

**St. Mary's University**  
**School of Graduate Studies, MBA Program**



**EFFECT OF PERFORMANCE APPRAISAL PRACTICES ON  
EMPLOYEE'S PRODUCTIVITY: THE CASE OF FEDERAL HOUSING  
CORPORATION**

**[A Research Project Submitted in Partial Fulfillment of the Requirements  
for the Degree of Master of Business Administration]**

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Addis Ababa, Ethiopia**

**St. Mary's University**  
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## **STATEMENT OF DECLARATION**

I, the undersigned, declare that this thesis entitled “Effect of Performance Appraisal Practice on Employee Productivity: the case of Federal Housing Corporation” is my original work and prepared under the guidance of my advisor, Dr. Yirgalem Tadele. All the materials used for the study have been fully acknowledged.

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## **SATEMENT OF CERTIFICATION**

This is to certify that, this project work “Effect of Performance Appraisal Practice on Employee Productivity: the case of Federal Housing Corporation” undertaken by Teshale Zafu in partial fulfilment of the requirements for the degree of Masters of Business Administration, at St. Mary University, is an original work and not submitted earlier for any degree either at this university or any other university.

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Yirgalem Tadele (PhD)  
Advisor

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## **ABBREVIATIONS/ACRONYMS**

FHC Federal Housing Corporation

HRM Human Resource Management

PA Performance Appraisal

PM Performance Management

MBO Management By Objective

SPSS Software Package for Social Science

## ABSTRACT

*The purpose of this study was to investigate the effect of performance appraisal (PA) practice on employee productivity in Federal Housing Corporation. Four key dimensions of performance appraisal practices, setting objective, performance feedback, performance reward, and interpersonal relationship were used as independent variables to measure their impact on employee productivity. The study targeted a total of 372 employees. Using Taro Yemani's statistical formula, a sample size of 193 employees were selected from which 158 respondents were analyzed. The study adopted an explanatory research design. The research instruments used for data collection were the questionnaires and interview schedule. The questionnaire were distributed to the staffs-both the employee and the management members using stratified type random sampling technique and the interview is conducted with the human resource directorate. Primary and secondary data sources were used. The questionnaire was designed on a five-point Likert scale to rate the effect of the factors in the question. The research was analyzed using t-test, correlation and multiple regression analysis by Statistical Package for Social Science (SPSS). Results indicated that there is a positive and significant effect between **performance appraisal**; setting objective, performance feedback, performance reward, and interpersonal relationship **and employee productivity**, of which Performance Feedback, has the dominant one, in Federal Housing Corporation. Hence it is recommended that the corporation should take these factors into strong consideration in order to enhance its productivity.*

**Key Terms:** *performance Appraisal, employee productivity, setting objective, performance feedback, performance reward and interpersonal relationship.*

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1. Background of the study**

Performance management is systematic process for improving organizational performance by developing the performance of individuals and teams. It is 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 2000). Performance management includes several activities. These are defining performance, measuring performance, and feeding back performance information.

A performance appraisal, also referred to as a performance review, or performance evaluation 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 reviews of employee performance within organizations. It is a regular review of an employee's job performance and overall contribution to an organization.

According to Luis R Gomez, “Managing Human Resource, 7th edition”, the definition of Performance appraisal includes the identification, measurement, and management of human performance in organizations. Where, identification means determining what areas of work should be examined when measuring performance. Measurement, the centerpiece of the appraisal system, entails making managerial judgments of how “good” or “bad” employee performance was. And, Management is the overriding goal of any appraisal system.

The information obtained through performance appraisal is providing foundations for selecting, training, and development of existing staffs and also for motivating employees by properly rewarding the performance in order to maintain good quality of work. Without a reliable performance appraisal system, the HR system falls apart, and resulting in the total waste of the valuable human assets in an organizations has. (Luis R.,Mejia D., and Robert L., Cards. 2012,pp319).

Performance Appraisal can be expressed in various perspectives that incorporate different factors, like setting targets for each employee, measuring the performance, giving feedback and rewarding for the result which have an impact on enhancing the productivity of employees.

In conducting performance appraisal, the steps to be taken are Setting the performance standards, Communicating the Performance Standard to the Employees, Measuring the actual performance, Comparing the actual performance with the standards, Providing feedback to employees, and finally Taking corrective action. In doing this, there are challenges that must be tackled by the human resource managers so that employees are given targets to perform perfectly and are also properly evaluated so as to increase their productivity.

There are debates that employees need to participate in setting their work targets. If employees participate in setting their targets, it gives them to properly perform what they are expected, and even can go beyond. Setting objective is a motivational technique used extensively in organizations as a method of directing individuals' efforts at work and providing a standard against which performance can be assessed (Lunenberg, 2011).

Absence of performance feedback is also a great challenge in the process of performance appraisal system which has an adverse effect on productivity of employees. Employees are more encouraged if they are given feedback for their performance immediately after they are evaluated. Making discussion with their supervisors can create an opportunity to know their strengths or weakness so that they can improve their performance.

According to Jackson and Schuller (2012), Performance appraisal feedback plays an important role in employee productivity. It gives an opportunity for feedback on the past performance against objectives set prior to the performance. For managers and supervisors, this is the process that helps them to identify the current performance level, make discussion on strengths and weaknesses and future opportunities.

The performance feedback provides a discussion that helps employees to understand how they are doing, receive coaching and feedback; clarify expectations about career development (Brown and Benson, 2013). Performance feedback does a good job to make

people aware of the objectives and outcomes of the performance appraisal process.

On top of these, Lack of objectivity in performance appraisal is a criticism for performance appraisal process. Regent University says one of the biggest appraisal issues is employees' belief they're not evaluated fairly: Instead of being judged on performance, employees worry on the biasness their supervisors have. Interpersonal relationship factor includes personal biases, which it is not uncommon to find situations in which supervisors allow their own personal biases to influence their appraisals. Such biases include like or dislike for someone, as well as racial and sexual biases. Personal biases can interfere with the fairness and accuracy of an evaluation and are illegal in many situations.

Rewarding employees is believed to have higher contribution for increasing their upcoming performance. An effective recognition program can lead to innovation, higher productivity and greater job satisfaction for the workers (Beer and Walton, 2014).

According to Ochoti, Maronga & Muathe, et.al (2012) the employee performance appraisal feedback procedure, the relationship between the supervisor and supervisee as well as the rating accuracy increases the employee performance efficiency. The study identified that if the implementation process has taken appropriately it has a relatively high influence on the employee performance. Begum,et.al (2015) also assure that employee performance is determined by factors like accuracy of the rating, its perceived fairness and the communication between the appraiser and the appraisee.

In general Performance refers to the degree of accomplishment of the tasks that make up an individual's job. It indicates how well an individual is fulfilling the job demands. Therefore with the help of the performance appraisal one can evaluate, identify gaps, suggesting improvements and rewarding good behavior as well as outstanding performance. The performance appraisal process should establish employees goals and be linked to the organizations strategic goals.

## **1.2. Background of the Corporation**

Federal Housing Corporation (FHC), which is accountable to Ministry of Urban Development, is a government organization established to administer government owned houses found in Addis Ababa and Dire Dewa cities. Its main objectives are to rent the

houses, to collect house rents and to preserve them and also to construct new multi-purpose buildings according to the need of Federal Government.

The Corporation is public institution providing residential and business rental houses for the citizens for the last 40 years. Even though radical improvement is seen in this latest three years in its service, the corporation has been under full of complaints with its customers and the public at large in its housing assignments and maintenance activities.

The corporation has 1600 staff (960 male, 640 female) and managed by one General Manager, Four Deputy General Managers leading different sectors with twenty Directorates and six Branches having different duties and responsibilities. On top of the general manager there is Board of Directors. It has one central head office and five branches in Addis Ababa and one branch in Dire Dawa.

The corporation is now administrating about 18 thousand houses of which about 13 thousands are residential and 6 thousands are businesses. From its 18 thousand customers; higher officials of the country, different government institutions, international organizations and regular citizens are the primary stakeholders of the corporation. Starting 2011 Ethiopian calendar, the annual rent collection of the corporation has increased to birr 1.2 billion which has been only 300 million before two years. (Annual report of the corporation).

The Corporation is public institution providing residential and business rental houses for the citizens for the last 40 years. Even though radical improvement is seen in this latest three years in its service, the corporation has been under full of complaints with its customers and the public at large in its housing assignments and maintenance activities.

### **1.3. Statement of the Problem**

Performance management is a systematic process for improving organizational performance by developing the performance of individuals and teams. It is a means of getting better results from the organization, team and individuals by understanding and managing performance within an agreed framework of planned goals, standards and competence requirements (Armstrong, 2006). Performance management shows a direct link between employee performance and organizational goals and make the employees



contribution to the organization explicit (Aguinis, 2007).

Properly designed, communicated and coached performance appraisal system can bring right performance result, which helps both the organization and the employees. The raters has evaluate their workers based on the standard rule and the employees has to be properly evaluated based on the efforts they made on their work. As organizations use performance appraisal as a motivational tool, the evaluation result give the organization to harvest its outputs according to its plan by the true effort of its employees and in turn every employee can collect its benefits from his/her true effort. This is the way productivity of the organization can increase.

Organizations that implement standard performance appraisal system makes its employees efficient in their work so that it helps to provide valuable services and satisfaction to its customers. In turn customer satisfaction leads to increased revenues because it enables the organization to gain a market advantage (Kaynak, 2003; York&Miree, 2004).

Different studies have been carried out that try to relate the impact of performance appraisal practices on employee's productivity. The majority of these studies concluded that there is a positive relationship between the implementation of standard performance appraisal practices and employees productivity. (Lee et al., 2001; Singles et al. 2001; Boulter and Bendell, 2002; Dick et al., 2002; Ozgur et al., 2002). As several empirical studies show, implementing standard performance appraisal practices positively affects productivity (Huang & Chen, 2002; Kaynak, 2003). What is not yet responded is, to what extent does performance appraisal affects employee productivity. And what factors are the influencers in the process.

Along with the different studies made on the topic, the researcher tried to investigate the performance appraisal practice and its impact on employee productivity in Federal Housing Corporation (FHC).

In the case organization, some employees have complaints with the incorrect appraisal results given to them because of rater's inaccuracy. The corporation's reward system bases on performance appraisal results where it is used for salary increment, bonus payment, promotion, educational purpose and also assignment of house. As it is stated in

the collective agreement, salary increment is paid in equal rate for all employees found in the same job category, not on their individual performance base. Most employees express their feeling that this discourages the best performers.

As per DeCenzo and Robins (2010) says imperfection in performance appraisal system and the mistakes made by raters are a major source of problems in performance appraisal. As Gary Dessler states, in such case error of leniency, where supervisors tend to rate all their subordinates consistently high occurs. Such error creates negative effect on the best performers in the corporation.

In the corporation's performance appraisal practice, lack of performance feedback is clearly observed. Employees do not participate in the process and are not provided with performance feedback on time. Usually no discussion is made between the supervisor and the supervisee. The supervisee see their result on the form, they simply write their comment and sign it. Majority of the employees either write as the result given to them is incorrect or keeps silent not to write their comment.

As Nelson et.al. 1997, one function of Performance appraisal is to give employees feedback on performance which helps to identify the employee's developmental need, to make promotion and reward decisions, to make demotion and termination decisions and to develop information about the organizations selection and placement decision.

In general, if there is no setting objective procedure as well as lack of feedback, employees themselves will be between in dilemma on the performance management and how their performance is going to be measured. In the same way, where there is rater's inaccuracy and reward system is not based on individuals performance, best performers are not encouraged and thus, affects the productivity of the organization.

Therefore, it is in the light of this, that the present study tends to investigate the effects of performance appraisal on employee productivity in relation to factors like setting objective, performance feedback, the reward system and interpersonal relationship to the contribution of their own performance improvement.

As to the researcher's knowledge, no research is yet conducted on the practice of performance appraisal in the corporation. Conducting a research on this title may bring

some new findings that provide the corporation to implement revolutionary changes in its management practices.

The researcher is serving as a civil servant in the corporation where he observed some problems of performance appraisal practice in the corporation. Thus, the absence of recent study on the area triggered the researcher to conduct this study in the corporation. The researcher inspired to fill the gap observed in the practice of performance appraisal so as to contribute a little input to the productivity of the corporation.

#### **1.4. Research Questions**

Question 1. What is the effect of setting objective prior to performance appraisal on employee's productivity?

Question 2. To what extent performance feedback in the corporation affects employee's productivity?

Question 3. What is the effect of performance reward system on employee productivity in the corporation?

Question 4. What impact has interpersonal relationship between the supervisor and supervisee has on employee productivity?

#### **1.5. Objective of the study**

##### **1.5.1. General objective**

The general objective of the study is to examine the effect of performance appraisal practices on employee's productivity in Federal Housing Corporation.

##### **1.5.2. The Specific objectives**

1. To determine how setting objective in a performance appraisal contribute to employee productivity.
2. To analyze the effect of performance feedback on employee's productivity.
3. To determine how performance reward system influence employee productivity.
4. To examine if interpersonal factors affect employee productivity in the corporation.

## **1.6. Significance of the Study**

The study will establish some valued information that determined the current situation of Case Corporation in their overall understanding of performance appraisal and employee's productivity. The study helps to inform the corporation, particularly, the human resource management Directorate, any gaps in its practices of performance appraisal and help to make necessary corrections. It also helps employees of the corporation to know about how they are evaluated and to identify purpose of the performance appraisal on the corporation. In other words it needs to aware the management and also the employees to strictly practice performance appraisal in order to increase productivity that benefit both the corporation and the employees.

This study is of important to similar public enterprises in Ethiopia because elements of performance appraisal is discussed and evaluated with their potential benefits.

From the managerial perspective, the findings of the study can benefit in developing written strategies, policies and standard procedures based on the theories of performance appraisal and its effect on job productivity.

In addition, this study will contribute literature or can be reference on performance appraisal practices and organizational performance productivity for interested parties who want to make further study on this topic.

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

This study focuses only on performance appraisal practices of human resource management programs. Therefore, it explains the relationship between performance appraisal and its effect on employee's productivity of the case organization, Federal Housing Corporation. The paper does not include other elements of Human Resource Management (HRM) programs and other business practices of the corporation.

Even though performance appraisal practice can be investigated from different angles and perspectives, the study focused on setting objective, performance feedback, performance reward system, and interpersonal relationship perspectives of performance management. The reason is that these four factors can comprehensively express the process of performance appraisal system.

This research focused on collecting and analyzing quantitative data which was collected from the number of employees that does not exceed 200 as well as qualitative data gathered through interviewing the head of human resource directorate. The reason for using both methods is to substantiate both types of data's.

The study is limited to Federal Housing Corporation located in Addis Ababa of Ethiopia. This specific enterprise is selected due to two reasons. The first reason is that the corporation has many employees at its head office, Addis Ababa, where the research believes that a representative sample can be drawn from this population in order to reach on possible conclusion. Second reason is that the researcher has familiarity with the corporation and convenience to gather relevant data.

### **1.8. Limitations of the study**

Performance management/appraisal is a wide topic and can be studied from different angles. This study assessed only the impact of performance appraisal practice on employee productivity related to setting objective, performance feedback, performance reward and interpersonal relationship thus, this brought questions about other factors that will have an impact in this context.

In conducting the study one major problem is an issue of generalization. Data were collected from individual employees using questionnaires and the main finding was only based on the perception of the respondent's on the performance appraisal system of the corporation. Therefore, the result might be difficult for generalization.

In conducting the study, the other series limitation was time constraint whilst searching and reviewing related literatures as well as collecting and analyzing the data. By limiting the response time, the researcher tried to immediately collect the questionnaire distributed to the respondents.

### **1.9. Operational definition of key words**

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

2. **Performance:** is the way through which employees perform their duties and the evaluation is judging the performance of employees (Scott, 2009).
3. **Performance appraisal:** performance appraisal is a system where a superior evaluates and judges the work performance of subordinates (Harter, Schmidt and Hayes,2012).
4. **Performance Feedback:** feedback is refers to the information reflecting past performance and results given by the manager to the employee (Solmon and Podgursky,2010)
5. **Performance Reward:** is ways to encourage and motivate for those whose performance exceed from others. ([https://www.creighton.edu/fileadmin/user/Student Services](https://www.creighton.edu/fileadmin/user/Student_Services))
6. **Employee productivity:** productivity can be defined as “quality or volume of the major product or services that an organization provide (Moorhead and Griffin, 2012).
7. **Setting Objective:** Objectives can be define as what organizations, and individuals are expected to achieve over a period of time. It forms the point of reference for performance reviews.
8. **Interpersonal Relationship:** are those factors that relate to the kind of treatment the appraisee receives in the hands of the appraiser (Thurston & McNall, 2010). It can be expressed by liking or disliking and subjectivity of the rater to the supervisee.

### **1.10. Organization of the paper**

This research paper consists of five chapters. The first chapter deals with back ground of the study; statement of the problem; research questions; objectives of the study; scope of the study; significance of the study and limitations of the study. The second chapter deals with the related review-Theoretical and Empirical review with Conceptual framework about the subject matter. The third chapter deals with the research methodology, data sources and methods of data analysis. Chapter four covers the data presentation, analysis and interpretation. Finally, in chapter five, the research findings, conclusion and recommendations of the study were forwarded.

## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

#### **Introduction**

The literature review mainly consists of two parts namely the Theoretical review and Empirical review. It also provides a Conceptual review to show the link between the independent and dependent variables. This chapter presented relevant conceptual and empirical literatures reviewed from different published books, documents reports, internet and researches to dig out relevant literatures that clarify the practice and challenges of performance appraisal.

#### **2.1. Theoretical Literature Review**

This section introduced the theories related to the study. It focuses on the adoption theories and concepts that were presented by distinguished authors in relation to performance appraisal practices implementation and employees productivity.

##### **2.1.1. Definition of Performance Appraisal**

A performance appraisal is the periodic assessment of an employee's job performance as measured by the competency expectations set out by the organization. The assessment often includes both the core competencies required by the organization and also the competencies specific to the employee's job.

According to Luis R Gomez, "Managing Human Resource, 7th edition", the definition of Performance appraisal includes the identification, measurement, and management of human performance in organizations. Where, identification means determining what areas of work should be examined when measuring performance. Measurement, the centerpiece of the appraisal system, entails making managerial judgments of how "good" or "bad" employee performance was. And, Management is the overriding goal of any appraisal system.

John Bratton on his book, Human Resource Management Theory and Practice, 4th edition, states that performance appraisal is a process that provides an analysis of a person's overall capabilities and potential, allowing informal decisions to be made for particular

purpose. He explains that an important part of the process is assessment of individuals past and current work behavior. Wendy Bloisi on his book, an introduction to Human Resource Management, defines Performance Appraisal is the process of measuring and evaluating employees performance which should be job related.

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. Performance management must examine how results are attained as it provides the information necessary to consider what needs to be done to improve these results.

### **2.1.2. Uses of Performance Appraisal**

The purpose of a performance appraisal is two-fold: It helps the organization to determine the value and productivity that employees contribute, and it also helps employees to develop in their own roles. It is a crucial activity of the personnel function and the management of human resources. As discussed by Henenman (1996), performance appraisal is used to identify the dimension of performance, and also to set standards of contributions for each performance dimensions step. The shared wisdom of scholars and practitioners a like has been explained that performance evaluation are an important component of an effective human resource management strategy (Carson,Cardy, & Dobbins,1992).

According to Armstrong (2000), performance appraisal 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.

Mathis and Jackson (1997), discussed the role of performance appraisal as follows; “Performance appraisal has two role in organizations. One role is to measure performance for rewarding or otherwise making administrative decisions about employees. Another role is development of individual potential.”



According to Luis R. Gomez-Mejia et al, 2001, Performance appraisals are used administratively whenever they are the basis for a decision about the employees work conditions, including promotion, termination, and rewarding. Developmental use of appraisal, which are geared toward improving employee's performance and strengthening their job skills, includes providing feedback, counseling employees on effective work behaviors and offering them training and other learning opportunities. If it is done effectively, performance appraisal can be the key to developing employees and improving their performance.

As Nelson et.al. 1997, one function of Performance appraisal is to give employees feedback on performance which helps to identify the employee's developmental need, to make promotion and reward decisions, to make demotion and termination decisions and to develop information about the organizations selection and placement decision.

Performance appraisals guide employee development efforts, provide documentation in termination cases, are fundamental in evaluating training programs, and provide the foundation for decisions regarding whom to promote, reward, and recognize(Carson et.al,1992).

As cited on "Strategic Issues in Performance Appraisal Theory and Practice", pp.23-31 by C.J. Fombrum and R.L.Laud, Performance appraisals are used for a variety of reasons that range from improving employee productivity to developing the employees themselves. This diversity of uses is well documented in a study of why companies use performance appraisals. Traditionally, compensation and performance feedback have been the most prominent reasons organizations use performance appraisals.

C.J. Fombrun and R.L.Laud summarized that Performance appraisal is used for:-

- 1. Personnel decisions:** Performance appraisals serve personnel-related functions as well. In making personnel decisions, such as those relating to promotions, transfers, and terminations, they can be quite useful. Employers can make choices on the basis of information about individual talents and shortcomings. In addition, appraisal systems help management evaluate the effectiveness of its selection and placement functions. If newly hired employees generally perform poorly, managers should consider whether the right kinds of peoples are being hired in the first place.

2. **Reward systems:** In addition, appraisals may form the bases of organizational reward systems—particularly merit-based compensation plans.
3. **Training and development:** Appraisals can help managers identify areas in which employees lack critical skills for either immediate or future **performance**. In these situations, new or revised training programs can be established to further develop the company's human resources.
4. **Feedback to employees:** Performance appraisals provide feedback to employees about quantity and quality of job performance. Without this information, employees have little knowledge of how well they are doing their jobs and how they might improve their work.
5. **Self-development:** Performance appraisals can also serve as an aid to employee self-development. Individuals learn about their strengths and weaknesses as seen by others and can initiate self-improvement programs.

It is apparent that performance appraisal systems serve a variety of functions in organizations. In light of the importance of these functions, it is imperative that the accuracy and fairness of the appraisal be paramount considerations in the evaluation of a system. Many performance appraisal systems exist. It is the manager's job to select the technique or combination of techniques that best serves the particular needs (and constraints) of the organization.

### **2.1.3. Approach to measuring performance**

Numerous techniques for measuring performance have been developed over the years. According to (Gomez-Mejia, et.al, 2001), techniques of measuring performance of employees involve wide array of appraisal formats from which to choose. (Herman 2009, pp.83-87), states that there are three approaches that used to measure performance appraisals.

Trait appraisal, behavioral appraisal and outcomes appraisal methods have been devised to measure the quantity and quality of performance appraisals. Each of the methods are effective for some purpose for some organizations.

### **2.1.3.1. The trait approach**

The attribute approach to performance management focuses on the extent to which the 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).

Trait appraisal instruments ask the supervisors to make judgment about traits, worker characteristics that tend to be consistent and enduring. Trait rating have been criticized for being too ambiguous.

The trait approach emphasizes the individual performer and ignores the specific situation behaviors, and results. If one adopts the trait approach, raters evaluate relatively stable traits. These can include abilities, such as cognitive abilities (which are not easily trainable) or personality (which is not likely to change over time). This approach is justified based on the positive relationship found between abilities (such as intelligence) and personality traits (such as consciousness) and desirable work-related behaviors.

### **2.1.3.2. The behavior approach**

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

The behavioral approach emphasis what employees do on the job and does not consider employees traits on the outcomes resulting from their behaviors. This is a process oriented approach that emphasizes how an employee does the job.

Behavioral appraisal instruments focus on assessing a workers behavior. An employee's coworkers come to meeting on time etc. In hear Anchored rating scale (BARS) is used.

### **2.1.3.3. The result approach**

As per Noe et al. (2008), the result 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 ones contribution to organizational effectiveness.

Outcome appraisal instruments ask manager to assess the results achieved by workers, such as total scales or number of products produced. The most prevalent outcome approaches are management by objectives (MBO) and naturally occurring outcome measures. MBO is a goal – oriented approach in which workers and their supervisors set goals together for the upcoming evaluation period.

#### **2.1.4. Methods of Performance Appraisal**

Method of performance appraisal is the technique or ways that appraisers or raters use to evaluate performance of their employees. There are many ways an organization can conduct a performance appraisal, owing to the countless different methods and strategies available. In addition, each organization may have their own unique philosophy making an impact on the way the performance assessment is designed and conducted.

According to Gary Dessler, there are a number of different appraisal methods that used to assess employees job performance. Many scholars divided the methods in to two broad areas, namely Traditional and Modern methods of performance appraisal system.

##### **2.1.4.1. Traditional methods**

- **Alteration Ranking Methods** which is ranking employees from best to worst on a trait or traits. The technique is to list all subordinates to be rated, and then indicate the employee who is the highest on the characteristic being measured and also he employee who is the lowest. And then choose the next highest and the next lowest until all being ranked.
- **Paired comparison Method:** which is more precise for every trait (**quantity** of work, quality of work, and so on). It is a method to pair and compare **every** subordinate with every other subordinate.
- **Forced Distribution Method:** is rating employees with a pre-**determined** percentage of rates in to performance categories. In hear employees are clustered around a high point on a rating scale. Rater is compelled to **distribute** the employees on all points on scale. It is assumed that the performance is conformed to normal distribution.

- **Graphic rating Scales:** are one of the most common methods of performance appraisal. Graphic rating scales require an evaluator to indicate on a scale the degree to which an employee demonstrates a particular trait, behavior, or performance result. It is composed of a number of scales, each relating to a certain job or performance.
- **Critical Incident Method:** is a method where the supervisors keep a log of positive or negative examples (critical Incidents) of a subordinate's work-related behavior. Supervisors and subordinates meet to discuss on the performance using the incidents.
- **Behavioral Anchored Rating Scale (BARS):** is a method that combines the benefits of narratives, critical incidents, and quantified (graphing rating type) scales, by anchoring a rating scale with specific behavioral examples of good or poor performance.

#### 2.1.4.2. Modern methods

**Management by Objective (MBO)** is a method that requires the manager to set specific measurable goals with each employee and then periodically discuss the latter's progress toward these goals.

**360-Degree feedback** is all around rating an employee, from supervisors, subordinates, peers and internal and external customers. It is also said "multi-source assessment as all parties respond – complete the surveys on all individuals.

It must be noted that most firms use several methods by mixing the mentioned methods.

#### 2.1.5. Performance appraisal process

Garry Dessler puts the main duty of the human resource is to define the job that subordinates agree on for the process of performance appraisal to be conducted. Jobs are defined in job descriptions. As per DeCenzo (2010), performance appraisal process includes the following six steps: Setting the Performance Standards, Communicating the Performance Standard to the Employees, Measuring the Actual Performance, Comparing the Actual with the Standard Performance, Providing Feedback, and Taking Corrective Action.

### **1. Setting the performance standards**

The first step in appraising performance is to set performance standards. A standard is a value or specific criteria against which actual performance can be compared. (Baird,et.al.). Employee job performance standards are established based on the job description. Employees are expected to effectively perform the duties stated in the job description. Therefore, job description forms the broad criteria against which employee's performance is measured.

### **2. Communicating the Performance Standard to the Employees**

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

### **3. Measuring the actual performance**

Measuring the actual performance or the work done by the employees during the specified period of time, is the most difficult part of the performance appraisal process. It is a continuous process involving, monitoring the performance all through the year which requires the waterfall selection of appropriate techniques of measurement, making sure there is no individual bias, and providing support instead of interfering in employees work (Manjunath, 2015, pp58). Measuring employee's performances involves numbers to reflect employee's performance on the identified characteristics or dimensions. Technically numbers are not mandatory. Labels such as "Excellent" "Very good", "Average" and "Poor" might be used instead.

### **4. Comparing the actual performance with the standards**

In order to know that whether there is a positive or negative deviation in the organizational performance, the actual performance of an employee will be compared with the desired outcomes or the standard performance. It includes recalling, evaluating and analysis of data related to the employee's performance (Manjunath, 2015, pp60).

## **5. Providing feedback to employees**

In the appraisal process the employees must actively participate in the design and development of performance standards. The participation will enhance employee motivation, commitments towards their jobs, and support of the evaluation feedback.

In other words, employees must understand it and they must feel it is fair and must be work oriented. Enough to care about the results (Glueck, 1978). After the evaluation, the rater must describe work-related progress in a manner that mutually understandable.

According to Baird et.al, (1990), feedback is the foundation up on which learning and job improvement are based in an organization. The rater must provide appraisal feedback on the result that the employee achieved that meet or exceed performance expectations. In sum, it is important that employees should be fully aware that the ultimate purpose of performance appraisal system is to improve employee's performance, so as to enhance both organizational goal achievement and the employee's satisfaction.

## **6. Taking corrective action**

The last step of the performance appraisal is taking corrective action. The management has several alternatives after appraising performance and identifying causes of deviation from job-related standards. The alternatives are i. Take no action, ii. Correct the deviation, or iii. Review the standard. If problems identified are insignificant, it may be wise for the management to do nothing. On the other hand, if there are significant problems, the management must analyze and identify the reasons why standards were not met. This would help to determine what corrective action should be taken.

Hence, the evaluator would have a proper guide i.e. Performance standards that make explicit the quality and/or quantity of performance expected in basic tasks indicated in the job description (Chalterjee, 1995).

### **2.1.6. Effectiveness of PA system**

An organization, to meet its vision, mission, objective, goals and targets, clear and precise methods of performance appraisal system should be set that can help to make objective evaluation of the performers. Effective output of performance appraisal system leads an organization to proper evaluation of employee's performance that in turn contributes to the productivity of the organization.

According to Ranjeet Nambudiri and Wayne F. (2013, pp.321-323), legally and scientifically the key requirements of appraisal system are relevant, i.e., there should be clear links between the performance standards for a particular job and organizational objectives. Acceptable, i.e. it should be evidence based, Reliable, i.e., it should have consistency of judgment, Sensitive, i.e., the system should be capable of distinguishing effective performer from ineffective one, and practicality i.e., the appraisal has to be practiced properly.

### **2.1.7. Performance appraisal Errors**

Gary Dessler, in his book, "Human Resource Management", states five common problems of performance appraisal. Unclear standards, Halo effect, Central Tendency, Leniency or Strictness and Bias.

- i. Unclear Standards – this problem occurs from an appraisal scale that is too open to interpretation. It is because of some ambiguities and wrong judgments. Whenever rating attributes like quantity of work, quality of work, creativity and integrity of the rate are not clear the appraiser falls to personal judgments.
- ii. The Halo Error and the Horn error – is the influence of a rater's general impression on rating of specific rate qualities. It is the common problem of performance appraisal that occurs when a supervisors rating of a subordinate on one trait biases the rating of that person on other traits.

The opposite of 'Halo Effect' is the 'Horn Effect'. According to Bhattacharyya (2011), the horn effect leads to poor rating for performance of a subordinate despite higher level of actual performance because the rater does not like someone's qualities of the subordinate and carries a general negative feeling about him or her.



- iii. Central Tendency Error – some supervisors stick to the middle when filling in rating scales. In rating scales they tend to avoid the highest and the lowest and rate most of their subordinates in average. These types of raters give average score to all subordinates irrespective of varying levels of performance.
- iv. Leniency or strictness – some supervisors tend to rate all their subordinates consistently high or low. Leniency error is often made in an attempt to avoid conflict. Performance appraisals are an uncomfortable situation for both managers and employees. Managers do not always enjoy giving negative feedback and employees do not like receiving negative feedback. To avoid the awkward situations, some managers will not rate employees accurately. Instead, they give high ratings to all employees to avoid looking like the bad guy. On the other hand, being very strict, some managers tend to give low ratings which most of the time affects employees performing well.
- v. Bias – is the tendency to allow individual differences such as age, race and sex to affect the appraisal ratings employees receive.

### **2.1.8. Employee Perception about Performance Appraisal**

According to Armstrong (2000), performance appraisal 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 Ann & Jerry Gilley (2009), the term ‘performance appraisal’ restricts the manager’s ability to work collaboratively with employees in their development. This is because the term ‘appraisal’ often is perceived negatively, which can create defensiveness on the part of employees when engaging in the review process.

On a survey conducted by Pulakos, Mueller & O’Leary (2008) the main problems with employee performance management is, it is considered as an administrative burden to be minimized rather than an effective strategy to obtain business results to the organizations and its employees. A good performance appraisal process should develop method for successful performance, give performance feedback and enable a more equitable reward

system. Performance method forms the basis of evaluating the employee's performance and their contribution towards the organizational goal. Performance method should be in line with goals, relevant to given roles, specific and measurable, under employees control and understood and accepted by participants (Dattner, 2010).

As Buchner (2007) emphasizes, performance management should be something that is done for people and in partnership with them. However performance appraisal is often a negative, disliked activity and one that seems to elude mastery. Managers do not like giving them and employees do not like receiving them. Some managers avoid if they did not need to provide feedback, encourage performance improvement, make valid decisions, justify terminations, identify training and development needs, and defend personnel decisions.

### **2.1.9. Setting Objective towards Employee Productivity**

An objective is the aim of an action or task that a person consciously desires to achieve or obtain (Locke and Latham, 2002). Setting objective is a motivational technique used extensively in organizations as a method of directing individuals' efforts at work and providing a standard against which performance can be assessed (Lunenberg, 2011).

Performance of an individual can be defined as the achievement level of the individual towards set targets (Hellriegel and Slocum, 1996). Erasmus et al (2003) argue that setting objective concentrates on setting and aligning individual and organizational goals but it can also be used for evaluating performance. Setting objective is a key ingredient for effectively coaching employees as well (Locke & Latham, 2002). If these objectives are not achieved, they either improve their performance or modify the objectives and make them more realistic (Salaman, 2005). The motivational impact of objectives may be affected by moderators such as ability and self-efficacy. Managers widely accept objective setting as a means to improve and sustain performance (DuBrin, 2012).

According to Peter Drucker, as it is given a meaning of management by objective, the method that both parties, the organization and the employee can set their goal together. Management by objectives (MBO) is a management model that aims to improve performance of an organization by clearly defining objectives that are agreed to by both management and employees. According to the theory, having a say in goal setting and

action plans should ensure better participation and commitment among employees, as well as alignment of objectives across the organization. MBO is a goal – oriented approach in which workers and their supervisors set goals together for the upcoming evaluation period.

According to DeCenzo & Robbins, Management by Objectives (MBO) includes mutual objective setting and evaluation based on the attainment of the specific objectives. The common elements in an MBO program are goal specificity, participative decision making, an explicit time period and performance feedback will effectively increases employee performance and organizational productivity.

#### **2.1.10. Performance Feedback towards Employee Productivity**

Performance appraisal feedback plays an important role in employee productivity. This gives an opportunity for feedback on the past performance against objectives set prior to the performance. For managers and supervisors, this is the process that helps them to identify the current performance level, make discussion on strengths and weaknesses and future opportunities (Jacjson and Schuller, 2012).

The performance feedback provides a discussion that helps employees to understand how they are doing, receive coaching and feedback; clarify expectations about career development (Brown and Benson, 2013). Performance feedback does a good job to make people aware of the objectives and outcomes of the performance appraisal process.

Feedback helps employees attain their performance objectives and is critical in order for goals to remain effective and retain commitment (Redmond, 2015). Without feedback, people are oblivious of their progression or regression; it also becomes difficult to measure the level of effort needed to pursue the objective effectively (Sorrentino, 2006).

Feedback is most effective when it is directed at setting more challenging objectives (Locke and Latham, 2002) because it allows for individuals and teams to identify any weaknesses in their current goals, which allows modifications to be made (Smith and Hitt, 2005).

According to Gilley, Quatro, & Dixon, (2009), Feedback is the sharing of work related performance or behaviors that were observed through the performance period and it can

be upward, downward or lateral. Feedback is one of the characteristics of performance management that provides for information to be presented to people on their performance, which helps them to understand how well they have been doing and how effective their behavior has been. The aim is for feedback to promote this understanding so that appropriate action can be taken. This action can be positive that is taken to make the best use of the opportunities or corrective where the feedback has revealed that the performance was as expected or something has gone wrong. (Armstrong 2009)

Feedback accompanying objective attainment may also enhance a workers job performance and ability to become more innovative and creative on the job (Fincham and Rhodes, 2015).

To be effective, the performance appraisal system may require considerable time and effort of managers and may require employees to gather information and receive feedback. Although performance appraisal systems can have problems and are the target of many criticisms, employees still want performance feedback, and they would like to have it more frequently than the typical one-a year performance evaluation. Giving feedback and conducting discussion with employees about their performance results are very important.

#### **2.1.11. Performance Reward towards Employee Productivity**

Marcey et al., (2009) states that the reward system should be able to identify the employee's strength and weaknesses to enhance performance. If the employees fail to meet the set target a career development plan can be implemented through training and provision of appropriate reward system to enhance performance (Mone and London, 2010). The reward should reflect the business objectives and the fair contribution of employee individual efforts to achieve high performance. Reward system is are important for any organization that aspires to meet its goals and objectives.

According to Daniel and Metcalf (2009), performance recognition is a return on an employee's effort and dedication at work, as well as his/her outputs. An employee recognition program can be a great morale-building tool for any organization, whether large or small. An effective recognition program can lead to innovation, higher productivity and greater job satisfaction for the workers (Beer and Walton, 2014).

Employee recognition programs could include several levels of recognition, from a simple certificate of appreciation to awards given to those who exceed expectations and earn the award (Steers and Porter, 2011). Recognition is one of the strong motivation factors; employees feel comfortable when they are praised and recognized (Armstrong, 2007).

According to Parker, 2003 recognition has two important goals; to encourage the employee or team to continue or repeat the behavior and to encourage other employees to do the same.

In general, performance reward is a tool that leads enhance productivity by recognizing the efforts made by employees. As cited on “Strategic Issues in Performance Appraisal Theory and Practice”, pp.23-31 by C.J. Fombrum, through the performance appraisals process the reward system has a variety of reasons in improving employee’s productivity and also developing the employees themselves.

#### **2.1.12. Interpersonal relationship towards Employee Productivity**

Interpersonal relationship factor includes personal biases, which it is not uncommon to find situations in which supervisors allow their own personal biases to influence their appraisals. Such biases include like or dislike for someone, as well as racial and sexual biases. Personal biases can interfere with the fairness and accuracy of an evaluation and are illegal in many situations.

Interpersonal relationship factors are those factors that relate to the kind of treatment the appraisee receives in the hands of the appraiser (Thurston & McNall, 2010). Greenberg (1993), also stated that interpersonal factors are important in the employee performance as they influence the outcome of the interactions. The qualities of these interactions during the process also contribute to fairness perceptions in the whole process. Perception of fairness in appraisal system is also recognized as a vital criterion in analyzing the effectiveness and efficiency of the employee and organization (Jacobs, Kafry, & Zedeck, 1980).

Armstrong (2006), shows that interpersonal factors are closely linked to feelings about procedural fairness and also criticize that every organization is a social system, a network

of interpersonal relationships. Even though a person doing an excellent job per to the objective standards of measurement may fail miserably as a partner, superior, subordinate or colleague. Darmawan (2013) also indicated that an organization is a network of relationships. Therefore, a relationship is very important. Wheatley (2001, in Sias, 2008) further suggests relationships are necessary for existing systems and are the hub of organizations. It is through relationships that organizations maintain stability (Katz & Kahn, 1978).

According to Fink and Longenecker (1998) in order to successfully achieve broad objectives performance, organizations must have clearly developed rating procedures and the manager, placed in the role of performance “rater,” must have both the skills and motivation to conduct effective performance appraisals. The manager (rater) has to be free from their own sets of likes, dislikes, and expectations about people, which may or may not be valid.

## **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 with aspect 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 that they can adjust their behavior to meet the organizations 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, and quality approach(Ibid).

Standards are sometimes described as standing or continuous 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).

Effective performance system acts as a motivator to the employee to improve their productivity. When the goals of the employees are clarified, when jobs are clearly defined in job description, when the relevant methods are applied.

Performance appraisal usually has a positive and or negative impact on employees. Employees who receive a good score on his/her appraisal are generally motivated to perform well and maintain his/her performance. Positive feedback on appraisal gives employees a feeling of worth value especially when accompanied by salary increment. If a supervisor gives employee a poor score on his /her appraisal, the employee may feel a loss of motivation in workplace. This has an impact on the employee's performance (Cook and Crossman, 2004).

According to Mayhew (1985), company use performance appraisals to measure employee job performance and to determine salary and wages increases. Nevertheless, performance appraisal also brings news that causes fret over job security, status, eligibility for promotion and possible bias or unfair ratings. It also shows the strengths and weaknesses of employee on their job.

Oroma Chioma Onyije on his research "Effect of performance Appraisal on Employee Productivity in Nigerian University" (2015), has concluded that a well-developed performance appraisal system helps organizations to identify the areas of strength and weakness.

According to Yohannes S. (2016), cited by Hamid Abdurehim, the research on the effect of performance management system on the employee's performance of commercial bank of Ethiopia, he concluded that performance management practice has a positive relationship with employee performance.

Hamid Abdurehim Haile, (2017), in his research the role of performance management practice on employee productivity in East Africa Bottling S.C., concluded that the

company's performance management practice is considered as a strategic tool in enhancing individual and organizational performance as a result employees are productive in their area of assignment.

As different studies concluded, performance appraisal and employees performance have positive relation. If we take the above research study made on East Africa Bottling S.C., studied by Hamid Abdurehim (2017), he also concluded that the company's performance management practice is considered as a strategic tool in enhancing individual and organizational performance as a result employees are productive in their area of assignment. The study analyzed the role of performance management practices on employee productivity in perspectives of performance appraisal, performance based reward system and performance feedback. In this research the effect of other factors like objective setting and the interrelationship components of performance appraisal is not included. Thus, the findings of this paper cannot be generalized.

Therefore, this new research is attempt to fill the research gap and determine the effect of performance appraisal practice on employee productivity in FHC.

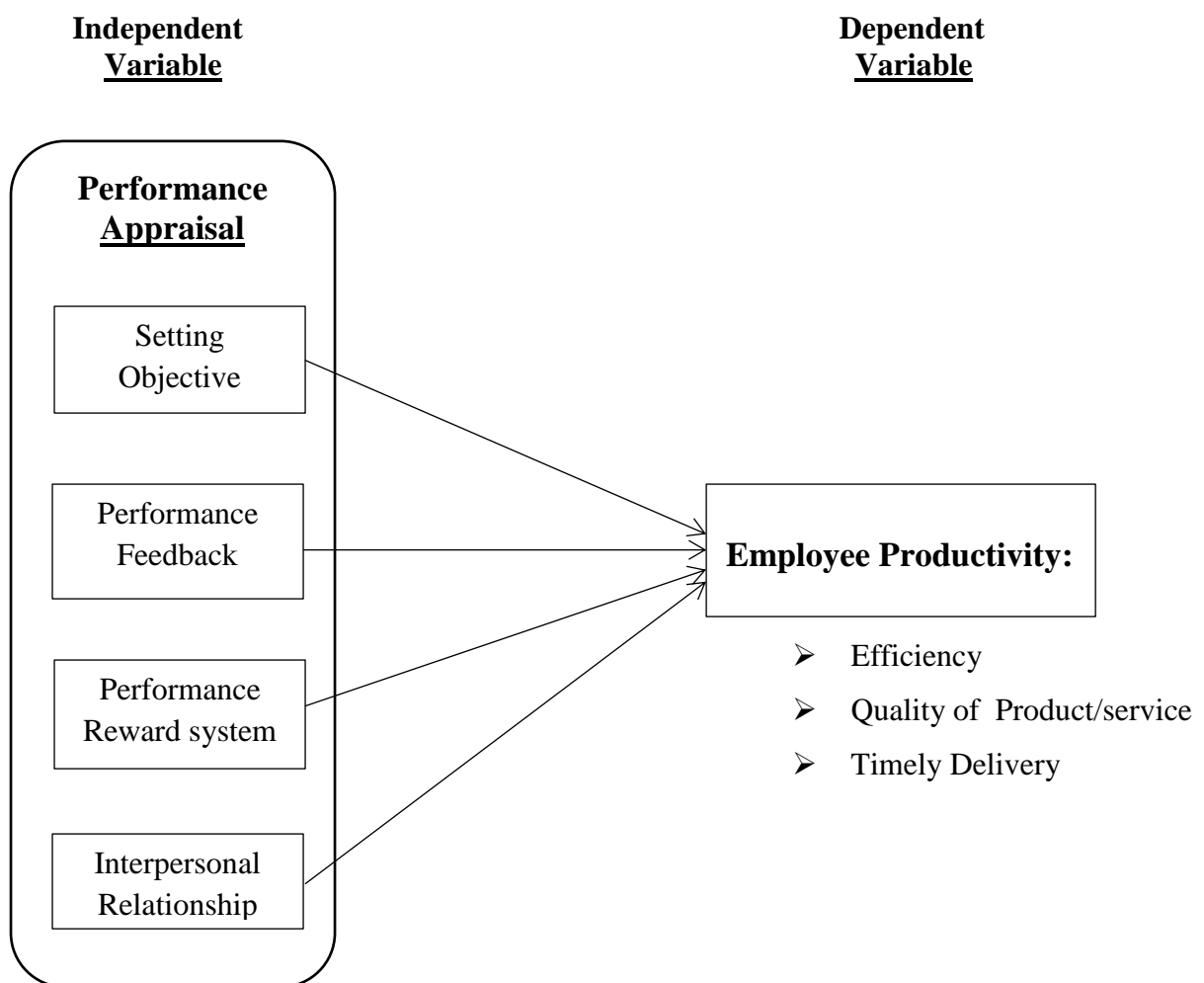


### 2.3. Conceptual Framework

Conceptual framework is a logical structure to be aid provides picture or visual display of how ideas in a study related to one another. According to Dickson A., Joe A., and Emad K., 2017, diagrams are created to clearly define the constructs or variable of the research topic and their relationships are shown by the use of arrows.

As discussed above, considering the various factors of performance appraisal practices that affect the employee's productivity, the researcher adopted the following research framework.

**Figure 2.1 Conceptual framework diagram**



**Source:** Model Developed based on Literature Review of performance management by Raymond et al., (2004)

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **Introduction**

This chapter presents the methods used to address the objectives of the study. It provides the main part of the research, which helps to understand how the research was conducted. This chapter basically includes description of the study area, the research approach and design, sample design, data source, data collection techniques and method of data analysis.

#### **3.1. Description of the study area**

In providing houses; residential and business; to the citizens, Federal government of Ethiopia and the regional governments use various mechanisms in development of houses. The federal and regional governments are widely engaged in development of houses. Private investors are facilitated to develop real-estates, and recently individual households are also encouraged to build their own houses. Federal Housing Corporation (FHC), is one of the public institutions engaged in the sector.

Federal Housing Corporation (FHC), which is accountable to Ministry of Urban Development, is a government organization established to administer government owned houses found in Addis Ababa and Dire Dawa cities. Its main objectives are to rent the houses, to collect house rents and to preserve them by maintaining. Besides it is also mandated to construct new apartments according to the need of Federal Government.

The corporation has 1600 staff (958 male, 642 female) and managed by one General Manager, Four Deputy General Managers leading different sectors with twenty Directorates and six Branches having different duties and responsibilities. On top of the general manager there is Board of Directors. It has one central head office and five branches in Addis Ababa and one branch in Dire Dawa.

The corporation is administering about 18 thousand houses of which about 13 thousands are residential and 6 thousands are businesses. From its 18 thousand customers; higher officials of the country, different government institutions, international organizations and regular citizens are the primary stakeholders of the corporation. Starting 2011 Ethiopian calendar, the annual rent collection of the corporation has increased to 900 million which

has been only 300 million before two years. (Annual report of the corporation).

The Corporation has been growing at a remarkable pace, sustaining strong business practices, and serving Ethiopian Federal government bodies, inhabitants of Addis Ababa City and business communities through providing rental houses. It is believed that FHC's successful achievements and its potential will provide opportunities to extend its businesses and increase the number of rental houses in the near future. Therefore, there is a need to better understand the improvement of FHC's business performance as a public enterprise.

### **3.2. Research Approach and Research design**

#### **3.2.1. Research approaches**

The study used both qualitative and quantitative data both questionnaire and interview. As the combination of qualitative and quantitative approaches provide the most complete or insightful understanding (Rwegoshora, 2006), this research is expected to provide better understanding of the raised research problems.

Quantitative data was collected from the number of employees that does not exceed 300 as well as qualitative data gathered through interviewing the head of human resource directorate. The reason for using both methods is to substantiate both types of data's.

The Data is analyzed using SPSS and using t-test so that the significance level towards the selected variables can be measured. Correlation analysis is done to see the relationship between the dependent and independent variables. Besides, Regression analysis is included to identify the effect of independent variables on the dependent one.

#### **3.2.2. Research design**

Kothari (2004) stated that designing a research is making a road map of the study, which leads all functions and steps undertaken. Designing a study helps the researcher to plan and implement the study in a way that helps the researcher to obtain intended results, thus increasing the chances of obtaining information that could be associated with the real situation (Creswell, 2003).

The research design used was explanatory type because there is cause and effect relationship between the independent and dependent variables.

### **3.3. Population and sampling Design**

According to Sogni, (2000) population refers to all potential subjects who possess the attributes in which the researcher is interested. A sample consists of elements of the population only considered for the actual inclusion in the study. Thus, Population is viewed as a set of elements on which the researcher focuses and from which the results obtained and a sample can be viewed as a subset of the population in which the researcher is interested.

According to Collins, the way to learn about the large group or an entire population is by looking at only a small part of it, i.e. a sample. The population referred by Collins not necessarily the total population of the country or area, but the totality of the target group from which the sample needs to be drawn.

#### **3.3.1. Target population of the study**

Population is defined as the entire set of individuals or other entities to which study findings are to be generalized (Schutt, 2011). Target population is the population from which the sample would be drawn. This research selected the head office of the corporation as large number of employees is found in head office. All employees in head office are not included in the study. To identify the right respondents, the level of education has given consideration. Accordingly, because of their level of education, non-clerical employees whose job grade are less than V are excluded from the study. So at the research time total number of head office employees is 584, of which 212 are non-clericals. The target population of the study is 372, of which 312 are employees and 60 are management staffs.

#### **3.3.2. Sample size determination**

The size of sample should neither be excessively large, nor too small. It should be optimal. An optimal sample is one which fulfills the requirements of efficiency, representativeness, reliability and flexibility. Sample sizes would be selected depending on the type of research design being used, the desired level of confidence in the result, the amount of accuracy wanted and the characteristics of the population of interest (Kothari, 2004). The main reason that takes the sample is to minimize unnecessary cost, time and effort to conduct the research.

According to Taro Yamane formula in this research the sample size, n will be:

$$= \frac{N}{(1+N(e)^2)} \text{ with margining error } 0.5\%$$

$$n = 372 / (1+372(0.05)^2)$$

$$n = \underline{193}$$

### **3.3.3. Sampling technique**

The study used stratified type random sampling method to select the study sample. The directorates (Departments) are classified and the questionnaire was distributed randomly within the directorates.

Random sampling technique is used because each unit in the population will have an equal chance of being selected and they do have equal contribution to the research. Random sampling reduces sampling error since the respondents are similar and do have equal contribution to the study as asserted by Sany Tayie, 2005, p36).

### **3.4. Sources of Data**

In order to achieve the objectives of the study, the researcher used both primary and secondary data sources. Primary sources of the study collected through closed-ended questions as well as interview questions. Therefore, questionnaire would be the dominant primary data-collecting tool in the study. Interviews with Human Resource Directorate of the corporation is the others primary data collecting techniques. The secondary data for this study was collected by searching documents from the archives and performance summary report documents of the corporation. Also, different research studies, related books, journals, and websites were referred.

### **3.5. Data collection techniques**

To achieve the desired objectives of the study, make use of an appropriate data collection technique is very important. Structured self-administered questionnaires were used by the researchers so as to get first-hand information (Kanji, 2003). Accordingly, data were collected through questionnaires and interviews from respondents. Close-ended questions as well as interviews were used in order to ease the process of analyzing the data from respondents. On the other hand document were reviewed as secondary data collecting technique to assess the performance appraisal practice of the corporation.

### **3.5.1. Questionnaires**

The questionnaire is selected because it helps to gather data with minimum cost from many respondents and the researcher collected the required data through close-ended structured questionnaire. The questionnaires were used to address all specific objectives of the study and it was distributed to the selected respondents to gather primary data. The questionnaire was prepared and employed in English languages to make the questions more clear and understandable for all respondents.

### **3.5.2. Interview**

To obtain comprehensive information on the subject, interview was held with Human Resource Directorates of the corporation. This was intentional to get further information on the area of study. Interview was primarily used to gain understanding of the underlying practices and challenges and the reasons in general for the problem.

### **3.6. Methods of data analysis**

Data analysis refers to the computation of certain measures along with searching for patterns of relationship that exist among data-groups (Kothari, 2004). Data was analyzed using the Statistical Software Package for Social Sciences (SPSS 20.0). Therefore, the data collected through questionnaire were analyzed quantitatively using correlation analysis and multiple linear regressions using Pearson's rank, Reliability analysis–Cronbach's alpha, t-test. The interview result was included in a summary form to explain the qualitative data of the research.

### **3.7. Validity and Reliability**

#### **3.7.1. Validity**

Validity is defined as the extent to which the instrument measures what it supports to measure (Miller.n.d, 2000). Therefore to make sure the validity of research instrument, the questionnaires were adapted from previous researchers. And the researcher examines the existing performance appraisal practice of the corporation by reviewing the perception of employees and managers, who were involved in the performance management process regarding the effect of performance appraisal practice on employee productivity. Also, lessons from related studies were incorporated in the questionnaire and used to re-design and improve the data collection instruments.

### 3.7.2. Reliability

According to Miller.n.d (2000) reliability is defined as the extent to which a questionnaire, test, observation or any measurement procedure produces the same results on repeated trials. Therefore in terms of reliability the questionnaire was checked for consistency basing on Cronbach's alpha as seen on the below table.

**Table 3.2.1 Cronbach's Alpha Statistics of Survey Questionnaire for Reliability test**

No.	Measurements	Cronbach's Alpha value	No. of Items
1	Setting Objective	.803	5
2	Performance Feedback	.705	5
3	Performance Reward	.731	5
4	Interpersonal Relationship	.746	5
5	Employee Productivity	.729	3

**Data Source: Researcher's own questionnaire, June 2021.**

As indicated in Table 3.2.1, the Cronbach's Alpha test reveals that reliability of the questionnaire was checked for consistency basing on Cronbach's alpha and met the acceptable level for attitude 0.7.

### 3.8. Ethical consideration

The data was gathered based on the consent of the participants. All respondents expected to respond based on their will and wish. The interview was conducted to realize the respondent's reaction. The information was only for academic purpose. The researcher is confidential for the information collected from the respondents. While data was collected, brief description about the title, purposes and objectives of the study were made clear for concerned body when the data was collected.

## **CHAPTER FOUR**

### **DATA PRESENTATION, ANALYSIS AND INTERPRETATION**

This chapter discusses the results of the findings of the data analyzed from the questionnaires. In total 193 questionnaires were distributed to the employees of Federal Housing Corporation and 158 were received, 82% of the respondents.

The data was analyzed based on the research objectives and questionnaire items using a statistical tool to generate frequency distribution tables, t-tests, correlations, multiple regressions and the results are presented as follows.

#### **4.1. Analysis of the Demographic Information of Respondents**

Based on questionnaire part I, the demography characteristics of respondents that includes gender, age, marital status, educational qualification, work experience, job position is analyzed on the table shown below.



**Table 4.1 Demographic characteristics of the Respondents**

Respondent Characteristics		Frequencies	Percent
Gender	Male	118	74.7
	Female	40	25.3
Age	18-29	30	19.0
	30-39	94	59.5
	40-49	24	15.2
	50 and above	10	6.3
Marital Status	Single	66	41.8
	Married	92	58.2
Educational qualification	Diploma	45	28.5
	BA/BSc	81	51.3
	Masters	32	20.3
Work experience	< 1 Year	8	5.1
	1-5 Years	24	15.2
	5-10 Years	40	25.3
	10-15 years	34	21.5
	15-20 years	30	19.0
	> 20 years	22	13.9
Position status	Management	48	30.4
	Non-management	110	69.6
<b>Total</b>		<b>158</b>	<b>100.0</b>

**Data Source: Researcher's own questionnaire, June 2021.**

As it can be seen from the above Table 4.1, 74.7% of the respondents were male and 25.3% were female, thereby indicating that FHC, in its head office, has more male employees compare to female employees. This implies that the male respondents have more access to the issue.

Regarding the age dimension 19.0% of the respondents are between 18-29 years of old, 59.5% are between 30-39 years of age, 15.2% are between 40-49, and the rest 6.3% are 50

and above. This shows that majority of the respondents are adults, the age between 30 and 39 years. If we sum up the second and third category, 74.5% of the respondent's age is between 30-49, which means majorities of the workers are middle-age and adults and can more understand in responding to the questionnaire.

Regarding marital status, the table shows us: 41.8% of the respondents are single and 58.2% are married which means the highest parts are married.

As shown in the table, educational qualification characteristic is categorized only in to three categories: Diploma (different Levels), first degree and second degree. Statistically, from the respondents 28.5% are diploma holders, 51.3% are first degree and the rest 20.3% are second degree holders. This shows that more than half of the employees are professional where 71.6% are first degree and above. This suggests that the respondents provide relevant and accurate information needed for the study on the effect of performance appraisal on productivity.

In terms of work experience, the frequency shows that majority of the employees has worked more than 10 years. Only 5.1% of the respondents have < 1 year work experience. 15.2% have 1-5 years of experience, 25.3% have 5-10 years, 21.5% are 10-15 years, 19.0% have 15-20 years and the rest 13.9% have an experience of 20 years and above. The frequency shows that about 80% of the employees have stayed long in the corporation. This indicates that majority of the respondents, having long work experience in the corporation, were familiar with the practice of performance appraisal system in the corporation. So, this shows to the researcher as it is an opportunity to get real input that may help to the study,

Regarding the position status, as it is seen in the above table, 30.4% of the respondents are management group and the rest 69.6% are non-management staffs.

## 4.2. Setting Objective

In order to measure the agreement level of the respondents in setting their objective five questions were asked to them. Accordingly, their agreement level of agreement is shown in the following table.

**Table 4.2 Respondents attitude towards the Effect of Setting Objective on employee Productivity.**

No.	One-Sample Statistics				Test Value = 3				
					t-value	p-value	Mean Difference	95% CI of Difference	
	Statement	N	Mean	Std. Deviation				Lower	Upper
1	I participate in the setting of my goals/targets prior to the performance period.	158	3.58	1.03	7.19	0.011	0.59	0.45	0.77
2	I understand the importance of my goals/targets in relation to the overall objective of the corporation.	158	4.09	0.86	15.98	0.000	1.10	0.99	1.24
3	The existing Performance standards in my corporation are clearly set and easily understandable.	158	3.84	1.05	5.69	0.000	0.47	0.31	0.66
4	My supervisor provides me with clear direction to set my plan and improve my performance.	158	3.39	1.12	4.66	0.000	0.40	0.22	0.61
5	The setting of objectives/goals has positive impact on the overall performance of an employee within the corporation.	158	3.99	0.96	12.99	0.000	0.99	0.85	1.17
<b>Grand Result</b>			<b>3.68</b>		<b>13.68</b>	<b>0.000</b>			

**Data Source: Researcher's own questionnaire, June 2021.**

The first question was to know if they are allowed to participate in setting their goals prior to the performance evaluation. As shown in the above table, the level of agreement  $M=3.58$ , with  $t=7.19$ , and  $P=0.000 < 0.05$ , is highly different from moderate level of agreement. This indicates that majority of the employees participate in setting their goals.

The second question was to know their reaction if they understand the importance of their goals in relation to the overall objective of the corporation. The level of agreement  $M=4.09$ , with  $t=15.98$ , and  $P=0.000<0.05$  indicates that majority of the employees well understand the importance of their goals in relation to the overall objective of the corporation.

The third question was requested to know if the existing performance standards in the corporation is clearly set and easily understandable. The agreement level  $M=3.84$ , with  $t=5.69$ , and  $P=0.000<0.05$ , result shows that it is different from the test value 3, which indicates the existing performance standard in the corporation is appreciated as it is clear and easily understandable.

For the fourth question if they are provided clear directions in setting their plan/target, the agreement level  $M=3.39$ , with  $t=4.66$ , and  $P=0.000<0.05$ , still shows that little different from the moderate level which means directions is given to them in setting their plan/target.

In the last question, to know the response of the respondent's, if setting of objectives has a positive impact on the overall performance within the corporation, the response level  $M=4.99$ , with  $t=12.99$ , and  $P=0.000<0.05$ , which is significantly different from the moderate level indicates that majority of the employees agree as setting objective has strong impact on employee productivity.

When we see the overall agreement level of employees to the existing performance appraisal practice with regard to setting objective, it is rated that  $M=3.68$ , with  $t=13.68$ , and  $P=0.000<0.05$ ), which is significantly different from moderate level of agreement,3. The above result shows that there is no problem regarding setting objective in FHC. This shows that in the corporation employees are able to improve their performance as a result of the existence of setting their individual plan. In addition to this, they highly believe that the setting of objective prior to their performance period has great role in affecting their overall productivity of the corporation.

Therefore, Setting Objective as one form having positive impact on employee productivity is strongly appreciated by the employees of FHC.

### 4.3. Performance Feedback

In this part questions related to performance feedback were forwarded for the respondents to measure their level of agreement. Their level of agreement is also shown in the following table.

**Table 4.3 Respondents attitude towards the effect of Performance Feedback on Employee Productivity**

No.	One-Sample Statistics				Test Value = 3				
	Statement	N	Mean	Std. Deviation	t-value	p-value	Mean Difference	95% CID	
								Lower	Upper
1	My supervisor always rates me based on my performance results.	158	3.77	0.97	10.0	0.000	0.77	0.62	0.92
2	I prefer if performance rating is conducted in a way that the supervisor and the supervisee sit in a table with open confrontation.	158	3.60	0.98	7.74	0.000	0.60	0.45	0.75
3	My supervisor hesitates to provide me sufficient information and constructive feedback to my performance.	158	3.44	0.95	5.88	0.000	0.44	0.29	0.59
4	My supervisor is not voluntary to give me chance for discussion up on my result.	158	3.40	1.00	5.00	0.000	0.40	0.24	0.56
5	If I am given performance feedback, it always helps me to improve my productivity.	158	3.41	0.98	5.52	0.000	0.43	0.28	0.58
<b>Grand Result</b>			<b>3.61</b>		<b>10.01</b>	<b>0.000</b>			

**Data Source: Researcher's own questionnaire, June 2021.**

The first question was to get the response for whether the supervisor rates employees based on their performance results or not. The agreement level  $M=3.77$ , with  $t=10.0$ , and  $P=0.000<0.05$ . The result differs from the moderate level of agreement indicating that majority of the employees believe that in the corporation supervisors rate their subordinates based on their work result.

For the second question to know the respondent's idea if performance rating is conducted in an open confrontation between the supervisor and the employee, the level of agreement is  $M=3.60$ , with  $t=7.74$ , and  $P=0.000<0.05$ , indicates that most of the employees perceive that in the corporation the role of boss of supervisors in approving employees performance appraisal result is ignored even though it is incorporated in the system.

In the third question, they were asked to know if the supervisor provides sufficient information and constructive feedback or not. The level of agreement  $M=3.44$ , with  $t=5.88$ , and  $P=0.000<0.05$ , shows the significance difference with the moderate level of agreement and it indicates that majority of employees feel that their performance appraisal is not completed along with feedback.

The fourth question was forwarded to know whether supervisors welcome their employees for discussion up on their performance results. The level of agreement  $M=3.40$ , with  $t=5.00$ , and  $P=0.000<0.05$ , shows a significance difference with the moderate level of agreement implying that employees of the corporation feel they are not given chance to make any discussion with their supervisors relating their performance.

The last question was to know the level of agreement for the response in relation to the impact it has on their productivity if they are given performance feedback the response level  $M=3.41$ , with  $t=5.52$ , and  $P=0.000<0.05$ , still shows significant difference indicating that employees are not given performance feedback, which could help them to improve their productivity.

From the aggregate result of the agreement level as seen on the table, the result  $M=3.61$ , with  $t=10.01$ , and  $P=0.000<0.05$ , shows that the employees of the corporation, the mean average value,  $M=3.61$ , believed that in the performance appraisal practice of the corporation the component, performance feedback, have significant impact on their productivity.

#### **4.4. Performance Reward**

In this section the respondents were forwarded with question related to the purpose of performance reward and the relation it has with their productivity.

**Table 4.4 Respondents attitude towards the effect of Performance Reward on Employee Productivity**

No.	One-Sample Statistics				Test Value = 3				
					t-value	p-value	Mean Difference	95% CI of Difference	
	Statement	N	Mean	Std. Deviation				Lower	Upper
1	The performance evaluation system in the corporation helps me to improve my job performance.	158	3.52	1.16	5.48	0.000	0.51	0.33	0.68
2	In the corporation performance appraisal is directly linked to performance reward system.	158	3.99	0.94	13.65	0.000	1.02	0.90	1.19
3	In the corporation performance evaluation is used to determine at least for one of these incentives. (Salary Increment, Bonus, Promotion, House Assignment, Training, Demotion, or Transfer)	158	2.98	1.15	0.19	0.000	0.03	-0.19	0.21
4	The existence of performance reward for best work has given me an opportunity to work beyond the requirements of my job.	158	3.45	1.02	7.99	0.000	0.63	0.51	0.79
5	If my performance is recognized in any way it will definitely has positive effect on my future performance.	158	3.91	1.00	12.59	0.000	0.88	0.75	1.08
<b>Grand Result</b>			<b>3.58</b>		<b>11.25</b>	<b>0.000</b>			

**Data Source: Researcher’s own questionnaire, June 2021.**

In the first questions, the impact of performance evaluation system in their work improvement, the response  $M=3.59$ , with  $t=5.48$ , and  $p=0.000<0.05$ , is above the moderate level. This shows that the majority of the employees agreed that the performance evaluation system implemented in the corporation is helping them to improve their performance.

In the second questions, they were asked if performance appraisal practice in the corporation has direct linkage on performance appraisal system. The result  $M=3.99$ , with  $t=13.65$ , and  $p=0.000<0.05$  shows that the majority of the employees agreed that the performance appraisal practice of the corporation is helping them to improve their performance.

For question number 3 raised for respondent's to know for what type of incentives performance evaluation is used, the responses  $M=2.98$ , with  $t=0.19$ , and  $p=0.000<0.05$ , which approaches to the moderate level shows that the performance evaluation in the corporation is used to determine some of the incentives indicated.

For question number 4, raised for respondent's to know that the existence of performance reward for best performers in the corporation and its effect on improvement of employees performance, the responses  $M=3.45$ , with  $t=7.99$ , and  $p=0.000<0.05$  which is beyond the moderate level indicates that the existence of reward system for best performers can influence them to perform more which in total helps to enhance productivity.

For question number 5, raised to know what effect does performance recognition has on their future performance, the agreement level  $M=3.91$  with  $t=12.59$ , and  $p=0.000<0.05$  shows that performance recognition definitely has positive effect on their future performance.

From the table, looking at the overall level of agreement to performance reward system of the corporation, respondents aggregate result  $M=3.58$  with  $P=0.000<0.05$  and  $t=11.25$ , indicates that employees are satisfied to the reward system in the corporation in relation to their performance appraisal results.

Therefore, as indicated on section 2.1.9 of this research, by (Daniel and Metcalf, 2009) and (Armstrong, 2007), the above aggregate result shows that employees of FHC feel that the performance reward for their performance will have an effect on their future performance improvement.

#### **4.5. Interpersonal relationship**

In this section, in order to measure the agreement level of the respondent's, also five question related to the effect of Interpersonal relationship factor on employee productivity were raised to them. The responses are analyzed and interpreted against the moderate value, 3 is reflected on the next table.



**Table 4.5 Respondents Attitude towards the effect of Interpersonal Relationship on Employees Productivity**

No	One-Sample Statistics				Test Value = 3				
					t-value	p-value	Mean Difference	95% CI - Difference	
	Statement	N	Mean	Std. Deviation				Lower	Upper
1	My supervisor takes my performance throughout the evaluation period basing on the delivered results I submit than the relations I have with him/her.	158	3.32	1.35	2.12	0.007	0.21	0.02	0.43
2	My supervisor completes the performance appraisals reflecting his/she personal like or dislike towards me.	158	2.40	1.33	-5.35	0.000	-0.60	-0.81	-0.39
3	Measuring employee's contribution to the job rather than employee's behavior/relationship will be more effective on the improvement of employee productivity.	158	3.87	1.19	7.98	0.000	0.81	0.62	0.99
4	My supervisor always rates me without any bias on discriminating factors.	158	3.54	1.01	5.04	0.000	0.41	0.29	0.59
5	The appraisal system exists in FHC is fair enough in terms of procedures.	158	3.29	1.12	1.44	0.014	0.12	-0.07	0.33
	<b>Grand Result</b>		<b>3.31</b>		<b>3.44</b>	<b>0.001</b>			

**Data Source: Researcher's own questionnaire, June 2021.**

The first question raised was to know if the supervisor takes delivery of performance for conducting appraisal than the relation it has with the subordinate. The agreement level of the respondents,  $M=3.32$ , with  $t=2.12$ , and  $p=0.007 < 0.05$ , compared to the moderate level agreement = 3, is above the moderate level. This shows that employees of the corporation feel that their performance is taken in to account during the evaluation period rather than on their relationship with supervisors.

The second question was to know if the supervisor reflects his/her personal liking or disliking in the appraisal process. The level of agreement,  $M=2.40$ , with  $t = -5.35$ , and  $P=0.000<0.05$ ), is below the level of agreement. This shows that employees of FHC believe that supervisors complete the performance appraisal without reflecting their personal liking or disliking towards the employee.

On the third question, the respondents were asked whether measurement of employee's performance based on their job result than personal relation has effect on employee's productivity. Its result  $M= 3.87$ , with  $t=7.98$ , and  $P=0.000<0.05$  is significantly greater than the moderate level and the respondents feel employee's contribution should be measured to their contribution towards their job rather than on their relationship with their supervisors to be more effective on their productivity.

On the fourth question, the respondents were asked if they are rated without biases and discrimination. The result  $M=3.54$ , with  $t=5.04$ , and  $P=0.000<0.05$  is still greater than the moderate level of agreement. This shows that respondents feel that there is no biasness and discrimination in the corporation's during the measurement of performance.

For question five raised to the respondents, if the appraisal system exist in the corporation is fair and enough in terms of procedures. The result of the response  $M=3.29$ , with  $t=1.44$ , and  $p=0.014<0.05$ , varies from the moderate level indicating that the existing appraisal system in FHC, in procedure is acceptable by employees.

From the aggregate result of all five questions forwarded to the respondents of the questionnaire, the level of agreement  $M=3.31$ , with t-test 3.44, and  $p=0.001<0.05$ , is against the moderate level = 3. This indicates that the employee's agreement level is different from the moderate level or test value 3.

From the above aggregate result, it can be taken that interpersonal relationship factor affects employee productivity. According to the respondents, the corporation is highly appreciated for the measurement of appraisal based on employee's performance than other relationships. Besides, the performance appraisal system existed in the corporation is said to be fair enough in terms of procedure with no significant difference from the average level of agreement. This shows that the performance appraisal practice implemented in the

corporation is somehow appreciated by the employees.

The overall result of each factor, except that of performance feedback, shows that the integration among stated items is indicated better practice in FHC as all the mean scores of each performance appraisal factors is above 3.00.

#### 4.6. Employee Productivity

In this last section, in order to measure the agreement level of the respondent's, three question related to employee productivity; efficiency and quality, were raised to the respondents. The responses are analyzed and interpreted against the moderate value, 3 is reflected on the next table.

**Table 4.6 Respondents Attitude towards Employee Productivity**

No	One-Sample Statistics				Test Value = 3				
					t-value	p-value	Mean Difference	95% CI - Difference	
	Statement	N	Mean	Std. Deviation				Lower	Upper
1	The production and/or the service provided by the corporation is mostly cost-effective.	158	3.48	1.23	2.10	0.002	0.20	0.02	0.41
2	In the corporation, the products and/or the services given are with set quality standard.	158	3.02	1.03	2.08	0.005	0.58	0.78	0.40
3	The corporation's management system encourages timely delivery of works.	158	3.66	1.29	5.39	0.002	0.79	0.59	0.97
	<b>Grand Result</b>		<b>3.38</b>		<b>3.19</b>	<b>0.003</b>			

**Data Source: Researcher's own questionnaire, June 2021.**

The first question raised was to know if there is cost-effective work in increasing employee productivity. The agreement level of the respondents,  $M=3.48$ , with  $t=2.10$ , and  $p=0.002 < 0.05$ , is above the moderate level. This shows that employees of the corporation believe that their work is performed with due care to cost effectiveness.

The second question was to know if the products and/or the services given by the corporation is in a good quality or not. The level of agreement,  $M=3.02$ , with  $t = 2.08$ , and  $P=0.005<0.05$ ), is above the level of agreement. This shows that employees of FHC believe that the product and/or the service given by the corporation is in its quality standard.

The last question was to know the works done in the corporation is delivered within the given time. The result  $M= 3.66$ , with  $t=5.39$ , and  $P=0.002<0.05$  is significantly greater than the moderate level and the respondents were sure that there is timely work delivery in the corporation.

From the aggregate result of all three questions forwarded to the respondents of the questionnaire, the level of agreement  $M=3.38$ , with t-test 3.19, and  $p=0.003<0.05$ , is above the moderate level = 3. This indicates that the employees believe that the products and/or the services delivered in the corporation is efficient. In the work process, employees are cost-wise; products and/or services are delivered within the standard time and quality.

#### **4.7. Relationship of performance appraisal with employee productivity**

##### **Correlation result**

The researcher has shown the relationship between the independent variable, performance appraisal practice, with that of the dependent variable, employee productivity, using correlation analysis. According to Kothari (2004), Pearson's coefficient, is the most widely used method of measuring the level of relationship between two variables. In this measurement analysis, the value of "r" lies between  $\pm 1$ . Positive values of "r" indicate positive correlation between the two variables, i.e., changes in both variables goes in the same direction. Whereas negative values of "r" indicates negative correlation, i.e., changes in the two variables takes place in the opposite directions. In other words, if the value is in the positive range, then it shows that the relationship between the variables is correlated positively, and both the values decrease or increase together. On the other hand, if the value is in the negative range, then it shows that the relationship between the variables is correlated negatively, and both the values will go in the opposite direction. A zero value of "r" indicates that there is no association between the two variables.

As seen in table 4.7, there are many correlation coefficients above 0.5. This shows the variables are very well correlated with each other.

**Table 4.7 Correlation matrix of independent variables with dependent variable.**

No	Correlated Factors		Dependent Factor				Employee Productivity
			QP_1	QP_2	QP_3	QP_4	
1	Setting Objective	Pearson Correlation	0.456**	0.361**	0.405**	0.425**	0.519**
		Sig. (2-tailed)	0.000	0.000	0.000	0.000	0.000
		N	158	158	158	158	158
2	Performance Feedback	Pearson Correlation	0.568**	0.767**	0.551**	0.481**	0.782**
		Sig. (2-tailed)	0.000	0.000	0.000	0.000	0.000
		N	158	158	158	158	158
3	Performance Reward	Pearson Correlation	0.701**	0.421**	0.470**	0.469**	0.676**
		Sig. (2-tailed)	0.000	0.000	0.000	0.000	0.000
		N	158	158	158	158	158
4	Interpersonal Relationship	Pearson Correlation	0.382**	0.320**	0.555**	0.515**	0.533**
		Sig. (2-tailed)	0.000	0.000	0.000	0.000	0.000
		N	158	158	158	158	158
**. Correlation is significant at the 0.01 level (2-tailed).							

**Data Source: Researcher's own questionnaire, June 2021.**

As it can be seen in above table, the relationship between all independent factors; setting objective, performance feedback, performance reward and interpersonal relationship, are found to have significant correlation with employee productivity. The significant level of 0.000 shows that the relationship is significant at  $p < 0.01$ , 2-tailed. Therefore, it makes the variable is strongly correlated variable among the other variables.

On top of this, the Pearson correlation result of each factor, that of setting objective ( $r=0.519$ ,  $p < 0.05$ ), performance feedback ( $r=0.782$ ,  $p < 0.05$ ), performance reward ( $r=0.676$ ,  $p < 0.05$ ), Interpersonal relationship ( $r=0.533$ ,  $p < 0.05$ ), shows as there is significant and positive correlation. (Daniel M. (2004). All are important factors of performance appraisal and are significant to show the effect of performance appraisal practice on employee productivity.

As seen on the table, setting objective has a positive relationship with performance feedback, performance reward and interpersonal relationship with ( $r=0.456$ ,  $p < 0.01$ ),

( $r=0.361$ ,  $p<0.01$ ) ( $r=0.405$ ,  $p<0.01$ ) which actually means there is a strong or significant correlation between the variables.

From the above table, we can also see that the most correlated variable to the employee performance is performance feedback. The correlation,  $r=0.782$ , indicates that employees appreciation on the performance feedback for their performance has strong relation with their productivity. The same goes to for performance reward with correlation,  $r=0.676$  and Interpersonal relationship with correlation,  $r=0.533$ . This also shows the two variables have strong correlation with employee productivity.

#### 4.8. Independent variables influence on employee productivity

##### Regression Analysis

To investigate the relationship between different factors; employees productivity (the dependent/the output) variable relating to the independent variables; objective setting, performance feedback, performance reward and interpersonal relationship factors.

On the table below, four factors are expected to receive through factor analysis and the estimated factor score have been included as inputs in regression analysis.

**Table 4.8 Overall effect of performance appraisal on employee productivity**

Model	Unstandardized Coefficients		Standardized Coefficients	t- value	p- value	Collinearity Statistics		Model Summary			
	B	Std. Error	Beta			Tolerance	VIF	R	R <sup>2</sup>	Adjusted R <sup>2</sup>	
	(Constant)	-1.092	0.228		-4.754	0.000			0.885	0.898	0.789
1	Setting Objective	0.061	0.064	0.050	0.963	0.334	0.621	1.589			
2	Performance Feedback	0.666	0.072	0.527	9.327	0.000	0.564	1.785			
3	Performance Reward	0.365	0.074	0.289	5.089	0.000	0.553	1.818			
4	Interpersonal Relationship	0.188	0.055	0.160	3.319	0.001	0.758	1.312			
Dependent Variable: Employee_ Productivity											

**Data Source: Researcher's own questionnaire, June 2021.**

As we can see on the above table 4.8, the adjusted R square, indicates that the overall performance appraisal has influenced 78.9 % of the employees productivity. Thus, these independent variables alone has a significant effect on the employee productivity, which is 78.9%, where employee productivity due to other reasons being constant. Thus, it can be concluded that the stated independent factors by them self's other factors being constant have a higher impact on the enhancement of employee productivity.

In addition to the above interpretation, in order to see the effect of each independent variable on employee productivity, step-wise regression analysis is conducted. This analysis believes to help to elaborate more and respond to the researcher questions.

**Table 4.9 Step-wise regression of independent variables on the dependent variable**

Model		Unstandardized Coefficients		Standardized Coefficients	t-value	p-value	Collinearity Statistics		Model Summary		
		B	Std. Error	Beta			Tolerance	VIF	R	R <sup>2</sup>	Adjusted R <sup>2</sup>
1	(Constant)	-.155	0.222		-.670	0.488			0.801	0.640	0.638
	Performance Feedback	1.005	0.064	0.795	16.289	0.000	1.002	1.002			
2	(Constant)	-.875	0.230		-3.840	0.000			0.880	0.721	0.717
	Performance Feedback	0.759	0.066	0.602	10.988	0.000	0.667	1.576			
	Performance Reward	0.418	0.068	0.336	6.298	0.000	0.667	1.576			
3	(Constant)	-1.088	0.227		-4.787	0.000			0.849	0.731	0.729
	Performance Feedback	0.689	0.073	0.542	9.891	0.000	0.585	1.701			
	Performance Reward	0.399	0.071	0.309	7.016	0.000	0.657	1.491			
	Interpersonal Relationship	0.183	0.066	0.159	4.221	0.001	0.766	1.221			
Dependent Variable: Employee_ Productivity											

**Data Source: Researcher's own questionnaire, June 2021.**

Table 4.9 shows that the performance feedback of performance appraisal influences the employee productivity by 63.8%, being the highest among the other independent variables. This indicates that, if the corporation works only on this dimension being other

things constant, it will have the capacity of 63.8% to improve employee's productivity, which answers the question of the impact of performance feedback on employee productivity.

In addition, with the performance reward of performance appraisal, the influence is 72.9%, which shows the performance reward have an additional of 9.1% effect on employee productivity. The impact of performance appraisal also increased to the level 72.9% if the corporation works on the interpersonal relationship factors in addition to that of performance feedback and performance reward. It can further explains the effect and the impact of the independent variables on the employee productivity.

The fourth factor, setting objective, is not included in this step wise regression because of its relationship with other three factors as well as its effect believed to be the outcome of the performance appraisal. In addition to this, as it can be seen on Table 4.8, the variance inflation factor (VIF) is below the value of 2 and with p value  $0.334 < 0.05$  at  $t=0.963$ . Thus, because the result shows that it's less significance on employee productivity, the setting objective, as a factor is excluded from the analysis. This means that regarding the setting objective, the corporation has no problem.

#### **4.9. Discussion of the Response on the Interview Questions**

With the interview held with him, the human resource directorate of the corporation, has responded to the questions raised by the researcher.

The first question raised was to know what type of performance appraisal system the corporation is using. The directorate said that the corporation uses result approach, which is MBO and also behavioral approach. The next question was raised to know if the corporation ever encountered any difficulties in carrying out the performance appraisal or not and he responded that supervisors, sometimes, tend to give high score for majority of their subordinates and also some don't respond according to the schedule. He also stressed that as the purpose of the performance appraisal is to evaluate the employees and take varies administrative decisions, due to the late responses, the directorate most of the time is not be able to respond to the purpose of performance evaluation on the expected time.



Thus, to avoid such stated problems, the directorate is always forced to write circulars and always remind the branch and department heads.

Two other questions included in interview, to know the overall opinion of the director about the effect of the performance appraisal of the corporation on employee's productivity and to know the effectiveness of the performance appraisal system implemented in the corporation, the director responded that the corporation was supposed to link the employee's outcome with employee improvement strategies.

He also added that the performance appraisal system is effective as it tries to include all the dimensions and that the directorate always has close follow up on removing the leniency that raters show in performance appraisal.

In doing this, though it is not practical, the directorate encouraged the raters to give feedback to the supervisee's for the sake of productivity. However, discussion between the supervisors and the supervisee is not practical in the corporation's performance appraisal system. Employees are not courage full to exercise their rights in this concern. They simply write comments and accept what have been given by their supervisor. This is believed that it has negative impact on their productivity.

In addition to the above fact, I think the corporation has some short coming on the content (checklists) of the format of its performance appraisal system and the human resource directorate is reviewing the format to make the performance practice very efficient.

This implies that the corporation has to incorporate some additional components that can be really implemented in the appraisal process.

## **CHAPTER FIVE**

### **CONCLUSION AND RECOMENDATION**

#### **Introduction**

In this chapter the data analysis, presentation and interpretation done so far is summarized. Based on the findings of the study, conclusions and recommendation will also be presented. Furthermore, suggestions for additional studies will be suggested.

#### **5.1. Summary of the Findings**

The major purpose of this study was to investigate the effect of performance appraisal practice on employee's productivity in the case of Federal Housing Corporation. To examine this effect, specific objectives were formulated to identify to what extent performance appraisal practice in the corporation affects employee productivity.

Prior to the main analysis of the study, a reliability test was conducted to check whether the questionnaire is reliable or not. As it is indicated in Table 3.2.1, the Cronbach's Alpha test, reliability of the questionnaire was checked for consistency basing on Cronbach's alpha and meet the acceptable level for attitude 0.7.

From the demographic character of the respondents, it is summarized that 74.5% of the respondent's age is between 30-49, showing that majorities of the workers are middle-age and adults and are able to understand more in responding the right answer to the questionnaire. Regarding educational qualification, 71.6% of the respondents have first degree and above. This suggests that the respondents provide relevant and accurate information needed for the study on the effect of performance appraisal on productivity. In terms of work experience, the frequency shows that majority of the employees has worked more than 10 years. About 80% of the employees have stayed long in the corporation. This indicates that majority of the respondents, having long work experience in the corporation, were familiar with the practice of performance appraisal system in the corporation. So, this shows to the researcher as it is an opportunity to get real input that may help to the study,

As it is discussed on chapter four of this study, the result of correlation analysis shows that

the dependent variable, employee productivity, is positively and significantly correlated with the independent variables, (setting objective, performance feedback, performance reward and interpersonal relationship). The correlation coefficient for objective setting ( $r=0.519$ ,  $p<0.05$ ), performance feedback ( $r=0.782$ ,  $p<0.05$ ), performance reward ( $r=0.676$ ,  $p<0.05$ ), and Interpersonal relationship ( $r=0.533$ ,  $p<0.05$ ), shows that there is positive and significant correlation with employee productivity.

Meanwhile, the most correlated variable to the employee performance is performance feedback. The correlation,  $r=0.782$ , indicates that employees appreciation on the performance feedback for their performance has strong relation with their productivity.

In this regard, the study shows that the supervisors do not provide sufficient information and constructive feedback for employees. Even though they feel that the performance rating is more concentrated on their work performance, Employees responded that they are not welcomed to make discussion on their performance results with their supervisors.

In the study, along with the performance feedback factor, the agreement level that exceeds the moderate level, shows that employees prefer if the rating could be held individually, one-to-one with the supervisor. They believe that this approach can insist the raters to keep performance recordings throughout the performance time and also gives them opportunity for discussion so that the evaluation could be more objective.

In the study, the moderate level of agreement for the interpersonal relationship shows that supervisors do not reflect their personal liking or disliking in the process of performance appraisal. Hence, overall performance appraisal system of the corporation is appreciated in terms of biasness and discrimination.

Looking at the aggregate perception result, in regard to setting their objective, the study shows that, the view of the employees is appreciated at a significantly above the moderate level. Employees are allowed to prepare their individual plan cascading from their section goals. Thus, they believe that they participate in setting their objective and its impact on their performance is very significant.

According to the finding, the aggregate level which is above the moderate level shows that employees appreciate the current performance reward system of the corporation and they

also feel that as it enforces them to perform more in increasing the productivity of the corporation.

This study identified the overall aggregate level of agreement to the stated factors are significantly above the average level, indicating employees appreciate the corporation on the current performance appraisal practice contribution to their productivity improvement in relation to the factors in question.

In general, as it is stated in the empirical literature part, what Oroma Chimo's (2015) and Yohannes S. (2016) put, from the performance management components, performance appraisal is a significant component in affecting performance outputs. From the other factors, as it is indicated in the research made by research Hamid Abdurehim Haile (2017), performance feedback consists the highest degree of impact on productivity of employees. Next to the performance feedback, the other three factors; performance reward, interpersonal relationship, and setting objective has also important level of impact on employee productivity.

## **5.2. Conclusion**

The general objective of the study was to examine the effect of performance appraisal on employee productivity in case of Federal Housing Corporation. According to the findings of this research, it is reasonable to conclude that performance appraisal has significant impact on employee productivity in FHC. It is seen that there is positive relation between components of employee appraisal; setting objective, performance feedback, performance reward and interpersonal relationship with employee productivity.

The study shows the degree of relationship between the independent variables (performance appraisal components) and dependent variables (employee productivity). Based on the correlation analysis result, it is concluded that performance feedback of performance appraisals have a positive and a very strong relationship with employee productivity compared to the other factors correlation result. The other factors, setting objective, performance reward and interpersonal relationship also have a positive and significant relationship with employee productivity.

Based on the regression coefficient result, the researcher has reached on a conclusion that performance feedback has a larger effect on employee productivity than the other factors. Therefore, based on the overall analysis, the researcher concluded that performance feedback is the most influential factor and consequently affects directly the effectiveness of employee productivity. In addition, setting objective, performance reward and interpersonal relationship have significant positive relationship with the effectiveness of employee productivity.

### **5.3. Recommendations**

From the research findings, it is confirmed that there is strong need to enhance the existing performance appraisal practice of FHC. The researcher believed that the findings of the study have significant implications in the case organization, Federal Housing Corporation. Therefore, aligned with the above conclusions, the researcher proposed the following recommendations which help to improve employee productivity.

1. Performance feedback has significant effect on enhancing employee productivity since it gives employees a direction to meet their target. This can be achieved if employees are provided with sufficient information on their performance and are welcomed to discuss on the issue. Therefore, the corporation should give due attention for this issue and always arrange special training programs to the supervisors that focus on the importance of timely given constructive feedback on employee's productivity.
2. If employee rating is conducted in the presence of the subordinate, the result would be more real as the base will be performance record of the employee kept throughout the performance period. Besides, it gives chance to the subordinate to openly discuss on his/her strengths and weakness in the face-to-face session. So, on top of the above recommendation, the corporation has to incorporate one-to-one (face-to-face) rating approach in its existing performance appraisal practice, where the two parties come up in "bilateral" way.
3. Despite the fact that there are performance differences among employees, some respondents showed their discontent since they felt that the rater's leniency error is discouraging the higher performer employees which in turn affect productivity of the corporation. Thus, the corporation should always refresh the supervisors so as to

conduct objective evaluation and avoid leniency errors. In the process the raters has to avoid their fear and conduct the evaluation based on what the employee has achieved.

4. Even if the reward system in the corporation is appreciated by majority of the employees, the fact that the incentive granted without differences in performance result becomes source of complaints. It is discouraging the best performers. So, the corporation has to revise the collective agreement signed between the labor union so that every employee can be motivated based on its actual performance rather than applying on the salary grade.
5. In the study, setting individual target prior to the appraisal period is appreciated. The concern of the corporation on setting objective prior to the appraisal period alerts its employees to have the clear idea of their objective as well as that of the corporation. Therefore, the corporation should maintain the participation of its employees in preparing their individual targets which in turn helps to conduct transparent performance rating, where everyone is evaluated based on the results obtained.
6. According to the study, establishing bias-free interpersonal relationship between the supervisor and the supervisee also received an important contribution to effectiveness of employee's overall performance. Therefore, the corporation should work in this aspect so that supervisors need to avoid their personal liking or disliking relationship with their subordinates in the time of performance appraisal.
7. From the study finding, it is learned that the performance appraisal aspect of performance management, setting objective, performance feedback, performance reward and interpersonal relationship between the supervisor and the employee have positive and strong influence on employee productivity. Hence, the corporation should give them more attention to improve employee productivity.

#### **5.4. Suggestion for additional study**

As the results of this research are drawn only from a single organization, Federal Housing Corporation, the result of the study may not be well applicable in other organizations. These are beyond the scope of this research, and could be addressed by other research. Therefore, further studies can be conducted on what factors that ensure the effectiveness

of employee productivity.

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## APPENDIXES

**Research Questionnaire**  
**St. Mary University**  
**School of Graduate Studies, MBA Program**

Dear respondents, I am an MBA student at St. Mary university and I have formulated the questions in the following questionnaire with regard to the topic of study. The questionnaire has been designed to gather data on the effect of performance appraisal practices on employee's productivity of Federal Housing Corporation. The data collected shall be used only for academic purpose and thus does not affects you in any case. So, your genuine, frank and timely response is vital for successfulness of the study.

Your response will be kept absolutely confidential. Name or any addresses are not required on this questionnaire. Therefore, I kindly request your kind cooperation in answering the questions by giving attention.

### Part I. Demographic Profile

Please tick (v) in the following Box.

1. Gender : Male  Female
2. Age : 18-29  30-39  40-49  50 and above
3. Marital status : single  Married
4. Educational Qualification :  
Level/Diploma  First Degree  Master's Degree
5. Work Experience in the Corporation: less than 1 year  1-5 years  5-10 years  10-15 years  15-20 years  greater than 20 years
6. Position status : Management  Non-Management

**Part II – General Questions on the corporation’s performance appraisal system.**

Please indicate your rate of agreement by ticking appropriately on the following a five point Likert scale (1-5), where 1= strongly disagree, 2= disagree, 3=neutral, 4=agree, and 5=strongly agree.

No.	Questions	Grades				
	Questions related to Setting Objective	1	2	3	4	5
1	I participate in the setting of my goals/targets prior to the performance period.					
2	I understand the importance of my goals/targets in relation to the overall objective of the corporation.					
3	The existing Performance standards in my corporation are clearly set and easily understandable.					
4	My supervisor provides me with clear direction to set my plan and improve my performance.					
5	The setting of objectives/goals has a positive impact on the overall performance of an employee within an organization.					

No.	Questions	Grades				
	Questions related to Performance Feedback	1	2	3	4	5
6	My supervisor always rates me based on my performance results.					
7	I prefer if performance rating is conducted in a way that the supervisor and the supervisee sit in a table with open confrontation.					
8	My supervisor hesitates to provide me sufficient information and constructive feedback to my performance.					
9	My supervisor is not voluntary to give me chance for discussion up on my result.					
10	If I am given performance feedback, it always helps me to					

	improve my productivity.					
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No.	Questions	Grades				
	Questions related to Performance Reward	1	2	3	4	5
11	The performance evaluation system in the corporation helps me to improve my job performance.					
12	In the corporation performance appraisal is directly linked to performance reward system.					
13	In the corporation performance evaluation is used to determine at least for one of these incentives. (Salary Increment, Bonus, Promotion, House Assignment, Training, Demotion, or Transfer)					
14	The existence of performance reward for best work, has given me an opportunity to work beyond the requirements of my job.					
15	If my performance is recognized in any way it will definitely has positive effect on my future performance.					

No.	Questions	Grades				
	Questions related to Interpersonal relationship	1	2	3	4	5
16	My supervisor take my performance throughout the evaluation period basing on the delivered results I submit than the relations I have with him/her.					
17	My supervisor complete the performance appraisals reflecting his/she personal like or dislike towards me.					
18	Measuring employee's contribution to the job rather than employee's relationship will be more effective on the improvement of employee Productivity.					
19	My supervisor always rates me without any bias on					

	discriminating factors.					
20	The appraisal system exists in FHC is fair enough in terms of procedures.					

No.	Questions	Grades				
	Questions related to Employee Productivity	1	2	3	4	5
21	The production and/or the service provided by the corporation is mostly cost-effective.					
22	In the corporation, the products and/or the services given are with set quality standard.					
23	The corporation's management system encourages timely delivery of works.					

### Interview Questions

1. In the corporation what type of performance evaluation method is used?
2. Have you encountered any difficult in carrying out performance appraisal?
3. Do you think that performance appraisal system implemented in the corporation is effective and efficient? Why?
4. What is the purpose of appraisal system contributes to employee's performance development?
5. Do you think that the corporation's performance appraisal system has effect on employee's productivity? How?
6. What is your overall perception on the performance appraisal held in the corporation?
7. Do you have any idea to how the implementation of PA system could be improved?

Thank you very much!





