.	Frequency	58	39	4	6	3	110
		Percent	52.7	35.5	3.6	5.5	2.7	100
	The results are used for development decisions.	Frequency	50	29	12	11	8	110
		Percent	45.5	6.4	10.9	10	7.3	100

Source: Questionnaire, 2018

The statement ‘Corrective actions identified finally to make necessary adjustment.’ is strongly disagreed by 63(57.3%) of the respondents and 29(26.4%) disagreed on it. There were 4(3.6%) neutral respondents and the remaining few respondents agreed on the statement. It shows that the performance appraisal results aren’t used for employee performance improvement by the bank.

As understood from the interview response the bank didn’t use the performance appraisal results for promotion, and the like personnel decisions instead the bank uses other factors like tenure, managers’ recommendation etc... the data gathered from the questionnaire also supports it by a

strong disagreement of 61(55.5%) of the respondents and additionally 31(8.2%) disagreement on the statement ‘The results practically used to make personnel decisions.’

As revealed by the HR director of the bank trainings are given not based on the performance instead the bank considers that every branch should send one employee from the stated position for trainings which doesn’t exclude employees who took the training before. The reason stated for it is it is difficult to identify new and senior employees and who took the training and the others. It is also supported by 97(88.2%) of the respondents disagree on ‘trainings are based on the performance evaluation result.’ In relation with the results for the training as 50(45.5%) of the respondents strongly disagree and 29(6.4%) disagree on the statement ‘The results are used for development decisions.’ We can state that the bank misses the use of training and development.

In addition to that the interview also revealed that the bank will apply BSC system in the next appraisal period fully and it is partially applicable currently on branches to better use for the bank improvement.

4.3 Major challenges that affect the performance appraisal

Table 4.3: Respondents Opinion on Major Challenges Affecting Performance Appraisal

S.N Total	Statements		Level of agreement					
			SD	D	N	A	SA	
	Employees are not agreed on the standards before measuring.	Frequency	12	8	7	33	50	110
		Percent	10.9	7.3	6.4	30	45.5	100
	Raters do not have the skills to evaluate employee performance.	Frequency	4	8	16	26	56	110
		Percent	3.6	7.3	14.5	23.6	50.9	100
	Performance evaluation is not focused on employee development.	Frequency			7	40	63	110
		Percent			6.4	36.4	57.3	100
	Raters have biasing problems.	Frequency	4	7	11	52	36	110
		Percent	3.6	6.4	10	47.3	32.7	100
	There are difficulties to know	Frequency	4	4	4	45	53	110

	employees real work performance.	Percent	3.6	3.6	40.9	48.2	100
--	----------------------------------	---------	-----	-----	------	------	-----

Source: Questionnaire, 2018

From the total respondent 12(10.9%) of them strongly disagree this imply employees are not agreed on the standards additionally 8(7.3%) of the respondents disagree 7(6.4%)of the respondents stayed neutral and the remaining 33(30%) and 50(45.5%) of the respondents agree and strongly disagree respectively. This indicates that majority of the employees stated that employees are not agreed on the standards.

As the frequency data shows 4(3.6%) strongly disagree and additionally with 8(7.3%) of the respondent s showing disagreement on the statement the rater do not have the skill to evaluate employee performance. These number of results indicate that the employees believe that their rater do not have sufficient skill.

As the frequency data 7(6.4%) of the respondent are neutral on the performance evaluation is not focused on the employee development 40(36.4%) and 63(57.3%) of the respondent agree and strongly agree respectively. This indicates that the majority of the employees responded that the performance evaluation is not focused on the employee development.

From the respondents 4(3.6%) of them strongly disagree on the raters have biasing problems and additionally 7(6.4%) of the respondents disagree 11 (10%) of the respondent s stayed neutral and the remaining 52(47.3%) and 36(32.7%) of the respondent agree and strongly agree respectively. This indicates that majority of the employee’s believes that the raters have biasing problems.

From the respondents 4 (3.6%) and 4(3.6%) are strongly disagree and disagree respectively on the difficulties to know employees real work performance 45(40.9%) and 53(48.2%) of the respondent agree and strongly agree respectively. This indicates that majority of the employees believe there are difficulties to know employees real work performance.

In addition to the above listed challenges the interview also revealed that there were some challenges faced by the bank some of them are listed below:

- It was difficult to see the actual effort of branch managers.
- The head office observed negligently reported appraisal results from branches.
- Employees repeatedly report raters' bias.

From the open ended questions there were some repeated comments that can be categorized as challenges of the performance appraisal system.

- There are no ways the rater could know our actual performance.
- Raters mostly affected by their attitude towards employees.
- Some employees even don't know for what purpose the bank is using the results.

4.4 Descriptive Statistics Summary Results

The mean and standard deviation of the variables are summarized in the table below:

Variables	Mean	Standard Deviation (SD)
Strategic objective of the bank	1.6673	.49235
Performance standards	1.6000	.54835
Communication of standards and expectations	1.7841	.50169
Measuring actual performance	2.1127	.56603
Comparing actual performance with standards	2.3509	.46703
Providing feedback	1.9818	.87374
Taking corrective actions	1.8409	.70851
Major challenges affecting performance appraisal	4.1582	.36758
Valid N (list wise)		

SPSS result, 2018

The above table illustrates that the respondent reaction on the strategic objective of the bank, with a mean score of 1.6673 and SD of 0.49235. It is also seen that employees show their dissatisfaction on Performance standards which have a score of 1.6 and SD of 0.54835. The Communication of standards and expectations rated with a near average of 1.7841 and SD of 0.50169. The Measuring of actual performance and Comparing actual performance with

standards has scored a mean of 2.1127 and 2.3509 and a standard deviation of 0.56603 & 0.46703 respectively showed employees dissatisfaction. The feedback and corrective action following the appraisal results scored a mean of 1.9818 and 1.8409 while their deviation (SD) was 0.87374 & 0.70851 which shows a high dissatisfaction over the variables.

The mean of all variable except “major challenges affecting performance appraisal” reveal that, the respondents are dissatisfied on the performance appraisal practice of Abay Bank S.C. The last variable which was Major challenges affecting performance appraisal was scored 4.1582 mean and low deviation rate of 0.36758 which shows that the respondents are confirmed the existence of challenges that hinder the practice of performance appraisal and the standard deviation indicate that, as there was homogeneities in the response of employees specially on the last variable. But in the variable “providing feedback” registered a higher variation (0.9) which revealed that the presence of heterogeneities between the response of respondents.

CHAPTER 5

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

In this chapter, major findings are going to be summarized and the subsequent conclusions are made. Based on the conclusion, recommendations are forwarded in relation to literatures reviewed to better enhance the organization performance appraisal practice and to overcome the challenges faced.

5.1 Summary of Major Findings

As per the data analysis and interpretation the following major findings are presented.

- Majority of the respondents disagree on their participation on formulation of strategic objective of the bank. Also the majority can't easily understand the strategic objective of the bank which means most the employees don't know what they are working for. Majority of the respondents believe that the objective is not measurable and achievable. Most of the employees believe employee's individual jobs are not aligned with the bank's objective even if it is tried to align. According to the data employees are not well informed about the strategic objectives.
- Employees have an opposition on the standards clarity and directly measuring their performances and don't know how much work they are expected to perform in order to support the organization to achieve its goals also they judged the standard lacking quality such as accuracy, appearance and usefulness.
- It is stated that employees are not informed on the standards before evaluation and don't reach an agreement before they are evaluated, for that reason most of them don't clearly understand the performance standards and expectations Managers and subordinates on performance expectations in advance of measurement.
- All non managerial employees are appraised by their managers which mean the branch and departmental managers and the managers themselves are measured and compared

with the expected performance set to the branch or the department. The bank's appraisers are only the managers for their subordinates which ignore the hierarchical supervisors between the manager and the least non managerial staffs.

- Most of the employees poor confidence on the raters' and believe raters don't have enough information on employees actual performance and don't try to measure employee actual performance. The appraisal system also judged for not containing consisting of number of dimensions like work volume, quality, job knowledge, dependability, cooperation etc. With a total of 104(94.6%) opposition the raters use of different sources of information is disproved. As the respondents stated performances are measured based on the preset standards.
- From the responses 100(91%) of the respondents responded that Staffs in different job description compared with same standards it is also supported by the interview results. Most of the raters in the bank didn't use behavioral oriented statements along each dimension in line with these it was mentioned that mostly the raters don't compare every employee with every other in a work group. With no agreement from the respondents the appraisers get training on how to rate & measure employees is disproved. It is also supported by the interview responses. In its simplest form, ranking needs to give a list of all workers from the highest to the lowest performer but, as it is shown from the data respondents opposed that the rater ranking employees within their departments.
- The procedure allows employees to receive feedback faced a strong opposition from the respondents the data also shows that immediate supervisors aren't giving constructive feedback to their subordinates. Majority of the respondents show their negative response to their opportunity to appeal on their results and stated that the feedback is not helping them for performance improvement & motivation.
- The bank Corrective actions aren't identified finally to make necessary adjustment. also it was seen that the bank didn't use the performance appraisal results for promotion and the like human resource decisions instead the bank uses other factors like tenure, managers'

recommendation etc... training and developments are not based on the performance evaluation result.

- The major challenges that affect the performance appraisal system were identified these challenges were: lack of knowledge about the purpose of the appraisal and not reaching to an agreement with employees on the standards; Raters biasing problems and lack of skill to evaluate employee performance; the performance evaluation is not focused on the employee development; difficulties to know employees real work performance; and raters negligence on the performance appraisal.

5.2 Conclusions

This study has gone through different steps to reach these last laps. Based on the major findings stated above, the following conclusion has been reached and the recommendation will follow.

Abay bank S.C employees do not participate in the formulation of strategic objective of the bank. Due to lack of communicating the strategic objective it is unclear for the employees and claimed on its achievability and measurability. Employee's individual jobs are not aligned with the bank's objective.

Even if the real performance appraisal practice of the company shows that the appraisal process begins with establishing clear performance standards, it does not follow performance appraisal processes set by different scholars. The bank has a huge gap on communicating and reaching an agreement with the employees on the standards.

The performance appraisal practice of Abay Bank S.C lacks reliability. Yet the bank's performance appraisal practice has standards for evaluation there are lots of problems like subjectivity, lack of clarity, lack of multi dimensional measure etc...

The ultimate responsibility of conducting performance appraisal falls on the shoulder of the human resource department of the bank. Supervisors like branch managers takes the lion share by

filling appraisal forms Peers, subordinates, customers and 360 degree feedbacks are not common appraisers in Abay Bank S.C.

The purposes of performance appraisal in the case company are: to pay bonus, to give annual salary increment, training and development decisions and to make promotion decisions. But, the appraisal result is not used to make administrative and developmental decisions. Appraisers do not get sufficient training, absence of performance expectation and standards do not depend on job description and job specifications. Employees of the bank don't have access to results and aren't allowed to appeal unfair appraisal results and there is standardization in using appraisal forms for employees in different positions.

Supervisors do not provide continuous feedback for employees and there is absence of open communication. In addition conducting appraisal only by supervisors is not sufficient to effectively measure employees' performance.

The bank is facing many challenges on the performance appraisal process like lack of knowledge about the purpose of the appraisal and not reaching to an agreement with employees on the standards; Raters biasing problems and lack of skill to evaluate employee performance; the performance evaluation is not focused on the employee development; difficulties to know employees real work performance; and raters negligence on the performance appraisal.

5.3 Recommendations

To better enhance the performance appraisal practice of the case company the following recommendations are forwarded for identified major problems:

- ❖ The researcher recommends that, the bank is supposed to make aware all employees about its strategic objectives and performance standards for employees through their immediate supervisors to have understanding regarding what they are doing for, and what they should perform in their day to day activities.

- ❖ The researcher believed that Abay Bank should continue on its practices like setting standards but, specifically for each department and job description which help the appraisers to easily measure the actual performance of employees. Also it is better to apply BSC in the Bank.
- ❖ Customers are lifelines of the bank so it is better to participate by filling at least some comments on each employee's performance, which have direct contact in giving service to the customers. Branch managers' evaluation form is filled by their supervisors at head office but employees who have day to day work related contact with them does not say anything about their performance. Since employees (subordinates) have knowledge on the day to day performance of managers they have to participate in evaluating them.
- ❖ The bank needs to use appraisal results for different purposes like performance measurement, compensation, motivation, management development, identification of potential, feedback, human resource planning, communications, performance improvement, termination, layoff, job rotation, legal compliance etc.
- ❖ The research finding shows that the bank performance appraisal practice is challenged by a lot of problems. Despite the fact that, most of the problems belong to the rater error. The appropriate solution to alleviate these problems is the appraisers should get training which should be an ongoing process to ensure consistency.
- ❖ Lastly, that the researcher forwarded a suggestion for other researchers who interested to conduct a further research on this title is to execute their study by examining the relationship and its impact between performance appraisal and the bank achievement of its objective by considering or participating large number of respondents.

5.4 Limitation of the Study

This study requires availability of ample resources like time, budget, and also other resource and due to the limited time and budget the researcher is given; the research did not focus on other branches located at different areas of the country instead The research only addressed employees

and management of Addis Ababa branches. In addition, the willingness of the selected employees to give adequate information for conducting interview and their reserved answers from deep explanations was also another limitation to the study. Because of these limitations the researcher is forced to limit the size of sample selected. The study was conducted in branches situated in Addis Ababa and this may affect the generalization of the finding to the entire organization.

REFERENCES

- Aguinis, H. (2007) , *Performance management* , New Jersey :PEARSON Prentice Hall.
- Angelo, S. D., & Ricky, W. G. (2008). *Human Resource Management* (3rd ed.). City: Houghton Mifflin Company.
- Armstrong .M . (1998) *Performance management: The new realities* ,London : CIPD Press
- Armstrong, M & Angela. B. (2003). *Performance management the new realities*. Wiltshire: The cromwell press.
- Armstrong, M. (2010). *Performance Management: Measure and improve the effectiveness of your employees*.
- Armstrong, M. (2006). *A hand book of human resource management practice* (10th Edition ed.). Kogan page limited.
- Armstrong, M. (2009). *A handbook of personnel management practice*. 11th Ed. London: Kogan Page Ltd.
- David, G. C., & Geoffrey, W. (2009). *Human resource management: A critical approach*. Routiedge Taylor and Francies e-library.
- DeCenzo, A. D., & Stephen, P. R. (2010). *Fundamentals of human resource management* (10th Edition ed.). John wiley and sons Inc.
- Geoffrey M., etal, (2005). *Essentials of Research Design and Methodology*. Published by John Wiley & Sons, Inc., Hoboken, New Jersey, USA,p.103
- Gilley, A., Gilley, J. W., Quatro, S. A., & Dixon, P. (2009). *The Praeger Handbook of Human Resource Management, Volume 1 & 2*. Praeger Publishers.
- Gomez Mejia, Luis R. Balkin, David B, and Cardy, Robert L. (2001). *Managing Human Resource*, Pearson Edition,
- Greg, L. S., & Kenneth, G. B. (2009). *Human resource management : Linking strategy to practice* (1 ed.). John Wiley and Sons, Inc.
- Harvard business school. (2006). *Perfromance Management: Measure and improve the effectiveness of your employees*. Harvard: Harvard business school publishing corporation.
- Ivancevich, John M.(2004) *Human resource management* . 9th edition New delhi Tata McGraw hill

Mathis, Robert L. Jackson John H. (1997). Human Resource Management 8th ed. New York: West Publishing Company.

Noe, Bary, G.,Raymond A. John R.Holleneck and Patrick M.Wright (2008). *Human resource management: Gaining a competitive advantage* (6th Edition ed.). Mc Graw-Hill/Irwin.

Ramsay T. (1998) principles of management, Himaliya, Mumbai

(<https://en.m.wikipedia.org>performance> management, last seen at December 2,2017G.C)

(<https://www.abaybank.com.et/>)

APPENDICES

Appendix 1: Questionnaire distributed



ST. MARY UNIVERSITY SCHOOL OF GRADUATE STUDIES MASTER OF BUSINESS ADMINISTRATION PROGRAM QUESTIONNAIRE

Dear respondent!

The purpose of this questionnaire is to collect primary data for conducting a study title, **"Assessment of performance appraisal practice and challenges in Abay Bank S.C"** as partial fulfillment to the completion of Master of Business Administration at St, Mary University.

In this regard I kindly request you to provide me reliable information. I would like to request you to answer the questions as honestly as possible. Your responses will be treated with the highest level of confidentiality.

Part I - Demographic Profile of the Respondents

1. Gender: Male Female

2. Age: 18-25 26-35 36-45 Above 45

3. Marital Status: Single Married Divorced Widowed

4. Educational Background:

Diploma First Degree Master's degree and above

5. Years of experience (in Abay Bank S.C)

1-2 yrs

3-4yrs

5-7 yrs

>7yrs

PART II - Questions on performance appraisal practices and challenges

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

2.1 Strategic Objective of the Bank

		Rating scale				
		1	2	3	4	5
No.	Statements					
1	Employees are participated in the formulating strategic objective.					
2	Employees can easily understand the strategic objective.					
3	The objective is measurable and achievable.					
4	Employee’s individual jobs <i>are</i> aligned with the bank’s objective.					
5	Employees are well informed about the strategic objectives.					

2.2 Performance Standards

		Rating scale				
		1	2	3	4	5
No.	Statements					
1	The standards are clear and directly measure performances.					
2	The standard addresses quantity or work unit expected to perform.					
3	The standards addresses quality such as accuracy, appearance, usefulness, or effectiveness					
4	The standards are aligned with the strategic goal of the bank.					

2.3 Communicating of Standards and Expectations

		Rating scale				
		1	2	3	4	5
No.	Statements					
1	Employees are informed on the standards before evaluation.					
2	Employees clearly understand the standards and expectations.					
3	The standards are communicated by immediate supervisors.					
4	Managers and subordinates agree on performance expectations in advance.					

2.4 Measuring the Actual Performance

		Rating scale				
No.	Statements	1	2	3	4	5
1	The rater tries to measure employee actual performance.					
2	The rater has enough information on employee's real performance.					
3	The appraisal consisted of number of dimensions like work volume, quality, job knowledge, dependability, cooperation etc.					
4	Raters use different sources of information.					
5	Performances are measured based on the preset standards.					

2.5 Comparing Actual Performance with the Standards

		Rating scale				
No.	Statements	1	2	3	4	5
1	Staffs in different job description compared with same standards.					
2	Raters use behavioral oriented statements along each dimension.					
3	Raters compare every employee with every other in a work group.					
4	Appraisers get training on how to rate & measure employees.					
5	The rater rank employees within their departments.					

2.6 Providing Feedback

		Rating scale				
No.	Statements	1	2	3	4	5
1	The procedure allows employees to receive feedback.					
2	Immediate supervisor gives constructive feedback.					
3	Employees are allowed appealing appraisal results.					
4	The feedback helps to employees for improvement & motivation.					

2.7 Taking Corrective Action

		Rating scale				
No.	Statements	1	2	3	4	5
1	Corrective actions identified finally to make necessary adjustment.					
2	The results practically used to make personnel decisions.					
3	Trainings are based on the performance evaluation result.					
4	The results are used for development decisions.					

2.8 Major Challenges Affecting the Performance Appraisal

		Rating scale				
		1	2	3	4	5
No.	Statements					
1	Employees are not agreed on the standards before measuring.					
2	Raters do not have the skills to evaluate employee performance.					
3	Performance evaluation is not focused on employee development.					
4	Raters have biasing problems.					
5	There are difficulties to know employees real work performance.					

If you have any additional point to raise on the performance appraisal of Abay Bank S.C

Thank you very much for your cooperation!

Appendix 2: Interview Questions

**ST. MARY UNIVERSITY
SCHOOL OF GRADUATE STUDIES
MASTER OF BUSINESS ADMINISTRATION PROGRAM
INTERVIEW QUESTIONS**

1. How the performance appraisal system aligned with the strategic goal of the bank?
2. Who is carrying out the appraising of employee's performance in Abay Bank S.C?
3. Does the bank believe the appraisers have enough skill and experience to conduct the performance appraisal?
4. What process Abay Bank S.C. follow to conduct performance appraisal?
5. How the performance appraisal standards are set to different positions?
6. What challenges the bank faced in the performance appraisal process previously?
7. What actions are taken to overcome the challenges on performance appraisal previously?
8. What Human resource decisions (improvements) the bank has made from the performance appraisal results?
9. What benefits the bank obtains from the performance appraisal?
10. What corrective actions the bank made based on the performance appraisal results?