



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

**ASSESSMENT OF EMPLOYEE'S PERFORMANCE APPRISAL  
PRACTICES AND CHALLENGES: IN THE CASE OF ABAY  
BANK S.C**

**BY:  
TEMESGEN WANAW ZEMEDE**

**JULY, 2019  
ADDIS ABABA, ETHIOPIA**

**ASSESSMENT OF EMPLOYEE'S PERFORMANCE APPRISAL  
PRACTICES AND CHALLENGES: IN THE CASE OF ABAY  
BANK S.C**

**BY:**

**TEMESGEN WANAW ZEMEDE**

**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY SCHOOL OF  
GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS  
ADMINISTRATION (GENERAL MBA)**

**JULY, 2019**

**ADDIS ABABA, ETHIOPIA**

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

**ASSESSMENT OF EMPLOYEE'S PERFORMANCE APPRISAL  
PRACTICES AND CHALLENGES: IN THE CASE OF ABAY  
BANK S.C**

**BY:  
TEMESGEN WANAW ZEMEDE**

**APPROVED BY BOARD OF EXAMINERS**

\_\_\_\_\_  
Dean, Graduate Studies

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Advisor

\_\_\_\_\_  
Signature

\_\_\_\_\_  
External Examiner

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Internal Examiner

\_\_\_\_\_  
Signature

## DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of **Zemenu Aynadis**. All source of materials 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 institution for the purpose of earning any degree.

TEMESGEN WANAW ZEMEDE

Name

St. Mary's University, Addis Ababa

\_\_\_\_\_

Signature

JULY, 2019

## **ENDORSEMENT**

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

ZEMENU AYNADIS (Asst. Prof)

Name

St. Mary's University, Addis Ababa

---

Signature

JULY, 2019

## Table of Contents

Table of Contents .....	i
Acknowledgement.....	iii
Acronyms .....	iv
List of Tables.....	v
List of Figures .....	vi
Abstract .....	vii
CHAPTER ONE.....	1
INTRODUCTION.....	1
1.1 Background of the Study .....	1
1.2 Statement of the Problem .....	3
1.3 Research Questions .....	4
1.4 Objective of the Study .....	5
1.4.1 General Objective of the Study .....	5
1.4.2 Specific Objective of the Study.....	5
1.5 Significance of the Study.....	5
1.6 Scope and limitation of the Study .....	5
1.7 Definition of Terms .....	6
1.8 Organization of the Paper .....	7
CHAPTER TWO.....	8
REVIEW OF RELATED LITERATURE.....	8
2.1 Theoretical Review of literature .....	8
2.1.1 Definitions of performance appraisal .....	8
2.1.2 Performance appraisal as part of performance management .....	9
2.1.3 Uses of Performance Appraisal .....	10
2.1.4 Performance Appraisal System .....	13
2.1.5. Performance appraisal Approach .....	21
2.1.6 Objectives of Performance Appraisal.....	23
2.1.7 Standards of Performance Appraisal .....	23
2.1.8 Performance Appraisal Process .....	24
2.2 Empirical Literature Review .....	25

2.3 Conceptual Framework .....	25
CHAPTER THREE.....	27
RESEARCH DESIGN AND METHODOLOGY.....	27
3.1 Research Design and Approach.....	27
3.2 Target Population .....	27
3.3 Sample and Sampling Techniques.....	28
3.4 Tools and Procedures of Data Collection.....	29
3.6 Validity and Reliability .....	31
3.6.1 Validity.....	31
3.6.2 Reliability .....	31
3.7 Ethical Issues.....	32
CHAPTER FOUR.....	33
DATA PRESENTATION, ANALYSIS AND INTERPRETATION.....	33
4.1 Demographic characteristics of the respondents .....	33
4.2 Performance Appraisal Practice of Abay Bank S.C.....	34
4.2 .1 Purpose of Performance Appraisal in Abay Bank S.C.....	37
4.3 Performance Appraisal Process of Abay Bank S.C.....	38
CHAPTER FIVE.....	45
SUMMER OF FINDING, CONCLUSION AND RECOMMENDATIONS .....	45
5.1 Summary of Major Finding.....	45
5.2 Conclusion.....	46
5.3 Recommendations .....	47
REFERENCE .....	50
APPENDIX .....	52

## **Acknowledgement**

First and foremost, I would like to thank the almighty God, who has provided me guidance in all my life endeavors. I would like to express my gratitude and appreciation for the support and contribution of everyone who assisted me during this study. I would like to give my deepest gratitude toward my advisor Zemenu Aynadis (Ass.Prof) for his frequent follow up and offering his invaluable comments all along through the paper undertaking. I express my deepest gratitude to my family and friends for their support in completing the study. I am endowed to thank the management and employees of Abay Bank Share Company who have permitted me to make the study and showed interest by dedicating their time in filling the questionnaires which is the foremost reason I am able to finalize the study.



## **Acronyms**

HR-Human resource

HRM-Human resource management

PA-Performance Appraisal

PM-Performance management

Abay Bank S.C-Abay Bank Share Company

ProMES-Productivity measurement and evaluation system

## List of Tables

Table 3.1.Cronbach's alpha Reliability Statistics.....	32
Table 4.1.Demographic profile of the respondents.....	33
Table 4.2.Performance appraisal practices.....	34
Table 4.3 Performance appraisal processes.....	39
Table 4.4 Challenges of Performance appraisal process.....	42

## **List of Figures**

Figure 2 1 Conceptual Framework of the Study.....	26
---	----

## **Abstract**

*This study is to assess the practice and challenges of employees' performance appraisal in Abay Bank S.C. The researcher has used descriptive research design and have used stratified sampling method to select the sample that are representative which are nine branches and head quarters from those branches 242 employees have been taken as a sample and the response rate was 93.80%.The data that was gathered through questionnaire and interview were analyzed by using a software package called SPSS. The study found out that Abay Bank uses PA to measure employees' job performance on January and July. The Bank does not follow formal appraisal process and the performance standards that are developed in the field study. Abay Bank also faces challenges on its performance appraisal practice, most of them are rater's error like recency, halo/horns, situational influence etc and the remaining is the problem of the system. The human resources department of the Bank takes the ultimate responsibility for appraisal and supervisors take the lion share by filling appraisal forms for most of the employees. The appraisal result in Abay Bank used only for making promotion, bonus payment and annual increment decisions. Performance review discussion does not take place in the case company unless an employee comes up with grievances. Generally the outcome of the research confirmed that the performance appraisal practice of Abay Bank S.C. has weaknesses that need to be improved.*

**Key words** *Performance appraisal, Performance management, and Human resource management, Abay Bank, Ethiopia.*

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Management is the process of efficiently achieving the objectives of the organization with and through people. To achieve its objective, management typically requires the coordination of several vital components that we call functions (DeCenzo and Robbins2010), this definition states that organizations achieve their objectives through people. Therefore, it is obvious that the human resource of the organization is one of the major resources to achieve organizational objective and it needs to be managed.

Performance management is defined as a continuous process of identifying, measuring, and developing the performance of individuals and teams and aligning performance with the strategic goals of the organization (Aguinis, 2009). This definition notes two issues as factors that distinguish performance management from the traditional performance appraisal practice: it is a continuous process and that there is an alignment with strategic goals.

Performance management is also defined as a process of establishing shared understanding about what is to be achieved and how it is to be achieved, and an approach to managing and developing people that improves individual, team and organizational performance (Armstrong, 2009).

Performance management is one of the cornerstones of Human Resource practice in organizations. No matter where you work, how big or small your organization or how simple or complex the business model, effective performance management is a key requirement if you have any number of employees (Church and Waclawski2009), According to the definition the basic thing for human resource management, which helps the organization to be success on its objective, is performance management.

There are several important HRM practices that should support the organization's business strategy: analyzing work and designing jobs, determining how many employees with specific knowledge and skills are needed (human resource planning), attracting potential employees (recruiting), choosing employees (selection), teaching employees how to perform their jobs and

preparing them for the future (training and development), evaluating their performance (performance management), rewarding employees (compensation), and creating a positive work environment (employee relations). An organization performs best when all of these practices are managed well. At companies with effective HRM, employees and customers tend to be more satisfied, and the companies tend to be more innovative, have greater productivity, and develop a more favorable reputation in the community Noe, Bary, Raymond, Holleneck and Wright (2011).

Performance management can be defined as a systematic process for improving organizational performance by developing the performance of individuals and teams. It is a means of getting better results from the organization, teams and individuals by understanding and managing performance within an agreed framework of planned goals, standards and competence requirements (Armstrong, 2006). Performance management includes several activities. These are defining performance, measuring performance, and feeding back performance information. First, the organization specifies which aspects of performance are relevant to the organization. These decisions are based on the job analysis. Next, the organization measures the relevant aspects of performance by conducting performance appraisals. Finally, through performance feedback sessions, managers give employees information about their performance so they can adjust their behavior to meet the organization's goals Noe et al. (2011).

The growing competitive nature of the global business environment places enormous responsibilities on managers to create an enabling operating environment that can trigger desirable attitude from employees towards the organizations set goals and objectives (Inyang, 2008) as cited by Ayanyinka and Emmanuel (2013),

The attitude has to be in the interest of the organization and must sincerely show strong evidence for improved organizational performance. This is imperative owing to the vast role employees' play in ensuring the corporate existence of the business. However, for organization to command this high level of dedication from employees the organization must design an unbiased, objective and fair measure that seek to identify, recognize and reward employee's contributions to the organizations success, and ensure it is ultimately link to the organizations goal and objectives (Aguinis, 2007).

Performance Appraisals is the assessment of individual's performance in a systematic way. It is a developmental tool used for all round development of the employee and the organization. The performance is measured against such factors as job knowledge, quality and quantity of output,

initiative, leadership abilities, supervision, dependability, co-operation, judgment, versatility and health ( Decenzo, 1999).

Although performance management is a continuous process it is still necessary to have a formal review once or twice yearly. This provides a focal point for the consideration of key performance and development issues. A performance appraisal also referred to as a performance review, performance evaluation, (career) development discussion, or employee appraisal is a method by which the job performance of an employee is documented and evaluated. Performance appraisals are a part of career development and consist of regular reviews of employee performance within organizations.

## **1.2 Statement of the Problem**

As per DeCenzo and Robins (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. Rater errors are based on the feelings and it has consequences at the time of appraisal.

Banks play important roles in worldwide economies and their employees are the best sources of delivering good and services to their customers. Excellent services provided and offered by employees can create a positive perception and ever lasting image in the eyes of Banks and customers. As explained by (Wusu, 2012) the motivation of a Bank's employee plays a major role in achieving high level of satisfaction among its customers (Petcharak, 2004).

When individuals (or teams or units) are not well aligned with the vision, organizational goals, or what customers need and want, extra energy is required to reach the goals because time is often diverted to low-or no-value-added activities. Furthermore it results, in frustration of individuals or teams involved, poor performance, turnover etc. because; they may feel that their efforts are not creating success.

Failure to have a carefully crafted performance appraisal, can probably lead to failure in the business process itself. Generally, problem associated with performance appraisal are: employees are not provided with performance feedback on time, there are no documented criteria used to allocate organization rewards, there is no formal basis for personal decision – salary (merit) increase, disciplinary action, there is less communication between the employees and administration.

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

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

The Banking industry in Ethiopia has been experiencing an intense competition in the past few years. In connection with this fact, in order to gain competitive advantage over competitors in the industry the organization must carefully handle this sensitive issue of employee performance appraisal. Based on observations made by the researcher in different web sites and more than two years of experience even if there are a lot of researches that have been done regarding performance appraisal practice in CBE and united bank, 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 Abay Bank S.C

### **1.3 Research Questions**

To realize the purpose of this study and to give appropriate answer for the issues raised in the statement of the problem section the researcher has tried to answer the following research questions sufficiently.

1. What are the practices of employees' performance appraisals in Abay Bank S.C?
2. What are the processes that Abay Bank S.C uses to conduct performance appraisal?
3. What are the major challenges in the practices of employee's performance appraisal?



## **1.4 Objective of the Study**

### **1.4.1 General Objective of the Study**

The general objective of the study is to assess employee's performance appraisal practice in Abay Bank Share Company.

### **1.4.2 Specific Objective of the Study**

1. To examine the practices of an employee's performance appraisal in Abay Bank S.C.
2. To examine the processes that Abay Bank S.C use to conduct performance appraisal.
3. To examine the challenges in the practices of employees performance appraisal in Abay Bank S.C.

## **1.5 Significance of the Study**

The findings of this study expected to provide a lot of advantage for different organs. The major benefits of this study are the following;

1. It serves as a steppingstone for those who want to make further study on this topic.
2. Help students in the field and practitioners as a reference material to get deep insight with regard to performance appraisal practice as well as theory.
3. Inform the Bank any gaps in its practice of performance appraisal and help to make the necessary adjustment.
4. Helps employees of the Bank to know about how they are evaluated and to identify purposes of the performance appraisal of the Bank.

## **1.6 Scope and limitation of the Study**

### **1.6.1 Geographical Scope**

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 has covered those employees with at least a minimum of one year of working experience at the head office and selected branches located in Addis Ababa only.

### **1.6.2 Conceptual Scope**

The scope of this paper was not included other elements of the organization's human resource management programs and also not cover other elements of the company's overall business practice. The research conceptually focuses on employee's performance appraisal.

### **1.6.3 Methodological Scope**

The second limitation relates to the sample size for primary data source; the number of participants include in the sample may not be good representative of the population. In addition the researcher was facing the following challenges while conducting this study shortage of time, lack of experience of researchers, willingness of the respondent and lack of reference materials. This part includes research method that use 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 issues.

## **1.7 Definition of Terms**

In this part the researcher has listed definition of terms from theoretical perspective and practical definition of terms given by the researcher.

### **1.7.1 Conceptual Definition of Terms**

**Human resource Management (HRM)** - is utilization of human resources to achieve Organizational objectives. Human resource management (HRM) is a subset of the study of management that focuses on how to attract, hire, train, motivate, and maintain employees (Mandy et al.1999).

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

**Performance Management (PM)** - is a continuous process of identifying, measuring, and developing the performance of individuals and teams and aligning performance with the strategic goals of the organization (James, 2009).

### **1.7.2 Operational definition of terms**

**Managerial Employees** – are employees of the Bank that work on the position that starts from assistant branch manager, branch manager, department manager up to the president.

**Clerical Employees-** are employees of the Bank that work starting from grade V(five) like typists, junior trainee tellers, secretaries and clerks up to positions below assistant branch managers.

**Non-Clerical Employees-** are employees of the Bank that work on positions from grade I-IV (one up-to four) like janitors, messengers, securities, cash office boys/girls etc.

## **1.8 Organization of the Paper**

This research has been contained five chapters. The first chapter deals with background of the study, statement of the problem, research questions, objective of the study, significance of the study, scope and limitation of the study and organization of the paper .The second chapter presents review of literatures. The third chapter details with methodology such as population, sample size, source and method of data collection and tools for analysis. Then the fourth chapter has included data presentations, analysis and interpretation of the collected data. Finally, the last chapter has included summary of findings, conclusion and recommendations.

## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

#### **2.1 Theoretical Review of literature**

##### **2.1.1 Definitions of performance appraisal**

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. The concept of performance has been expressed by Brumbrach (1988 as cited in Armstrong, 2006) as follows:

Performance means both behaviors and results. Behaviors emanate from the performer and transform performance from abstraction to action. Not just the instruments for results, behaviors are also outcomes in their own right – the product of mental and physical effort applied to tasks – and can be judged apart from results.

This definition of performance leads to the conclusion that when managing performance both inputs (behavior) and outputs (results) need to be considered. It is not a question of simply considering the achievement of targets, as used to happen in ‘management by objectives’ schemes. Competency factors need to be included in the process. This is the so-called ‘mixed model’ of performance management, which covers the achievement of expected levels of competence as well as objective setting and review (Armstrong, 2006).

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.

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. Some organizations use the term performance appraisal for this process, while others prefer to use different terms such as performance evaluation, performance review, annual review, employee appraisal, or employee evaluation. The outcome of this evaluation is some type of score or rating on a scale. These evaluations are typically conducted once or twice a year (Angelo and Ricky 2008), Appraisal practices often include formal review and feedback sessions, and may include procedures for establishing work objectives, conducting self-appraisals, and setting performance goals (Paul and Laurel 2010),

Performance appraisal (PA) is often considered one of the most important human resource practices (Boswell and Boudreau 2002; Judge and Ferris 1993), and is one of the more heavily researched topics in work psychology (Fletcher, 2001). PA has increasingly become part of a more strategic approach to integrating HR activities and business policies and is now a generic term covering a variety of activities through which organizations seek to assess employees and develop their competence, enhance performance and distribute rewards (Fletcher, 2001).

### **2.1.2 Performance appraisal as part 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 (Foot and Hook, 2008 as cited on David and Geoffrey 2009). However, appraisals constitute an integral part of the performance management process (David and Geoffrey 2009),

As per Armstrong (2006) it is sometimes assumed that performance appraisal is the same thing as performance management. But there are significant differences. Performance appraisal can be defined as the formal assessment and rating of individuals by their managers at, usually, an annual review meeting. In contrast, performance management is a continuous and much wider, more comprehensive and more natural process of management that clarifies mutual expectations, emphasizes the support role of managers who are expected to act as coaches rather than judges, and focuses on the future.

Performance appraisal has been discredited because too often it has been operated as a top-down and largely bureaucratic system owned by the HR department rather than by line managers. It has been perceived by many commentators such as Townley (1989 as cited by Armstrong, 2006) as solely a means of exercising managerial control. Performance appraisal tended to be backward looking, concentrating on what had gone wrong, rather than looking forward to future development needs. Performance appraisal schemes existed in isolation. There was little or no link between them and the needs of the business. Line managers have frequently rejected performance appraisal schemes as being time-consuming and irrelevant. Employees have resented the superficial nature with which appraisals have been conducted by managers who lack the skills required, tend to be biased and are simply going through the motions. As Armstrong and Murlis (1998), assert, performance appraisal too often degenerated into 'dishonest annual ritual' (Armstrong 2006,).

### **2.1.3 Uses of Performance Appraisal**

The use of PA is elaborated by Mullins (1996) as a formalized and systematic appraisal scheme can also form the basis of a review of financial rewards and planned career progression. Performance appraisal is therefore, a crucial activity of the personnel function and the management of human resources. Also, the use of PA discussed by Henenman (1996) as PA is used to identify the dimension of performance, and also to set standards of contributions for each performance dimensions step.

And also Mondy, Noe and Premeaux (1999) stated as: "virtually every American business firm is affected by global competition. For survival and success, it is imperative that these organizations remain competitive. Continued competence can only be maintained ceaseless development of human resources'. A potential mechanism for this growth is employee "PA". Mathis and Jackson (1997), finally discussed about the role (use) of PA as follows. "PA has two

roles in organizations. One role is to measure performance for rewarding or otherwise making administrative decisions about employees. Promotions or layoffs might hinge on these ratings making them difficult at times. Another role is development of individual potential. Different institutions/ organizations use PA for different purposes as different scholars stated. The following are some Examples:

“Managers often believe that the most significant PA outcome involves the contributions employees make to the organizations goal attainment. Higher performing employee’s successfully meets their responsibilities and thereby make a contribution to the goals of the organization. Mullins (1996) Performance appraisal is a vital component of a broader set of human resource practices; it is the mechanism for evaluating the extent to which each employee’s day-to-day performance is linked to the goals established by the organization (Coutts and Schneider 2004),

According to Armstrong (2000) a PA function is a continuous and evolutionary process in which performance improves over time. It provides the basis for regular and frequent dialogues between managers and individuals about performance and development needs based on feedback and self-assessment. It is mainly concerned with individual performance but it can also be applied to teams.

According to Gomez-Mejia et al. (2001) Organizations usually conduct appraisals for administrative and/or developmental purposes. Performance appraisals are used administratively whenever they are the basis for a decision about the employee’s work conditions including promotions, termination and rewards. Development uses of appraisal which are geared toward improving employees’ performance strengthening their job skills, including counseling employees on effective work behaviors and sending them for training. The major functions of PA The major functions of PA are to give employees feedback on performance, to identify the employees’ developmental needs to make promotion and reward decisions, to make demotion and termination decisions and to develop information about the organizations selection and placement decisions, as Nelson et al. (1997) and Mondy, Noe and Premeaux (1999) discuss the PA purpose as performance appraisal data are potentially valuable for use in virtually every human resource functional areas such as:

- a) Human Resource Planning
- b) Recruitment and selection
- c) Training and development

- d) Career planning and development
- e) Compensation programs
- f) Internal employee relation
- g) Assessment of employee potential

The system involves several steps, which can be considered as continuous, however periodic. Performance appraisal objectives can be classified in a number of ways. One of the best known classifications was produced by McGregor (1987) who grouped the objectives as follows:-

**Administration:** Providing an orderly way of determining promotions, transfers and salary increases.

**Informative:** Supplying data to management on the performance of subordinates and to the individual on his or her performance.

**Motivational:** Creating a learning experience that motivates staff to develop themselves and improve their performance. Finally, Henenman et al, (1996) classified the purpose of PA into three conditions:

**Administration Decisions:** those are for employee promotion, choosing employee, and making salary increments recommendations. And also these scholars presented this for administrative purpose which helps to place employees in positions where their abilities can be best use or helpful in assigning employees to appropriate future positions. Mathis and Jackson (1997), moreover state the administrative aspect of PA as follows: PA system is often the link between the reward employees hope to receive and their productivity. Decisions on promotion, termination layoff, and transfer assignments are some of the administrative use of PA that are very important to employees. When organizations terminate, promote or pay people differently, PAs are necessary as they are a crucial defense if employees sue over such decisions.

**Employee feedback and development** is another purpose of PA is to employees know where they stand relative to performance objectives and organization expectations. As Mathis and Jackson (1997), also stated that PA can be primary source of information and feedback for employees, which is the key for their future development. When supervisors identify the weakness, potentials, and training needs of employees about their progress, discuss what skills they need to develop and workout development plans. Here the main purpose of developmental feedback lies to change or reinforce individual behavior rather than to compare individual as in the case of administrative users of PA.



Armstrong (2009) also stated employees' feedback and development as functions as a continuous and evolutionary process in which performance improves overtime. It provides the basis for regular and frequent dialogues between managers and individuals about performance and development needs based on feedback and self-assessment. It is mainly concerned with individual performance but it can also be applied to teams. The emphasis is on development, although performance management is an important part of the reward system through the provision of feedback and recognition and the identification of opportunities for growth. It may be associated with performance or contribution related pay but its developmental aspects are much more important

**Evaluation of policies and programs implemented:** are another method of PA to influence work behavior. That means, one can observe the purpose of PA keeps determinant effect and needs to be well known and done for the effectiveness of the organization task and employee relative stand on his/her job. Mondy, Noe and Premeaux (1999) stated that the purpose of PA, "A system which is properly designed and communicated can help to achieve organizational objectives and also increases employee performance. Actually, PA data are potentially useful for use in every human resource function area such as in every human resource planning and development of employee potential.

#### **2.1.4 Performance Appraisal System**

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

Identification of performance dimensions is the important first step in the appraisal process. If a significant dimension is missed, employee morale is likely to suffer because employee who do well on that dimension is missed, employee will not be recognized or rewarded. If an irrelevant or trivial dimension is included, employees may perceive the whole appraisal process as meaningless.

The Second step in performance appraisal process is measuring employees' performance. Measuring employee performance involves a number to reflect an employee's performance on

the identified characteristics or dimensions. Technically numbers are not mandatory. Label such as “Excellent”, “Good”, “average” and “Poor might be used instead.

#### **2.1.4.1 Approaches of Performance Appraisal**

Numerous techniques for measuring performance have been developed over the years. According to Gomez-Mejia (2001) Techniques of measuring performance of employees involve wide array of appraisal formats from which to choose. Here we discuss the formats that are most common legally defensible. These formats can be classified in two ways: (1) the type of judgment that is required (relative or absolute), and (2) the focus of the measure (trait, behavior, or outcome). PA roots in the early 20th century and its existence consists of different approaches in its history. The three approaches that deal with PA are presented below. Henenman et al. (1 996)

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

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

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

#### **2.1.4.2 Effectiveness of PA systems**

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

- **Validity:** Comes from capturing multiple dimensions of person’ job performance.
- **Reliability:** comes from capturing evaluation from multiple sources and at different times over the course of the evaluation period.

- **Responsiveness:** allows the person being evaluated some input in to the final outcome.
- **Equitableness:** results in fair evaluations against established performance criteria, regardless of individual differences

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

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

#### **2.1.4.3 Time to Conduct Performance Appraisal**

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

Second, a systematic appraisal is used when the contact between manager and employee is formalized and a system is established to report managerial impressions and observations on employee performance. Although informal appraisal is useful, it should not take the place of formal appraisal. When a formalized or systematic appraisal is used, the interface between the

HR unit and the appraising manager becomes more important. Therefore, systematic appraisals typically are conducted once or twice a year. Appraisals most often are conducted once a year, usually near the employee's anniversary date. For new employees, an appraisal for 90 days after employment, again at six months, and annually these after is common timing. This regular time interval is a feature of formal appraisals and distinguishes them from informal appraisals. Both employees and managers are aware that performance will be reviewed on a regular basis, and they can plan for performance discussions. In addition, informal appraisals should be conducted whenever a manager feels they are desirable.

#### **2.1.4.4 Responsible Body to Conduct Performance appraisal**

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

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

#### **2.1.4.5 Performance Appraisal Criteria**

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

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

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

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

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

#### **2.1.4.6 Factors that can Distort Appraisal**

These errors can emanate from system designed and operating problems, raters problems, and rates problem in performance appraisal.

##### **2.1.4.6.1 Problems emanating from the Raters**

Raters have their own rose-colored glasses with which they “objectively” view their subordinates. These biases produce rating errors, or deviations between the “true” rating an employee deserves and the actual rating assigned. Rating errors reduce the reliability, validity, and utility of performance appraisal systems. Biases in performance ratings manifest themselves in many forms.

According to Ivancevich (1989) the use of ratings assumes that the rater is reasonably objective and accurate. However, in reality, raters’ memories are quite imperfect, and raters subscribe to their own sets of likes, dislikes, and expectations about people, which may or may not be valid.

##### **2.1.4.6.2 Problems Emanating from the System of PA**

Problems can be emanate from the system of appraisal which involves the objective of the appraisal it wants to serve, administrations system, forms used and procedure used to make up the system.

According to Beer (1987) many of the problems in performance appraisal stem from the appraisal system itself, the objectives it is intended to serve, the administrative system in which

it is embedded, and the forms and procedures that make up the system. (As cited by Zelalem Bayisa, 2007)

According to Beer (1987) the problems of performance evolution is related to the forms and procedures that make up the performance appraisal system. The form used to record the performance of the employees is blamed if it is cumbersome, not customized and if employees did not participate in the design of the form of evolution. (ibid)

According to Boice and Kleiner (1997), organizations need to have a systematic framework to ensure that performance appraisal is “fair” and “consistent”. In their study of “designing effective performance appraisal system”, they conclude that that designing an effective appraisal system requires a strong commitment from top management. The system should provide a link between employee performance and organizational goals through individualized objectives and performance criteria. They further argued that the system should help to create a motivated and committed workforce. (ibid)

#### **2.1.4.6.3 Problems Emanating from the Ratees**

The problems of performance evaluation can also be attributed to the rates, and involves the instance of; their attempt to create unnecessary impression and work area ingratiation is one of the major problems with respect to ratees. According to Cook (1995) while discussing impression management, organizations occasionally exist in which subordinates gain credit for pushing ahead with management plans that are absurdly wrong, in pursuit of aims which are completely pointless, stifling criticism either of purpose or of method with cries of “commitment” and “loyalty”. *Ingratiation* English has a rich vocabulary to describe workplace ingratiation including words listed in dictionaries as “not in polite use” which implies that the behavior is widely recognized, but not widely popular. Research suggests however that ingratiation does not always succeed in obtaining good performance ratings. Unsubtle ingratiation may sometimes be too blatant to be credible, or palatable.

Ingratiation and other impression management techniques also contaminate appraisal ratings and make them less accurate reflectors of true worth to the organization. Besides undermining performance appraisal, and selection research, this tends to be bad for morale, when staff see persons whose true performance is poor, but who are good at ingratiating themselves, get merit awards, or promotion, or other marks of favor. (ibid)

#### **2.1.4.7. Factors Influencing the Effectiveness of PA**

PA can be influenced by three major factors appraisal system, subordinate and supervisor relationship, and the interview process. According to Beer (1987) has discussed these three factors than can influence appraisal outcomes. First, the appraisal system can be designed to minimize the negative dynamics causing problems of performance appraisal. The supervisor often has only marginal control over these matters. Second, the ongoing relationship between boss and subordinate will have major influence on the appraisal process and outcome. Third, the interview process itself, the quality of communication between boss and subordinate, can help to minimize problems of performance appraisal. (ibid)

**The appraisal system:** In order to solve the problem of defensiveness of ratees that resulted as a result of conflict in the goals of performance appraisal, raters should conduct two separate performance appraisal interviews one focused on evaluation and the other coaching and development. The other solution is choosing appropriate performance data. For instance, using behavioral rating scales and behavior related appraisal techniques may solve this problem.

**Supervisor-subordinate relations:** The quality of the appraisal process is dependent on the nature of the day-to-day boss subordinate relationship. In an effective relationship, the supervisor is providing feedback and coaching on an ongoing basis. Thus, the appraisal interview is merely a review of the issues that have already been discussed. On the other hand, if a relationship of mutual trust and supportiveness exists, subordinates are more apt to be open in discussing performance problems and less defensive in response to negative feedback.

There are no easy techniques for changing a boss subordinate relationship. It is highly affected by the context with in which the boss and subordinate work, the broader culture of the organization, and the climate of the primary work group will have important influences on boss-subordinate relationship. If the organization culture encourages participative management, open communication, supportiveness accompanied by high standards of performance, a concern for employees, and egalitarianism, it is more likely that these values will characterize.

**The appraisal interview:** The best techniques for conducting a particular appraisal interview depend on the mix of objectives pursued and the characteristics of the subordinate. Employees differ in their age, experience, sensitivity about the negative feedback, attitude towards the supervisor, and desire for the influence and control over their destiny.

According to Beer (1987) there are three types of appraisal interviews each with distinct specific objectives. The differences are important in determining the skills required by the supervisor

and the outcomes for employee motivations and supervisor-subordinate relationships. The three methods are termed as: tell-and-sell, tell-and-listen, and problem solving.

**The tell and sell method:**The aim of this method is to communicate evaluations to employees as accurately as possible. The fairness of the evaluation is assumed and the manager seeks (1) to let the subordinate know how they are doing, (2) to gain their acceptance of the evaluation, and (3) to get them to follow the manager's plan for improvement. In the interview, supervisors are in complete control; they do most of the talking. They attempt to influence and persuade subordinates that their observation and recommendations are valid. Clearly, this method leads to defensiveness, lack of trust, lack of open communication and exchange of invalid information and it can hurt supervisor-subordinates relations.

**The tell and listen interview:**The purpose of this interview method is to communicate the evaluation to the subordinate and then let him /her respond to it. This method is apt to result in better understanding between supervisor and subordinate than the -tell and sell method. (ibid)

**Employees' perception about the performance appraisal in their organizations:** According to McShane and Glinow (2000), Perception is the process of receiving information and making sense of the world around us. It involves deciding which information to notice, how to categorize this information, and how to interpret within the framework of our existing knowledge. Perceptual process is the dynamics of selecting, organizing, and interpreting external stimuli. The perceptual process begins when environmental stimuli are received through our senses. Most stimuli are screened out; the rest are organized and interpreted based on various information- processing activities. The resulting perceptions influence our emotions and behavior toward those objects, people, and events.

According to Armstrong (2009) Perception is the intuitive understanding, recognition and interpretation of things and events. Behavior will be influenced by the perceptions of individuals about the situation they are in. The term "psychological climate" has been coined to describe how perceptions give the situation psychological significance and meaning.

Therefore, the perception of employee about their performance appraisal depends upon their understanding of themselves and interpretation of their own.

**Perception about the Performance Appraisal System Fairness and Objectiveness:**

Performance appraisal should be fair and objective oriented, if it is for aligning employees to organizational goals and employees' development. Fairness is emphasized more specifically; trust will be developed if management acts fairly, equitably and consistently, if a policy of



transparency is implemented, if intentions and the reasons for proposals or decisions are communicated both to employees generally and to individuals, if there is full involvement in developing reward processes, and if mutual expectations are agreed through performance management. Failure to meet these criteria, wholly or in part, is perhaps the main reason why some any performances related pay schemes have not lived up to expectations. The starting point is to understand and apply the principles of distributive and procedural justice.

One antecedent to distributive and procedural justice of performance, appraisal is social justice between groups and employees. When we do not compensate employees fairly, by basing their compensation on work results, then the employees waste their time rather on getting the desired levels of compensation and not on improving their work. According to Susan (1995) performance evaluation system is fair if: 1) It provides adequate notice; 2) fair hearing which requires a formal review of meeting in which an employee is informed of a tentative assessment of his/her performance and employees are permitted to challenge the assessment; and 3) Judgment based on evidence that requires the organization to apply performance standards consistently across employees (Ibid).

### **2.1.5. Performance appraisal Approach**

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

Numerous methods have been devised to measure the quantity and quality of performance appraisals. Each of the methods is effective for some purposes for some organizations only. None should be dismissed or accepted as appropriate except as they relate to the particular needs of the organization or an employee.

#### **2.1.5.1. The comparative approach**

The comparative approach to performance measurement requires the rater to compare an individual's performance with that of others. This approach usually uses some overall assessment of an individual's performance or worth and seeks to develop some ranking on the

individuals within a work group. At least three techniques fall under the comparative approach: ranking, forced distribution, and paired comparison Noe et al. (2008).

#### **2.1.5.2 The attribute approach**

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

#### **2.1.5.3 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).

#### **2.1.5.4 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.

#### **2.1.5.5. The Quality Approach**

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

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

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

### **2.1.6 Objectives of Performance Appraisal**

Feedbacks from performance evaluation need to motivate employees through recognition and support. According to Armstrong (2009) the emphasis is on development, although performance management is an important part of the reward system through the provision of feedback and recognition and the identification of opportunities for growth. It may be associated with performance or contribution related pay but its developmental aspects are much more important.

1. Promotion
2. Confirmation
3. Training and development
4. Compensation reviews
5. Competency building
6. Improve communication
7. Evaluation of HR program
8. Feedback and grievances

### **2.1.7 Standards of Performance Appraisal**

A performance standard can be defined as a statement of the conditions that exist when a job is being performed effectively. Performance standards are used when it is not possible to set time-based targets. Standards are sometimes described as standing or continuing objectives, because, their essential nature may not change significantly from one review period to the next if the key task remains unaltered, although they may be modified if new circumstances arise (Armstrong, 2003)

As per Armstrong (2009) the criteria for reviewing performance should be balanced between:

- i. Achievements in relation to objectives;
- ii. The level of knowledge and skills possessed and applied (competences or technical competencies);

- iii. Behavior in the job as it affects performance (competencies);
- iv. The degree to which behavior upholds the core values of the organization
- v. Day-to-day effectiveness.

The criteria should not be limited to a few quantified objectives as has often been the case in traditional appraisal schemes. In many cases the most important consideration will be the job holders' day-to-day effectiveness in meeting the continuing performance standards associated with their key tasks. It may not be possible to agree meaningful new quantified targets for some jobs every year. Equal attention needs to be given to the behavior that has produced the results as to the results themselves (Armstrong, 2009).

Realistic, measurable, clearly understood performance standards benefit both the organization and the employee. It is important to establish standards before the work is performed so that all involved will understand the level of accomplishment expected (Mathis and Jackson, 1994)

As per Mathis and Jackson (1994), Standards often are established for the following:

- i. Quantity of output.
- ii. Quality of output.
- iii. Timelines of result.
- iv. Manner of performance.
- v. Effectiveness in use of resources.

### **2.1.8 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.

## **2.2 Empirical Literature Review**

Performance management can be defined as a systematic process for improving organizational performance by developing the performance of individuals and teams (Armstrong, 2006).

Performance management includes several activities. These are defining performance, measuring performance, and feeding back performance information. First, the organization specifies which aspects of performance are relevant to the organization. These decisions are based on the job analysis. Next, the organization measures the relevant aspects of performance by conducting performance appraisals. Finally, through performance feedback sessions, managers give employees information about their performance so they can adjust their behavior to meet the organization's goals Noe et al. (2011).

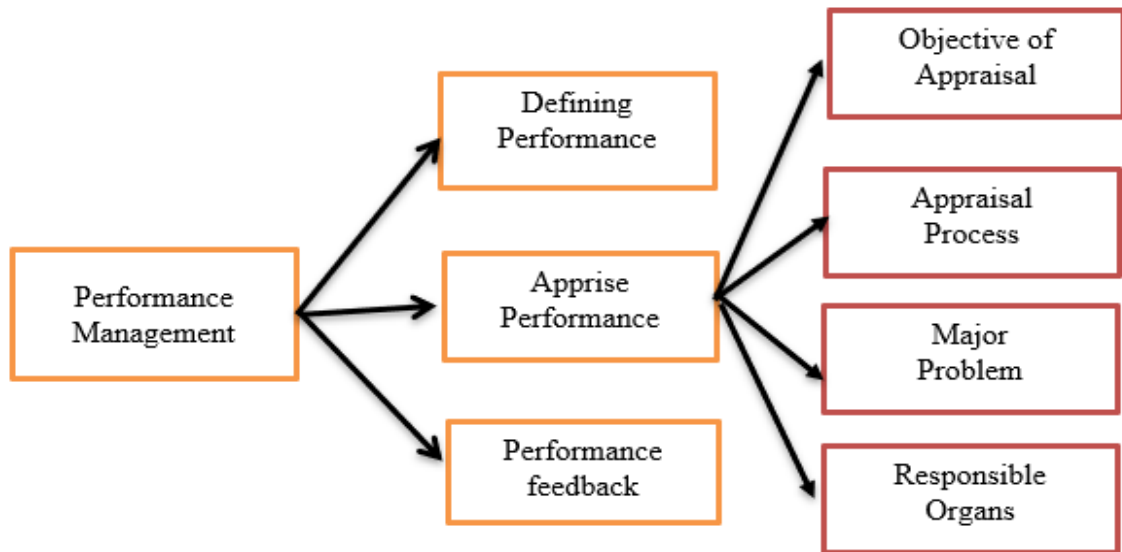
There are different appraisal methods that affect the appraisal practice positively and negatively like: ranking, forced distribution, paired comparison, graphic rating scales, mixed standard scales, critical incidents, behaviorally anchored rating scales, behavioral observation scales, organizational behavior modification, assessment centers, management by objective, ProMES, and quality approach (Ibid).

Standards are sometimes described as standing or continuing objectives, because, their essential nature may not change significantly from one review period to the next if the key task remains unaltered, although they may be modified if new circumstances arise (Armstrong and Baron, 2003)

## **2.3 Conceptual Framework**

This chapter tries to deal with review of literature on performance appraisal and organizations' under the study background. Attempts will be made to briefly begin with evolution and overview of Human Resource Management followed by the general concepts of performance appraisal such as purpose, methods, importance, time, schedule, and other related information's are presented in very precise manner.

The conceptual framework which developed based on Literature review



**Figure 2.1 Conceptual framework of the study: based on literature review**

This figure in general shows that performance appraisal is one of human resource practice that is conducted in the performance management system. And the performance appraisal practice takes into consideration of the objective of performance appraisal, the appraisal process, problems of appraisal and participant of performance appraisal.

## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

In order to achieve the objective of this paper, using of appropriate methodology that helps to approach the research scientifically is the priority attention given by the researcher. This part includes research design, sample and sampling technique, instrument for data collection, procedure of data collation, method of data analysis, reliability and validity, and ethicality issue.

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

According to Malhotra and Birks (2007), a research design is a framework or blueprint for conducting a research. It details all the necessary information needed to structure and solve the research problems. Even though a broad approach to the problem has already been developed, the research designs specify the details. The research design is the foundation on which the research project is built. A good research design seeks to ensure that the research project is conducted effectively and efficiently.

Even though each methodology represents a different approach to evaluation, in this thesis, a mixed approach has been used which incorporates both quantitative and qualitative research methodologies to achieve the desired objectives of the study.

According to Geoffrey et al. (2005) 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 issues. Based on the above definition the researcher used the descriptive research design is best to achieve the aim of this research since the study is focus on assessment of employees' performance appraisal practice in Abay Bank S.C

#### **3.2 Target Population**

Abay Bank S.C. was incorporated on July 10, 2009 as per the Commercial Code of Ethiopia enacted in 1960, and it was licensed by the National Bank of Ethiopia to transact commercial Banking including interest free Banking services. The Bank was established with a subscribed capital of Birr 174,500,000 million and a paid up capital of Birr 125,855,022.28 (one hundred twenty five million eight hundred fifty five thousand twenty two and 28 cents.) and 823 founder

shareholders. Registered address is in Addis Ababa, Zequala complex, Jomo Kenyatta Avenue, Addis Ababa Ethiopia.

Abay Bank has fulfilled all the necessary requirements of national Bank of Ethiopia to set up a Bank, and officially established on July 14<sup>th</sup> 2010 and started fledged Banking operation on November 3<sup>rd</sup> 2010. The Bank is poised to serve all economic sectors through its network of branches. It extends its services to domestic trade and services, International trade (Import / Export), Agriculture, Industry, Transportation, Manufacturing, staff and consumer loan, Hotel and Tourism, Mines, power and Water resource, Building and Construction and Real estate sectors.

Abay Bank has crafted a new five-year strategy plan to achieve greater profitability and operational effectiveness. It is cognizant of this fact that the Abay Bank has taken the initiative to prepare its five years strategic plan to get started and move forward. This strategic document is a living document which will continue to evolve in response to the evolving and dynamic environment.

The target population of this study was mainly managerial and clerical employees of the Bank who have experience of more than or equal to one year. These employees were 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.

### **3.3 Sample and Sampling Techniques**

According to the Bank's report following to the end of first quarter (2017/2018) the total permanent employees of Abay Bank S.C. are 1,637 (i.e. 180 managerial, 1,112 clerical and 345 non clerical) out of the total managerial and clerical employees 611 of them are working at Addis Ababa and have got more than one year experience. The scope was delimited to Addis Ababa samples have been taken only from head office and nine branches (Main, Megnagna, Lideta, Bomb-Tera, Bole Michael, CMC, Hayahulet, Merkato and Tewodros). The branches selected randomly.

Sampling is the purpose of choosing, from a much large population, a group about which wish to make generalized statements so that the selected part represent the total group (Yamane, 1967).



As per Glenn (1992) there are several approaches to determining the sample size. These include using a census for small populations, imitating a sample size of similar studies, using published tables, and applying formulas to calculate a sample size. A third way to determine sample size is to rely on published tables, which provide the sample size for a given set of criteria.

The first and second approaches for determining the sample size are not appropriate for this study. Since the population of the study are many in number it was difficult to use census, and also imitating the sample size of similar studies was not possible because it was difficult to gate this kind of research that is done in the Abay Bank or other Banks. Therefore the researcher adopted simple mathematical formula provided by Yamane in 1967 for determining sample size. Since the study was delimited to Addis Ababa city the population size of employees working in Addis Ababa and that have experience of one year and above were 611. Therefore from the sample size for population size of 611 is 242 Employees was used as sample size of this study in head office and nine branches. Therefore the researcher adopted simple mathematical formula provided by Yamane in 1967 for determining simple size.

The sampling Formula  $n = N/1+N (e)^2$   
 $n$ = is the sample size

$N$ =is the population size which is 611 and

$e$  = is the level of precision which is 5 %

$$n=N/1+N (e)^2 \quad n=611/1+611(0.05)^2=611/2.5275=241.74=242$$

The numbers of staffs who have more than one year experiences were listed as follows. Main branch have 27 staffs, Merkato branch have 21 staffs, Megnagna 16 Lideta branch have 19 staffs, Hayahulet branch have 12 staffs, Bomb-Tera branch have 19 staffs, Bole Michael branch have 15 staffs, CMC branch have 16 staffs and Tewodros branch have 21 staffs. The total numbers of samples from the branches are 166 employees and the remaining 76 was taken from different departments in head office by using proportionate stratified random sampling technique. The reason for making the number of samples from branches more than head office based on the proportion of the number of staff found at branches.

### **3.4 Tools and Procedures of Data Collection**

In this study the researcher was collect data from primary data source. Data collected by using the questionnaire and interview. Questionnaire and semi structure interviews were used as of

primary data collection tools. The secondary sources such as published books, related websites, company appraisal forms, different manuals and articles used under this study.

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 is sufficient to collect the necessary data it distributed to respondents and then by making the appropriate follow up the researcher himself collected the instruments from the respondents.

Before the interview the researchers read or have background information about the topic area. And also the researcher asked the respondents about the time place and condition of making interview. During the interview the interviewer must follow up the respondent, take the response in the form of note if necessary in form of record. After the interview the interviewer have thanked the interviewee for his/her time, cooperation etc.

#### **3.4.1 Questionnaire**

In this study questionnaire is developed in order to collect data from employees that are found in all categories. The type of questions that were raised in the questionnaire both close ended questions with predetermined scale for response and open ended questions providing respondents with freedom to express their perception. The questionnaires were distributed to all employees in the selected branches and head office with experience equal to or more than one year. Because the researcher believes that those employees who have more than one years' experience have faced performance appraisal at least twice, they have prior experience and better understanding about the topic understudy. The questionnaire is administered by writing questions on a page and distributing it to the respondents, expecting them to return the paper with their answers on it. The advantage of using the questionnaires method is that the respondents have time to think of their answers, thus allowing smaller rate of errors.

#### **3.4.2 Interview**

Interview was used as one tool for collecting data regarding performance appraisal practices, challenges, process and participant of performance appraisal. For the interview the researcher has contacted senior human resource personnel that were 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.

### **3.5 Method of Data Analysis**

Descriptive statistics use to organize the data through closed ended question with the help of SPSS (Statistical Package for Social sciences) version 20. Analysis have been done according to the objective of the study. Summary of statistics in form of qualitative and quantitative measure, Frequencies and percentage were run and interpretations were made. Regarding the interpretation for the variables used on likert scale: measurement was used on the basis of survey.

All the qualitative data collected from key informants was summarized on a continuous basis to ensure completeness. The data collected through interview and different organizational documents were also summarized, coded and presented in a way that communicates the major finding of the study.

### **3.6 Validity and Reliability**

#### **3.6.1 Validity**

Validity is the extent to which the research findings accurately represent what is really happening in the situation (Hughey and Mussnug, 1997). Validity is the most important attribute of assessment system. It is concerned with the evaluation measures the performance it's intended to measure.

Validity is measure of the truthfulness of measuring instruments. The questionnaire was distributed and collects by the researcher in person. And also, interviews have been conducted with concerned senior personnel's from human resource department.

#### **3.6.2 Reliability**

Reliability refers to the extent to which the data collection techniques will yield consistent findings. To assure this, questions regarding the practices, process, challenges and responsible organs have been asked both in the questionnaire and the interview were presented to employees as well as a senior human resource personnel. The samples of the pilot test were 30 employees and identified by using simple random sampling.

Internal consistency of items, which is the level of homogeneity of a measures incorporated in the instruments was checked by using cronbach's coefficient alpha and the SPSS results for the measure of the performance appraisal practice are shown in the below table.

As a results for the measure of the performance appraisal practice are shown in the table. As per (Walsh, 1995) recommendation a minimum level of cronbach's alpha should be 70%. Hence the reliability of the response was able to be ensured.

**Table 3.1 Cronbach's alpha Reliability Statistics**

Cronbach's Alpha	N of Items
.795	59

### **3.7 Ethical Issues**

It could not be ethical to access some confidential documents of the organization. Therefore, the organization's code of ethics was taken into account without significantly compromising findings of the study. Also, it may not be ethical to ask employees to answer questionnaires while they are at their work responsibility. Hence, enough time was given to respondents so that they can either take the questionnaire to their home or use their break time.

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This chapter deals with analysis, interpretation and discussion of the data collected through questionnaire and interview. Responses for measures on the questionnaire are summarized and presented by using tables. Questionnaires were prepared and 242 questionnaires distributed to respondents out of 242 questionnaires distributed 227 were collected used for analyses purpose.

#### 4.1 Demographic characteristics of the respondents

In this part sex, marital status, age, educational background and years of experience of the respondent were analyzed and interpreted.

**Table 4.1 Demographic characteristics of the respondents**

No	Demographic		Frequency	Percentage
1	Sex	Male	160	70.50
		Female	67	29.50
		Total	227	100
2	Marital status	Single	155	68.30
		Married	55	24.20
		Divorced	17	7.50
		Widowed	-	-
		Total		227
3	Age	Below 25	73	32.2
		25-35	125	55.1
		35-45	26	11.5
		45-55	3	1.3
		Above 55	-	
		Total	227	100
4	Educational background	Elementary complete	-	-
		High school complete	-	-
		Diploma	27	11.9
		First degree	179	78.9
		Master degree	21	9.3
		Master and above	-	-
		Total	227	100
5	Year of experience	1-2 year	44	19.4
		2-4 year	89	39.2
		4-6 year	67	29.5
		Above 6 year	27	11.9
		Total	227	100

**Source: Primary data (2019)**

As can be seen from table 4.1, the majority of the respondents are males (70.50%) and the remaining (29.50%) were females. This shows that there is low number of females are working at Abay Bank s.c.

As to the marital status of the respondents and we can see that out of 227 respondents, 68.30% of the respondents are single, 24.20% of the respondents are married while 7.50% were divorced and none of the respondent are widowed.

As be seen from table 4.1, the majority (55.1%) of employees are in the category of 25 to 35 years age. And the second majorities (32.2%) of employees are in the category of below 25 years age in Abay Bank. Other employees who are in the category of 35 to 45 years are (11.5%) and 45 to 55 years are (1.3%) and there is no respondents whose age were 55 and above. Generally, 87.3 % of the respondents are below the age 35. As can be observed in reality many employees in Abay Bank are youngsters and this study has got the participation of majority young employees which are under the age of 35.

It is possible to understand from the above table that the majorities (78.9%) of the respondents have first degree, additionally the tables above shows the second Abay Bank employees have Diploma (11.9%) and the other employees are MA (9.3%) in Abay Bank.

As per the data presented in table 4.1 the majority (39.2%) of the respondents have 2 to 4 years of working experience and the second majority (29.5%) of respondents have 4 to 6 years working experience and the remaining are (19.4%) and (11.9%) of employees 1 to 2 and above 6 years working experience at Abay Bank respectively. This data indicates that 68.7 % of employees joined Abay Bank during the last four years.

## **4.2 Performance Appraisal Practice of Abay Bank S.C**

Feedbacks from performance appraisal evaluation need to motivate employees through recognition and support. The emphasis is on development, although performance management is an important part of the reward system through the provision of feedback and recognition and identification of opportunities for growth (Armstrong, 2009). It may be associated with performance or contribution related pay but its developmental aspects are much more important. Regarding practices of performance appraisal in Abay Bank, data collected, it is presented for discussion and analysis in the able blow.

### **Table 4.2 Performance appraisal practices of Abay Bank S.C**

S.N	Questions	Response rate	Level of agreement					Total
			SD	D	N	A	SA	
1.1	Information generate through performance evaluation is used to give feedback to subordinate.	Frequency	23	47	34	68	55	227
		Percentage	10.1	20.7	15.0	30.0	24.2	100
		Mean						3.37
1.2	Information generated through performance evaluation is used to motivate subordinate through recognition and support	Frequency	67	25	29	79	27	227
		Percentage	29.5	11.0	12.8	34.8	11.9	100
		Mean						2.89
1.3	Information generated through Performance evaluation is strongly determines pay and promotion decision.	Frequency	42	28	27	85	45	227
		Percentage	18.5	12.3	11.9	37.4	19.9	100
		Mean						3.28
1.4	Information generated through performance evaluation is used to counsel and coach subordinates so that they will improve their performance and develop their respective potential.	Frequency	39	29	31	47	81	227
		Percentage	17.2	12.8	13.7	20.7	35.7	100
		Mean						3.45
1.5	Information generated through performance evaluation is used as a basis to warn subordinate about unsatisfactory performance and helps supervisor makes discharge or retention decision	Frequency	66	49	35	36	41	227
		Percentage	29.1	21.6	15.4	15.9	18.0	100
		Mean						2.72
1.6	I feel the performance evaluation is designed to strengthen the relationship between supervisors and subordinates	Frequency	59	61	24	35	48	227
		Percentage	26.0	26.9	10.6	15.4	21.1	100
		Mean						2.79
1.7	The performance evaluation in my organization helps to improve my job performance.	Frequency	45	65	41	40	36	227
		Percentage	19.8	28.6	18.1	17.6	15.9	100
		Mean						2.81
1.8	I feel the performance evaluation system is serving its purpose	Frequency	43	70	33	50	31	227
		Percentage	18.9	30.8	14.5	22.0	13.7	100
		Mean						2.80

**Source: Primary data (2019)**

According to the above table shows that the majority (54.2%) of the total respondents is agree, while (30.8%) disagree and the remaining (15.0%) are being neutral. Regarding the usage of this information for employee's feedback there are given the right to see their performance rating and sign if they agree, and if they do not agree they have the right not to sign the form.

As it is shown in table 4.3 presented the response, it is possible to conclude the use of performance appraisal for employees' feedback purpose is at moderate level, and it needs to maximize the feedback to subordinate employees.

From the table above, it is possible to learn that from the total number of respondents, the majority (46.70%) agreed, while 40.5% disagreed and 12.8% are neutral regarding that the information generated through performance appraisal was used for motivating employees. This indicates the motivation level of employees at Abay Bank is good but still there are a number of employees who are not small in number who didn't believe or not exactly know Performance appraisal practiced at their Bank used as a means of motivating subordinate.

From the table the majority (57.3%) of employees agreed about performance appraisal direct relationship with pay and promotion determination. According to this information (30.8%) employees' performance appraisal is not attached to reward and promotion. Additionally, (11.9%) of employees are neutral, and this might be from low understanding of employees about the performance appraisal and its purpose. To decide at this level of agreement it is difficult to accept that information generated through performance appraisal is used to determine pay and promotion decision.

Item four in the above table shows majority (56.4%) of employees agreed that the information generated through performance appraisal is used to counsel and coach subordinates. On the contrary, (30%) employees are disagreed and (13.7%) are indifferent. This is significant in relation to increasing/reducing performance of employees in their respective organizations.

It is possible to understand from the above table that the majority of employees (50.7%) are disagreed about the statement, while (33.9%) employees agreed that information generated through performance appraisal is used as a basis for the stated decision purpose. And a minority (15.4%) of employees neither agreed nor disagreed with the statement that the information generated through performance appraisal is used as a basis to warn subordinates about their unsatisfactory performance, and to help supervisors make decisions of retention or discharge.



As per the table regarding to Performance appraisal uses to strengthen relationship between superior and subordinates, the majority (52.9%) of respondents disagreed, while (36.5%) agreed and (10.6%) are neutral. I understand from the respondent of regarding performance appraisal is designed to not good relationship between supervisor and subordinates.

In terms of Performance appraisal improving job performance the majority (48.4%) of respondents disagreed, while (33.5%) agreed about the performance appraisal in their organization helping them to improve their jobs and (18.1%) are neutral about the performance evaluation in their organization helping them to improve their jobs. The responses of the human resource department officials of revealed that the practice of evaluating employees to improve their job but not adequate enough.

As per Abay Bank respondents related with Performance appraisal system serve its purpose, the majority (49.8%) disagree, while 35.7% respondent agreed and the reaming (14.5%) are neutral. The majority of Abay Bank employees did not believe that the performance appraisal system served its purpose, the purposes of performance appraisal being counseling, coaching, developing and training for those employees with deficiency on their job, and promotion and reward to motivate those who were performing well. On the other hand, the response of the human resource management departments appears to be that performance appraisal is serving its purpose well. Abay Bank should developed well-articulated Performance appraisal system and motivated employees to enhance productivity/service quality, so that organizational goals are achieved. Organizational goals are there to increase productivity and to ensure business growth. According to the informant of human resource management department performance appraisal is somewhat seem better since it attached to promotional, salary increment annually, and training and development selections. As the result of these benefits employees and the organization sees the appraisal more than bi-annually or annual ritual, that ends within the personnel department.

#### **4.2 .1 Purpose of Performance Appraisal in Abay Bank S.C**

According to the response from human resource department office of Abay Bank the purpose of performance appraisal as follow

- To review the performance of the employees over a given period of time
- To judge the gap between the actual and the desired performance.
- To help the management in exercising organizational control.

- Helps to strengthen the relationship and communication between superior – subordinates and management employees.
- To diagnose the strengths and weaknesses of the individuals so as to identify the training and development needs of the future.
- To provide feedback to the employees regarding their past performance.
- Provide information to assist in the other personnel decisions in the organization.
- Provide clarity of the expectations and responsibilities of the functions to be performed by the employees.
- To judge the effectiveness of the other human resource functions of the organization such as recruitment, selection, training and development.
- To reduce the grievances of the employees.
- To enhance the overall control of administrative improvement.

### **4.3 Performance Appraisal Process of Abay Bank S.C**

As portrayed on table 4.4 below, respondents' regarding performance appraisal process was gathered using the listed measures. One of the measure was "The appraisal process begins with the establishment of performance standards in accordance with the organization strategic goals." The majority responses regarding this statement was (60.8%) agree (30.4%) respondents disagree and the other (8.8%) neutral. Most of the respondents agree that the appraisal process begins with the establishment of performance standards in accordance with the organization strategic goals. Respondents level of agreement regarding the statement "The performance appraisal process communicates with employees before measuring actual performance." The result was (68.7%) disagreement, (7.0%) neutral response and (24.2%) agreement. This points to that the performance appraisal process of the Bank does not communicate with employees before measuring actual performance.

Response regarding to the statement "The appraiser tries to measure employees' actual performance by using personal observation and different reports before comparing actual performance with standards." was (38.8%) disagreement, (5.3%) neutral response and (56.0%) agreement was the response collected with regard to the statement Since most of the respondents show their agreement the Bank applies measurement of actual performance .

### **Table 4.3. Performance appraisal process of Abay Bank S.C**

S.N	Questions	Response rate	Level of agreement					Total
			SD	D	N	A	SA	
3.1	The appraisal process begins with establishment of performance standards in accordance with the organization strategic goals.		SD	D	N	A	SA	
		Frequency	29	40	20	111	27	227
		Percentage	12.8	17.6	8.8	48.90	11.9	100
		Mean						3.3
3.2	Performance appraisal process communicates with employees before measuring actual performance	Frequency	35	121	16	47	8	227
		Percentage	15.4	53.3	7.0	20.70	3.52	100
		Mean						2.43
3.3	The appraiser tries to measure employee actual performance by using personal observation and different reports before comparing actual performance with standards.	Frequency	12	76	12	108	19	227
		Percentage	5.3	33.5	5.3	47.6	8.4	100
		Mean						3.21
3.4	Performance appraisal process taking place in the organization exactly evaluate the employees performance against pre determined performance standards.	Frequency	52	97	21	44	13	227
		Percentage	22.9	42.7	9.3	19.4	5.7	100
		Mean						2.42
3.5	The performance appraisal process of the Bank allows employees to receive feedback about their job performance	Frequency	38	107	40	30	12	227
		Percentage	16.7	47.1	17.6	13.2	5.3	100
		Mean						2.43
3.6	Corrective actions identified finally to make necessary adjustment to gaps on the result of evaluation.	Frequency	22	129	37	31	8	227
		Percentage	9.7	56.8	16.3	13.7	3.5	100
		Mean						2.44

**Source: Primary data (2019)**

Most of the respondents are (65.6%) disagree that performance appraisal process taking place in the organization exactly evaluate the employee's performance against pre-determined performance standards. But (9.3%) responses were neutral and the remaining (25.1%) respondents agree. This infers that the performance appraisal process (comparing actual performance with standards) is not taking place in the Abay Bank S.C

As per the data presented on the table above there is no room for employees to discuss the appraisal with the evaluators. The reason to say this is that (63.9%) disagree, (17.6%) neutral responses and (18.50%) agreement. Therefore, the performance appraisal process of the Bank does not allow employees to receive feedback about their job performance due to their response is not practice in Abay Bank S.C.

In addition to the above step in the appraisal process employees also asked their level of agreement of the respondent. Accordingly (66.5%) disagree, (16.30%) neutral and (17.2%) of the respondents agree on the point corrective actions identified finally to make necessary adjustment to gaps on the result of evaluation. Since most of the respondents disagree, the final step in the appraisal process (Initiate corrective action) is not practiced in the case of Abay Bank S.C.

Apart from the questionnaire response the result of interview with one of the human resource department was as follows. The appraisal process begins with establishing clear performance standards. Then human resource department notify heads of departments and branches one month before the final submission date. Assistant managers or supervisor would fill the evaluation form and get it approved by the manager then it will be given to the staffs to look the result, put his/her comment and sign on it. Then branches and departments send filled appraisal forms to human resource department. Finally the human resource department looks and accepts any grievances from employees but the department doesn't take any corrective action still. This implies that the organization does not have formally structured performance appraisal process with regard to the theory.

#### **4.4 Challenges in employees Performance Appraisal of Abay Bank S.C**

According to Mathis and Jackson (1997), rater bias occurs when a rater's values or prejudices distort the rating. Rater bias may be unconscious or quite intentional.

**Table 4.4 challenges in employees' performance appraisal**

S.N	Questions	Response rate	Level of agreement					Total
			SD	D	N	A	SA	
2.1	The supervisor or manager does not have enough information on employee's real work performance.		SD	D	N	A	SA	
		Frequency	44	45	37	82	19	227
		Percentage	19.4	19.8	16.3	36.1	8.4	100
		Mean						2.94
2.2	The supervisor or manager does not have the skill to evaluate employees performance	Frequency	63	101	35	21	7	227
		Percentage	27.8	44.5	15.4	9.3	3.1	100
		Mean						2.15
2.3	I feel performance evaluation is not focused on employee development	Frequency	17	59	32	90	29	227
		Percentage	7.5	26.0	14.1	39.6	12.8	100
		Mean						3.24
2.4	In order to avoid resentment and rivalry among colleagues, my supervisor gives equivalent ratings.	Frequency	57	71	38	35	26	227
		Percentage	25.1	31.3	16.7	15.4	11.5	100
		Mean						2.57
2.5	The rater consistently provide lower rating to people with certain characteristics, such as women and minorities (rater bias)	Frequency	43	98	35	30	21	227
		Percentage	18.9	43.2	15.4	13.2	9.3	100
		Mean						2.51
2.6	The evaluator is influenced by personal liking and disliking when evaluating my performance.	Frequency	36	81	44	39	27	227
		Percentage	15.9	35.7	19.4	17.2	11.9	100
		Mean						2.74
2.7	Evaluator of my performance is based on my accomplishment and achievement	Frequency	51	62	35	47	32	227
		Percentage	22.5	27.3	15.4	20.7	14.1	100
		Mean						2.77
2.8	I feel that the rater take into consideration the performance of	Frequency	28	113	30	32	24	227
		Percentage	12.3	49.8	13.2	14.1	10.6	100

	the employee throughout the evaluation period rather than looking the short term achievement or failure. (change over time)	Mean						2.61
2.9	I feel that the rater most of the time influenced by specific dimension of performance (halo/horns).	Frequency	22	52	29	99	25	227
		Percentage	9.7	22.9	12.8	43.6	11.0	100
		Mean						3.23
2.10	I feel that the rater depends more on the recent actions than the distant ones when he/she evaluates employees.	Frequency	33	50	37	80	27	227
		Percentage	14.5	22.0	16.30	35.2	11.9	100
		Mean						3.08
2.11	I feel the performance evaluation system is fair and objective.	frequency	50	76	40	34	27	227
		percentage	22.0	33.5	17.6	15.0	11.9	100
		Mean						2.61

**Source: Primary data (2019)**

In this section respondents were asked to indicate their level of agreement regarding performance appraisal challenges that occur in Abay Bank s.c. Their response is presented, analyzed and interpreted as follows.

Responses regarding the statement "The supervisor or manager does not have enough information on employee's real work performance" the majority of respondents (44.5%) are agreed, (39.2%) of the respondents' are disagree and the other respondents' (16.30%) are neutral. Since most of the respondents agree, the supervisor or manager of Abay Bank S.C does not have enough information on employee's real work performance.

Further analysis shows that most of the respondents (72.3%) are disagree that the supervisor or manager does not have the skills to evaluate employees' performance. The other respondents (15.4%) are neutral and (12.4%) are agreed. This indicates that most of the respondents believe that the supervisor or manager of Abay Bank S.C have the skills to evaluate employees' job performance.

As per the data presented on the above table most of the respondents (52.4%) are believe that performance evaluation of the Bank is not focused on employee development. The other

(33.50%) give disagree response and (14.10%) responses are neutral. Therefore this data infers that the performance evaluation practice of the case organization does not focus on employee development.

From the above table description regarding to avoid resentment and rivalry among colleagues, my supervisor gives equivalent ratings it is possible to understand the majority (56.4%) of employees disagree, while (26.9%) agree and (16.7%) indifferent. According to the interview conducted with informants Abay Bank human resource departments' officials the practice of such behavior possibility could be high as its relevance is low regard in the recent years. Therefore, such practices are at low or moderate level agreement that there is no bias of equal performance rating in order to avoid resentment and rivalry in their respective organizations. These show existence of such behavior in Abay Bank

In investigating whether the rater consistently provide lower rating to people with certain characteristics, such as women and minorities (rater bias), most of the respondents (62.1%) disagree, (22.5%) agree response and (15.4%) are neutral. Since most of the respondents disagree this indicates that the rater does not consistently provide lower rating to people with certain characteristics, such as women and minorities (rater bias is not a problem in the case of Abay Bank s.c).

From the above table the Majority (51.5%) of employees disagree, while (29.1%) agreed, and (19.4%) neutral about their rater rating their performance basing on personal liking and disliking. According to the response it is possible to say that there is an agreement at moderate level of the existence of rater rating bias based on his personal liking and disliking.

As per the data presented on the above table most of the respondents (49.8%) believe that performance evaluation of the Bank is not focused on specific thing accomplished while, (34.80%) agree and (15.4%) indifferent. Therefore as per the data generated from Abay Bank employees one can infer that the performance evaluation practice of Abay Bank does not provide specific thing accomplished and achievements.

As per presented on the above table majority (62.1%) of the respondents disagree with the measure "I feel that the rater take into consideration the performance of the employee throughout the evaluation period rather than looking the short term achievement or failure (change over time)." The remaining (24.7%) responses were agree and (13.2%) neutral. This data implies that the rater take into consideration short term achievement or failure rather than looking the performance of the employee throughout the evaluation period.

Most of the respondents (54.6%) observe that the rater most of the time influenced by specific dimension of performance (halo/horns). The remaining (12.8%) were neutral and (32.60%) of respondents are disagree the existence of halo/horns error. This data indicates that the halo/horns error is one of the challenges that affect Abay Bank S.C performance appraisal practice.

Regarding response to that the rater depends more on the recent actions than the distant ones when he/she evaluates employees the reason to say that (47.2%) agree with this statement, (36.5%) disagree and (16.30%) neutral. Therefore rater is one of the challenges that were happening in the case company performance appraisal practice.

Related to Fairness and objectiveness of Performance appraisal system the Majority (55.5%) of employees disagree, while (26.9%) agree and (17.6%) neutral. As per the response from the interview the challenges of performance appraisal practice of the Bank are subjectivity, raters focus on recent actions, and raters conduct appraisal for formality only and the raters does not have direct knowledge about the appraisal. This implies that even if the Bank has policy or guideline regarding appraisal practice the real practice faces the aforementioned challenges.



## CHAPTER FIVE

### SUMMER OF FINDING, CONCLUSION AND RECOMMENDATIONS

In the previous chapter, analysis and interpretation of the study was made based on the data obtained through questionnaire distributed and an interview conducted with employees of Abay Bank. Based on the analysis and interpretation, conclusion and recommendations of the study were made as follows.

#### 5.1 Summary of Major Finding

As per the data gathered through questionnaire and interview the summary of major finding are presented in this section as follow.

- Majority of respondents were males.
- Most of the respondents were in the age group of 25-35 years.
- Most of the respondents were single (68.28%).
- Majority of the respondent on level of education was first degree holder.
- Most of the respondents working experience in Abay Bank were 2-6 years 68.70%
  
- Regarding the practices of employees' performance appraisal has indicated that the form used for evaluation of majority of employees' performance appraisal is used to give feedback, motivate subordinates through recognition and supports and coach subordinate to improve their performance. Abay Bank evaluation of employees performance appraisal is not design to strengthen the relationship between supervisor and subordinate, helps to improve employee performance and serving its purpose.
- In relation to major challenges that affect the employees performance appraisal the analysis has indicated: the supervisor or manager does not have enough information on employee's real work performance, Performance evaluation is not focused on employee development, the rater evaluate factors that affect performance but that are outside the control of the employee being rated, the rater does not consider change over time, The raters most of the time influenced by specific dimension of performance and the rater depends more on recent actions than the distant ones. Additional findings indicate that performance appraisal practice of the Bank is more of subjective and raters conduct appraisal for formality only.

- Respondents indicated that the appraisal process begins with established of performance standards in accordance with the organization strategic goals. The performance appraisal process does not communicate with employees before measuring actual performance. The appraiser tries to measure employee actual performance by using personal observation and different reports before comparing actual performance with standards. The appraisal process does not compare actual performance with standards, discuss appraisal with the employee and initiate corrective action.
- Regarding the responsible organ in employees' performance appraisal practice or to answer the question who is responsible? Respondents points out that above all the human resource department is the responsible organ and supervisors evaluate employees' performance semiannually. Managers are evaluated by their supervisors at head office. Apart from this most of the respondents agree that peers, subordinates, customers and 360-degree feedback are not common appraisers of performance Abay Bank S.C

## **5.2 Conclusion**

Since performance appraisal is one of the human resource management practices that help employers to know what their employees are doing and to measure their contribution to the organization, this study have gone through different steps to reach these last laps. According to the analysis conducted in chapter four, performance appraisal is implemented in Abay Bank but it is difficult to say that information generated through performance appraisal is used to diagnose the challenges of both employees and organizations in the organizations under study. Abay Bank is not providing opportunities to their employees to participate in the design of form used to evaluate their employees' performance.

The practices of performance appraisal in the organization are: the form used for evaluation of employees' performance appraisal is used to give feedback, to motivate subordinates through recognition and supports, coach subordinate to improve their performance, to pay and promotion decision. But the appraisal is not designed to strengthen relationship between supervisors and subordinate, help to improve employees' job performance and performance evaluation system is not serving purpose. Appraisers do not get sufficient training; absence of performance expectation and standards do not depend on job description and job specifications.

Raters rating subordinates on the basis of personal liking and disliking exists in Abay Bank. The practice of supervisors accurately evaluating their subordinate to the extent of they are being promoted for doing so and a bases to warn subordinate unsatisfactory performance employees but not doing so adequately enough in Abay Bank S.C

Even if the Bank's performance appraisal practice have some strengths on its standards and absence of rater bias, but there are lots of challenges like not focus on employees development, situational influence, halo/horns etc.

To some extent the raters in Abay Bank keep files on what employees done during the appraisal period. The recency effect errors exist in Abay Bank, which the rater commits the bias of giving greater weight to recent occurrences when appraising an individual's performance. Though its level of existence is low, employees creating positive impression in the minds of Abay Bank supervisors is clear, which the subordinates wanted what is not their achievement in return from their supervisors. This practice creates distrust and weakens competitiveness among employees and spoils organizations' culture.

Employees of the Bank have access to results, allowed to appeal unfair appraisal results and there is standardization in using appraisal forms. Supervisors do not provide continuous feedback for employees and there is absence of open communication. In addition conducting appraisal twice in a year is not sufficient to effectively measure employees' performance.

### **5.3 Recommendations**

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

- Abay Bank should base the evaluation of their employees' performance on their accomplishment and achievement like, and even better than other private Banks in Ethiopia.
- Abay Bank should maximize giving feedbacks to the subordinate employees, as it benefits both the organizations and the employees. Employees who knew they stand strive to improve their performance. As a result, if their performance is improved, organizations efficiency will be improved
- The organizations should be work hard to use the information generated through performance appraisal for motivation of employees. This eventually brings about that attainment of organizational goals.

- Abay Bank need to use the performance appraisal to strengthen the relationship between the superior and subordinate by implementing motivational scheme, creating transparency, avoiding bias, and improving employees attitude by giving training and development to the employees in order to help to avoid employees' self-perceptions wrongly.
- Abay Bank need to use the performance appraisal to help the employees to improve their job performance. For such purposes, they should develop policy which enhances the improvement of employees' job. In order to develop the fruit of Performance appraisal in a way to continuous and transparent evaluations of levels of employees' performance is an essential measure that needs to be taken.
- The form used for Performance appraisal of employees should measure the employees' achievement and accomplishments and to this effect, employees should participate in preparation of performance appraisal, these can create transparency, reduces form used cumbersomeness, promote trusts among.
- The finding shows that the Abay Bank S.C performance appraisal practice is challenged by a lot of challenges like: performance evaluation not focused on employee development, situational influence, not considering change over time, halo/horns, recency, conducting appraisal for formality and raters lack information. Since most of the problems belong to the category rater error the appropriate solution to alleviate these problems are consecutive rater error training and rater accuracy training. Rater error training attempts to make managers aware of rating errors and helps them develop strategies for minimizing those errors. To solve the challenges "performance evaluation is not focused on employee development" the company needs to use appraisal results for identifying training needs, job rotation, job enrichment and increased responsibilities.
- Biases of different types, such as personal liking and disliking, avoiding giving performance rating may have negative consequences to employees, and can be managed by developing policy that can guide and control the existence of such practice in Abay Bank.
- Abay Bank should use Performance appraisal or for the improvement of their employees' performance by developing policy that guides and create opportunities, for coaching, training and development programs, which can improve the performance of employees in their respective institutions .

- Organization conduct performance appraisal 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. But the practices of performance appraisal in Abay Bank are: to pay and to make promotion decisions, motivate subordinate through recognition and support and improve employee's performance and develop their respective potential. To improve its performance appraisal practice the Bank needs to use the results beyond the aforementioned these three objectives .Therefore the Bank should use appraisal result to make most of administrative and developmental decisions for overall business.

## REFERENCE

- Armstrong, M. (1988). *A handbook of personnel management practice*. 3rd Ed. London: Kogan Page Ltd.
- Armstrong, M. (1994). *A handbook of personnel management practice*. 5th Ed. London: Kogan Page Ltd.
- Armstrong, M. (2000). *A handbook of personnel management practice*. 7th Ed. London: Kogan Page Ltd.
- Armstrong, M & Angela. B. (2003). *Performance management the new realities*. Wiltshire: The Cromwell press.
- Armstrong, M. (2006). *Performance Management* (3rd ed.). Kogan page limited.
- Armstrong, M. (2009). *A handbook of personnel management practice*. 11th Ed. London: Kogan Page Ltd.
- Ayandele I. AyanyinkaandIsichei E. Emmanuel.(2013). performance management system and employee's job commitment: the international journal of management Vol: 2/Issue :1
- C. Dawson. (2002). *Practical Research Methods: A user friendly guide to mastering research Techniques and projects*. Cromwell Press, Trowbridge, Wiltshire.
- Clinton O. Longenecker, and Fink, L.S. (1997). *Creative Effective Performance Appraisals*, Industrial Management.
- Clinton O. Longenecker (1997). *Why managerial performance appraisals are ineffective: Causes and Lessons*. Career Development international, Vol.2.
- Deborah F. Boice and Brian H. Kleiner (1997). *Designing effective performance appraisal system*. Work study, vol.46, No.6.
- DeCenzo, A. D., & Stephen, P. R. (2010). *Fundamentals of human resource management* (10th Edition ed.). John wiley and sons Inc.
- Fletcher, C. (2001). Performance appraisal and management: the developing research agenda. *Journal of occupational and organizational psychology* , 74, 473-487.
- Geoffrey M., etal, (2005). *Essentials of Research Design and Methodology*. Published by John Wiley & Sons, Inc., Hoboken, New Jersey, USA, p.103
- Gomez Mejia, Luis R. Balkin, David B, and Cardy, Robert L. (2001). *Managing Human Resource*, Pearson Edition.
- Heneman Herbert G. Personnel (1996). *Personnel Human Resources Management*. 4th ed., New Delhi: Universal Book Stall.

Hughey, A. and Mussnug, K. (1997), *Doing Qualitative Research Differently: Free Association, Narrative and the Interview Method* , Vol. 5, No. 2, pp. 52-57.

<https://corehr.wordpress.com/performance-managment/performance-appraisal-method/>)

Israel, Glenn D. 1992. *Sampling the Evidence of Extension Program Impact. Program Evaluation and Organizational Development*, IFAS, University of Florida. PEOD-5.October.

Ivancevich, John M. and Cluech William F. (1989). *Found of Personnel Human Resource Management* 4th, ed. Richard D. Irwin, Inc.

Laurie J. Mullins. (1996). *Management and Organizational Behavior*, 8th ed. Great Britain, Prentice Hall

Mark Cook (1995). *Performance appraisal and true performance*. Journal of managerial Philosophy, Vol.10, No.7

Mathis, L. R., & Jackson, H. J. (1994). *Human resource management* (7th Edition ed.). West publishing company.

Michael Beer (1987). "Performance appraisal", In Lorch, J.(Ed).*Hand book of organizational Behavior*, Prentice Hall, Englewood, Cliffs, NJ pp.286-299.

M.S. Susan Taylor. (1995). *Due process in Performance appraisal: A Quasi –Experiment in Procedural justice*, Administrative science quarterly, Vol.40, and No.3. (Sept., 1995).

Mondy, Neo, Premeax. (1999). *Human Resource Management*. 4th ed. Allyn and Bacon, Boston.

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.

Chris, O. (2011). Employee performance appraisal and its implication for individual and organizational growth. *Australian journal of business and management research* , 1, 92-97

Rao, V., & Ras, P. S. (2004). *Personnel/Human resource management-Text* (8th Edition ed.). Konork publisher PVT.Ltd.com.

Steven L. McShane and Mary Ann Von Glinow (2000). *Organizational Behavior*, Irwin McGraw Hill. Boston

Tosi, Henry L. Risso, John R. and Carrol, Stephen J: *Managing Organizational Behavior*. New York: Pitman Publishing Inc. 1986.

Web Sites

Www. Abay Bank. Com.et

## **APPENDIX**

### **Questionnaire**

Dear respondent,

I am an MBA student at St. Mary's University College School of Graduate Studies and I am collecting data for my thesis. The purpose of this questionnaire is to collect primary data for conducting a study on the topic, "**Assessment of Employees performance appraisal practice in Abay Bank Share Company.**" as partial fulfillment to the completion of Master of Business Administration in General Management at St. Mary's University. In this regard I kindly request you to provide me reliable information that is to the best of your knowledge so that the findings from the study would meet the intended purpose. I strongly assure you of confidential treatment of your answers and would like to extend my deep-heart thanks in advance for being a volunteer to devote your valuable time in filling this questionnaire.

If you need any further information and clarification please do not hesitate to contact me through the address given below.

With Regards,

Temesgenwwanaw  
TEL+251918799143  
Email: temesgenwanaw443@Gmail.com

#### **Direction**

- No need of to write your name
- Answer by making a  $\surd$  mark

#### **Part I Demographic profile of the respondent**

1. Sex: Male  Female

2. Marital status

- A. single  B. Separated  C. widowed   
D. Married

3. Age: Below 25  25-35  36-45  46-55  Above55

4. Educational background: Elementary complete  High school complete  Diploma   
First degree  Master degree and above

5. Year of experience (in present organization) \_\_\_\_\_



## Part II-Questions on performance appraisal

Note: Performance management is also defined as a process of establishing shared understanding about what is to be achieved and how it is to be achieved, and an approach to managing and developing people that improves individual, team and organizational performance.

Please read each statement in this part carefully and shows the extend of your agreement on the statements by putting”√ “mark in the boxes using the following rating (likert scale): Strongly agree (SA) =5, Agree (A) =4, Neutral (N) =3, Disagree (D) =2, and strongly disagree (SD) =1.

### 1. Questions related with performance appraisals Practices

S. N	Question	SA	A	N	D	SD
1.1	Information generate through performance evaluation is used to give feedback to subordinate.					
1.2	Information generated through performance evaluation is used to motivate subordinate through recognition and support.					
1.3	Information generated through performance evaluation is strongly determines pay and promotion decisions.					
1.4	Information generated through performance evaluation is used to counsel and coach subordinates so that they will improve their performance and develop their respective potential.					
1.5	Information generated through performance evaluation is used as a basis to warn employees in Abay Bank S.C					
1.6	Supervisor makes discharge or retention decision about subordinates' unsatisfactory performance.					
1.7	I feel the performance evaluation is designed to strengthen the relationship between supervisors and subordinates					
1.8	The performance evaluation in my organization helps to improve my job performance.					
1.9	I feel the performance evaluation system is serving its purpose.					

## 2. Questions related to the process of performance appraisal

S.N	Question	SA	A	N	D	SD
3.1	The appraisal process begins with establishment of performance standards in accordance with the organization strategic goals.					
3.2	The performance appraisal process communicates with employees before measuring actual performance.					
3.3	The appraiser tries to measure employee actual performance by using personal observation and different reports before comparing actual performance with standards.					
3.4	Performance appraisal process taking place in the organization exactly evaluate the employee's performance against pre-determined performance standards.					
3.5	The performance appraisal process of the Bank allows employees to receive feedback about their job performance					
3.6	Corrective actions identified finally to make necessary adjustment to gaps on the result of evaluation.					

## 2. Questions related with challenges in practices of performance appraisal

S.N	Question	SA	A	N	D	SD
2.1	The supervisor or manager does not have enough information on employee's real work performance.					
2.2	The supervisor or manager does not have the skills to evaluate employee performance.					
2.3	I feel Performance evaluation is not focused on employee development					
2.4	In order to avoid resentment and rivalry among colleagues, my supervisor gives equivalent ratings.					
2.5	The rater consistently provide lower rating to people with certain characteristics, such as women and minorities (rater bias)					
2.6	The evaluator is influenced by personal liking and disliking when evaluating my performance.					

2.7	Evaluation of my performance is based on my accomplishment and achievement.					
2.8	I feel that the rater take into consideration the performance of the employee throughout the evaluation period rather than looking the short term achievement or failure. (change over time)					
2.9	I feel that the rater most of the time influenced by specific dimension of performance (halo/horns).					
2.10	I feel that the rater depends more on the recent actions than the distant ones when he/she evaluates employees.					
2.11	I feel the performance evaluation system is fair and objective.					

#### Interview Question for Human resource management

1. Do you think that there is a challenge in the practices of employee's performance appraisal?
2. Dou you think that performance appraisal in Abay Bank S.C focused on employees' development.
3. Dou you think that the Bank has employees' performance appraisal process in Abay Bank S.C?

THANK YOU!!