



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

**FACTORS AFFECTING THE EFFECTIVENESS OF
PERFORMANCE APPRIASIAL SYSTEM IN COMERCIAL BANK
OF ETHIOPIA**

**By
Abel kahsay**

**JAN, 2023
ADDIS ABABA, ETHIOPIA**

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

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DECLARATION

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

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Jan, 2023

ENDORSEMENT

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

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Jan, 2023

ACKNOWLEDGMENTS

First and for most, I would like to give my glory and praise to the Almighty GOD for his invaluable cares and supports throughout the course of my life and helped me since the inception of my education to its completion.

I'm grateful to appreciate my Advisor Shoa Jemal (Asst Prof) who has taken all the trouble with me while I was preparing the paper. Especially, his valuable and prompt advice, his tolerance guidance and useful criticisms throughout the course in preparing the paper, constructive corrections and insightful comments, suggestions and encouragement are highly appreciated.

I am also thankful to my family especially to my wife Betelhem Awuraris. I am thankful to my friends who have helped and supported me to prepare this paper. Also I would like to appreciate all the support I received from colleges and respondents of Commercial Bank of Ethiopia employees who have participated in clarifying issues, completing the questioner, and also facilitating in the process. Great appreciation is also extended to all those who helped me while conducting the study

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LIST OF ACRONYMS

CBE-----Commercial Bank of Ethiopia

HRD-----Human Resource Development

HRM-----Human Resource Management

IHRIM ----- International Association for Human Resource Information
Management

ISRJ-----Indian Streams Research Journal

PAS-----Performance Appraisal System

PM-----Performance Management

SA-----Strongly Agree

SD-----Strongly Disagree

SPSS-----Statistical Package for Social Science

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ABSTRACT

The major objective of this study was to investigate the factors affecting the effectiveness of the current employee performance appraisal system. As result, its effectiveness has been determined by selecting five major effectiveness variables. This research has a descriptive nature which describes the existing phenomenon as it exists. The population for the study was 14,436 and a sample size of 389 respondents was selected. Questionnaire and interview were used as an instrument to collect primary data for this study. Stratified random sampling was used as sampling technique for the study. The data analyzed with descriptive and inferential analysis, and the result presented with tables and charts. The findings shows that performance appraisal planning and performance standard as the significant and key factor which affect the effectiveness of performance appraisal and should be focused by the human resource managers to improve on overall organizational objectives. Furthermore to the findings, level of trust and level of communication is not as significant to impact on the effectiveness of performance appraisal. From the theoretical perspective, this study helped to identify the effect of performance appraisal planning, level of trust, perceived fairness and level of communication on the effectiveness of performance appraisal. Hence, it was recommended that the organization should revisit its employee performance appraisal system and take corrective actions. For instance, alignment of the appraisal system with organization's objective, reward policy and development objectives should be maintained. Moreover, the organization also have to work a lot on the identified effectiveness variables;(level of trust, level of communication, performance standard, performance planning, and perceived fairness) to enhance effectiveness of the current performance appraisal system. Likewise, the organization have to give emphasis for employees' participation in appraisal related matters.

Key words: Performance Appraisal, Effectiveness, performance objective, performance standard, Communication

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Performance appraisal (PA) plays a central role in managing human resources in organizations (e.g., Boswell and Boudreau, 2002; Cardy and Dobbins, 1994; Judge and Ferris, 1993). The term performance appraisal (or performance evaluation) refers to the methods and processes used by organizations to assess the level of performance of their employees. This process usually includes measuring employees' performance and providing them with feedback regarding the level and quality of their performance (DeNisi and Pritchard, 2006).

The main goal of the PA in organizations is to improve employee performance (DeNisi and Pritchard, 2006; Murphy and Cleveland, 1991). This goal could be achieved through three possible mechanisms the information provided by the PA can be used for administrative decisions linking the evaluated performance to organizational rewards or punishments such as a pay raise, promotion, or discharge (Cleveland et al., 1989; Landy and Farr, 1980; Raynes, Gerhart, & Parks, 2005)the PA process involves providing performance feedback (i.e., information regarding the level of performance) to the employees who were evaluated, allowing them to adjust their performance strategies to match the desired performance (e.g., Erez, 1977; Kluger and DeNisi, 1996; Locke and Latham, 2002); and the PA is a process that raises employee awareness to the fact that they are being measured. As has been shown since the Hawthorne studies (Roethlisberger and Dickson, 1939) and is expressed in the aphorism "what gets measured gets done," the mere fact of knowing that one is being observed or measured increases performance and fosters cooperative behavior (Bateson et al., 2006; Haley and Fessler, 2005; Keller and Pfattheicher, 2011).

Basically, the performance of an employee will be good, if the employee has high skills, willingness to work, a decent reward / wage and has a hope for the future Al Rashdi (2020). The role of the appraisal is used to determine the extent to which the company's goals have been achieved within the time or period that has been determined by the company. Employee performance is influenced by several factors like organizational trust Estlund (2019).

Important decisions that rely on performance appraisal remain questionable, which included decision on merit pay or compensation system, where employees who get higher merit rate will get higher rewards in terms of salary pay (DeNisi & Murphy, 2017). In each business organization, especially in-service industry, intellectual property is the main asset to run functional activities in the organization. This means that the performance of the employees poses as an important compound in achieving organizational goals. Hence, performance appraisal becomes a critical tool in motivating employees to be more productive and to ensure that the employees' outputs are aligned with the organizational objectives (Gichuhi et al., 2013). A critical evaluation on the outcome of performance appraisal may disclose the need for rewards, training, development and counseling among employees.

In summary, it can be concluded that performance appraisal systems become useless if they do not elicit positive reactions among raters and ratees (Tziner and Kopelman, 2002). Generally, this mainly deals with the performance appraisal system being accepted because it is perceived as being distributional and procedural fair and being a valid measure for the position at hand. Thus, in recognition of the large amounts of time and money that need to be invested to develop and implement an appraisal system, an ineffective appraisal system would be a severe threat and loss of resources to an organization. On basis of these facts it seems important for each organization to regularly check if their performance appraisal is perceived as intended and if users still support system and process.

Commercial bank of Ethiopia is the largest financial institute in Ethiopia. The organization create many job opportunities for many people in the country. It has more than 37,000 permanent employees working under the organization. In order to manage the performance and motivate all these employees, the organization need to properly develop and effectively implement performance appraisal system to effectively manage the performance of employee's in order to sustain the organization's performance. Effective PAS helps the organization to achieve its goals by developing productive and motivated employees. The bank has currently initiated the institutionalization of management tool which is called" Balanced score-card", which would enable it to formulate and implement its strategy and to track its performance (Commercial Bank of Ethiopia semiannual report of January, 2020).

1.2 Statement of the problem

Performance appraisal is an essential tool which is being used widely in all organizations especially in different banking sectors of Ethiopia which own massive amount of diversified workforces. Organizational performance is cumulative result of the performance of all employees in the organization. This being the truth, employee performance has to be properly appraised and coached to ensure that it is contributing toward achieving organizational goals.

However, not all performance appraisal is being carried out effectively in these organizations. The problem rises with it has been performed as a top-down and complex system owned by HR department rather than by the managers. As the preliminary study of ten branch managers/supervisors and fifteen employees indicated that, there were no developmental decision had taken after appraisal; branch managers had lack of knowledge and skill in order to provide constructive and important feedback for future performance; lack of awareness for both employees and managers about the uses of appraisal result; even though there were HR policies and procedures most employees and some managers had vague about the standard used to measure the performance of employees; and all in all the appraisal result didn't link for any motivational decisions even though it could be conducted at a regular interval. The problem had been seen after the pliminary interview of respondents in different Ethiopian organizations.

Many studies had been conducted about performance appraisal system .As per the study cited on (Belete G. et.al, 2014) Performance appraisal system has many or multidimensional problems in Ethiopian institutions context; there is no written policy about the performance appraisal system and the objective of performance appraisal & there is no standard set to which the performance appraisal result is to be compared with it. Again there is no training given for both appraisers and apprisees about how to conduct performance appraisal and its objective. According to another research findings, most institutions have not been using the performance appraisal procedures and standards. This is supported by no employee has been fired and punished or taking corrective measure in relation to performance related problems Meseret Yazachew (2007, p. 77). . The current PAS Possess Certain Problem and these Problems could be a possible cause of much Dissatisfaction based on HR transaction processes Survey 2021, in CBE, the employees' motivation towards performance appraisal systems and its practice is found at low stage, the

primary result is that the PAS process that often take place without the participation and engagement of employee.

The number of PAS studies that are undertaken in related to banks jump to points like the effect of performance appraisal system on employee motivation and jump the studding points like the factors affecting the effectiveness of performance appraisal system in CBE. Hence, to the best of the researcher's knowledge, there is a knowledge gap to show a clear cut on the factors affecting the effectiveness of performance Appraisal system on both Managerial and non-Managerial employees.

This research details the factors that can affect the effectiveness of performance appraisal system of commercial bank of Ethiopia and which of these factors generate greater impact in degrading the effectiveness of performance appraisal. In view of the fast-changing environment of today's world especially in the banking industries, performance appraisal is said to be a tool to synchronize employees' performance with current newly invented fast-growing number banks in Ethiopia. Therefore, it is important to conduct this research to evaluate effectiveness of performance appraisal system existed in CBE and to examine the factors affecting the effectiveness of employee appraisal which are detailed as the effect of performance appraisal process, level of trust, perceived fairness and level of communication implemented towards the effectiveness of performance appraisal.

1.3 Research Questions

This section deals with the formulation of the research question that helps to achieve the objective of the study. They are

- What is the effect of performance appraisal planning towards the effectiveness of performance appraisal system in CBE?
- To what extent performance standard affect the effectiveness of PAS of the CBE?
- What is the effect of perceived fairness towards the effectiveness of performance appraisal system in CBE?
- What is the effect of clear communication towards the effectiveness of performance appraisal system in CBE?
- What is the effect of Level of trust towards the effectiveness of performance appraisal system in CBE?

1.4 Objectives of the study

1.4.1 General objective

- The general objective of the study is to investigate the factors affecting the effectiveness of performance appraisal system in Commercial bank of Ethiopia.

1.4.2 Specific objectives

- To examine effect of performance appraisal planning towards the effectiveness of performance appraisal system in CBE.
- To examine the extent to which performance standard affect the effectiveness of PAS of the CBE
- To examine the effect of perceived fairness towards the effectiveness of performance appraisal system in CBE.
- To examine the effect of clear communication towards the effectiveness of performance appraisal in CBE.
- To examine the effect of Level of trust towards the effectiveness of performance appraisal system in CBE.

1.5 Significance of the Study

In this research the findings can contribute to the bank by providing information, about the factors that significantly affect the effectiveness of performance appraisal system of the company and how the performance appraisal system is for enhancing the employees' performance of the organization as well as enhance their motivation at the workplace. It also gives insight about the effect of the existing performance appraisal system on employee's performance, so that the bank can take appropriate action to solve the current problem. The study also provides relevant information for concerned body at various levels of management, human resource department and labor unions, to understand the importance of effective performance appraisal system and its effect on employee performance. In view of this, performance appraisal act as an essential platform to notify CBE employees the required standard of quality which able to meet customers' demands and eventually help the to achieve its objectives.

This study would be useful to academicians and researchers who might be interested in pursuing research in the same area. The study will help them understand the factors affecting the appraisal

system on employee performance in the banking sector. Additionally this study would help the researcher to acquire knowledge and experience of doing a study and learning about the relation of performance appraisal system and employee performance.

1.6 Scope of the study

Even if it is very essential and necessary to conduct a research on effect of performance appraisal on banks in the country level, it is limited to Addis Ababa areas due to inconvenience of the environment and to come up with precise data. Therefore, geographically, the study was delimited to the financial service of the banking sector on Commercial Bank of Ethiopia, under Addis Ababa city branches, head office and districts only due to the homogeneity of service provision, policy formulation and circulation and human resource strategy implementation of the bank over its all branches in the country. Additionally the research didn't deal about other factors that might hinder the effectiveness of PAS like Equitable Treatment and others. Some of the most important limitations of this research were; some staffs are un-willing to fill the questioner properly, lack of time to utilize maximum effort due to other work pressure, the researcher also faced financial limitation to conduct comprehensive and detail study of performance management system in all branch of CBE. This research is also delimited to the data collection tools used. There are data collection tools such as questionnaire, interview, observation and experiment. However, the researcher employed only questionnaires and interview data collection tools for this study due to time constraint and other challenges

1.7 Limitation of the study

One of the main limitations of the study is using sampling mechanism. The sample size will be limited, and, thereby, could not take into account all the employees in the organization into the study. The study uses simple random sampling for selecting the respondents among the branch employees and managers who work in Addis Ababa district's branches. It omits the attitudes and perceptions getting from the remaining employees who don't select as a sample work in head office and other districts about the effectiveness of performance appraisal system of CBE. This leads generalize the findings based on the response of selected respondents answer but it may vary the findings if the research uses all population.

1.8 Definition of key Terms

- Performance management -is a strategic and integrated approach to delivering sustained success to organizations by improving the performance of the people. (Baron and Armstrong, 1998).
- Performance appraisal system refers evaluating performance to encourage employee motivation and performance and to provide information to be used in managerial decision making (Grote, 2002).
- Human resource management is defined as a strategic and coherent approach to the management of an organization's employees which is the most valued assets (Armstrong, 2006).

1.9 Organization of the Study

The study comprises five chapters. Chapter one discusses the background, problem statement, scope, significance, and objectives for undertaking this research project. Chapter Two looks at existing literature related to the study to gain an understanding of the research topic. Chapter Three presents the research methodology that the researcher used to undertake the study. Chapter Four comprises the findings and discussions of the findings to the study. Chapter five summarize the findings of the study and also make recommendations that would contribute to solving the problem raised, as well as a recommendation for further study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Performance Appraisal

Performance can be defined as

“What is expected to be delivered by an individual or a set of individuals within a timeframe?”

What is expected to be delivered could be stated in terms of results or efforts, tasks and quality, with specification of conditions under which it is to be delivered” (Kumari & Malhotra, 2012, p.78).

Armstrong (2006) defined Performance Appraisal as the formal assessment and rating of individuals by their managers at, usually, an annual review meeting. While The Chartered Institute of Professional Development (CIPD) have a more comprehensive and in-depth definition which argues that Performance Appraisal is an opportunity for individual employees and those concerned with their performance, typically line managers, to engage in a dialogue about their performance and development, as well as the support required from the manager” (CIPD, 2013).

Performance appraisal is not just about rating employees, Meenakshi (2012) identified that organizations carry out Performance Appraisal as a basis for administrative decisions such as promotion, allocation of financial rewards, employee development and identification of training needs. „Appraisal is preceded by establishing general objectives or a description for the job, identifying specific job expectations, providing feedback and, when necessary, coaching. (Hillman, Schwandt & Bartz, 1990).

Fletcher (2004) believes that the general aims of Performance Appraisal also include Motivating staff, Succession planning and identifying potential, promoting manager subordinate dialogue and formal assessment of unsatisfactory performance. However, Khan (2007) states that the fundamental objective of performance appraisal is to facilitate management in carrying out administrative decisions relating to promotions, firings, layoffs and pay increases. From carrying out the performance appraisal, management then have to make choices in Relation to retention, future assignments and training and developmental needs (Hillman et al, 1990).

According to Obisi (2011), „Organizational performance and its resultant efficiency and effectiveness can only be achieved when individuals are continuously appraised and evaluated. This explains why almost every organization carries out some form of performance appraisal either on its own or as part of their performance management system“.

2.1.1. The Historical Emergence of PAS

Performance Appraisal became a widely used management tool in businesses around the 1980“s. Its modern uses had previously been restricted to Army Officers and Senior Management“ (Taylor, 2005). However appraisal has been present throughout history and has advanced significantly over time.

Some of the earliest evidence of Performance Appraisal was seen in the 3rd century when a Chinese philosopher Sin Yu criticized a biased rater of the Wei Dynasty on the grounds that the Imperial Rater of Nine Grades rarely rates men by their merits but always rates them according to his likes and dislikes (Patten, 1977). Appraisal was seen further on, in 1648 when it was stated that the Dublin Evening Post evaluated legislators using a rating scale based on personal qualities (Hackett, cited in Wiese and Buckley, 1998). Appraisal then became a more formal process, firstly in the 1800“s when a General in the US Army submitted an assessment of his soldiers to the War Department. The Army General used a global rating, which defined his men as for example „a good-natured man“ or „a knave despised by all“ (Bellows and Estep, 1954).

The first recorded appraisal system in industry was by Robert Owen in New Lanark Mills, Scotland around 1800. He used character books and blocks to rate staff. The character book recorded each worker“s daily report. The blocks were colored differently on every side to represent an assessment of the worker rating them from strong to weak. These blocks were then displayed in the employee“s workplace. Owen was happy with the how the blocks improved the workers behavior (Cardy & Dobbins, 1994).

Following the success of the appraisal system used in the Armed Forces, senior management of large US corporations wanted to test this technique within their organizations, and so hired many of these people who were associated with the practice used in the Army. The tools for rating evolved over time from Global Rating towards Man-to-Man Rating and then to Trait based Rating. These appraisal tools tended to exclude top management and also used the same forms for all workers regardless of skills and duties. They tended to focus on past actions instead of future goals

and were always conducted by the supervisor with little input from the employee (Wiese & Buckley, 1998). Because of this a change was brought about in the tools used and consequently the critical incident and forced choice methods were introduced. These methods were more advanced and substantive than previous approaches, but their intricacy meant that they are not readily used in today's world (Flanagan, 1954).

The popularity of performance appraisal in an industry setting was growing and by the early 1950s, 61 percent of organizations carried out performance appraisals frequently, compared to only 15 percent immediately after the Second World War (Spriegel, 1962). Smith and Kendall (1963) created the Behaviorally Anchored Rating Scales (BARS) hypothesized to be superior to alternative evaluation methods in several. This replaced numerical or adjective ratings used in the graphic or trait rating scales, with behavioral examples of actual work behaviors". BARS meant supervisors could rate employees on observable behavioral elements, rather than on a scale. The major advantage of such measures is that the evaluator has to make fewer inferences about the employee. The evaluator is cast more in the role of observer and less in the role of judge (Schwab, Heneman, & DeCotiis, 1975). „Numerous spin-offs to BARS have been developed since. The contribution of these developments has been an emphasis on the behavioral bases of performance ratings“ (Wiese & Buckley, 1998).

One of the most influential events in the evolution of performance appraisal was the legal requirements that changed how appraisals could be carried out. The enactment of the 1964 Civil Rights Act in the United States, which prohibited administrative action on the basis of color, religious beliefs, sex, etc., led to a legal use for Performance Appraisal. This legal constraint was the final blow to subjective, trait based approaches (Banner & Cooke, 1984). This meant that the use of personality traits in Performance Appraisal and the links between appraisal and human resource consequences had become strictly regulated. This change has played an enormous part in the shift towards Performance Appraisals as they are now, where there are numerous ethical concerns to take into consideration.

2.1.2. Performance Appraisal Today

In recent years, performance appraisals have been used in organizations for numerous reasons, as opposed to the historical method it was used for, making administrative decisions. According to Cleveland, Murphy & Williams (1989) there are four main uses for Performance Appraisal in

organizations today. These are Between Individual Comparisons, Within Individuals Comparisons, Systems Maintenance and Documentation.

Between individuals relates to comparison of individuals in terms of performance, Within Individuals concentrates on identifying and developing individuals strengths and weaknesses. Systems Maintenance can mean using Performance Appraisal as a source to link company procedures and strategy with the performance of employees and the goals that they have achieved and are working toward. Linking Performance Appraisal to the business goals of the company has been seen as an innovative way of focusing employees' actions to the priorities of the business. The purpose of Documentation is the use of performance appraisal to document or justify personnel decisions and ensure they are meeting legal requirements (Cleveland et al, 1989; Wiese & Buckley, 1998).

Throughout the vast amount of journal articles and research on performance appraisal, there is a substantial view that while performance appraisal seems like a great tool and should be of huge benefit to every organization, they can be moderately ineffective and so have taken a lot of criticism. Lawler (2012) discusses how a lot of literature poses the idea of dismissing performance appraisal completely, but he believes that Performance Appraisal is a vital procedure for effective talent management. He recommends that the way forward for Performance Appraisal is not to eliminate it but to work on making it an effective tool. „The key is to make them part of a complete performance management system, which includes goal setting, development, compensation actions, performance feedback and a goals based appraisal of performance“ (Lawler, 2012).

2.1.3. Performance Appraisal and Performance Management

The majority of recent literature on Performance Appraisal states that it needs to be carried out as part of a whole Performance Management system and none solely on its own. Performance Management can be defined as a systematic process for improving organizational performance by developing the performance of individuals and teams (Armstrong, 2006). Walters (1995) defined Performance Management as the „process of directing and supporting employees to work as effectively and efficiently as possible in line with the needs of the organization“. Williams (2002) believes the notion of Performance Management is creating a shared vision of the aims and purpose of the organization, helping each individual employee to understand and recognize their part in

contributing to them, and thereby managing and improving the performance of both individuals and the organization.

Performance Appraisal plays a central role in Performance Management Systems; it is normally the vehicle behind which the organizational goals and objectives are translated into an individual's objective. It also remains the primary way of discussing and acting on the development of the individual (Fletcher, 2004). When a part of performance management, appraisal is much more tightly linked with the larger business environment. De Nisi and Griffen (2008, p.318) state that Performance management refers to „a general set of activities which are carried out by the organization to improve employee performance“. Although performance management is typically reliant on performance appraisals, performance management is a broader and more encompassing process and is the ultimate goal of performance appraisal activities (De Nisi & Griffen, 2008). Performance Management has been seen to be more successful and brings a lot of benefits to an organization.

Performance management systems are effective when they are based on goals that are jointly set and are driven by an organization's business strategy (Lawler, Benson & McDermott, 2012). Performance Appraisal from a social-psychological perspective as opposed to the traditional tool for measurement is becoming more popular, viewing Performance Appraisal as a communication and social process.

2.1.4. The Purpose of Performance Appraisal

According to Ivancevich (2004) and, Rao (2000), performance evaluation has many purposes; among them are:

- a. Development.** It can determine which employees need more training, and it can help evaluate the results of training programs. It helps the subordinate-supervisor counseling relationship, and it encourages supervisors to observe subordinates' behavior to help employees.
- b. Motivation.** It can encourage initiative, develop a sense of responsibility, and stimulate efforts to perform better. Robbins P. (2003) defined motivation as the process that account for an individual's intensity, direction, and persistence of effort toward attaining a goal.
- c. Human resources and employment planning.** It can serve as a valuable input to skills inventories and human resource planning.

d. Communications. It can serve as a basis for an ongoing discussion between superior and subordinate about a job-related matter. Through interaction and an efficient feedback process, the parties get to know each other better.

e. Legal Compliance. It can serve as a legally defensible reason for promotions, transfers, rewards, and discharges.

f. HRM research. It can be used to validate selection tools such as a testing program.

McGregor (1987) cited by Kumar (2005) grouped the objectives of performance appraisal in a number of ways: Administrative, Informative and Motivational.

- Administrative. Providing an orderly way of determining promotions, transfers and salary increases.
- Informative. Supplying data to management on the performance of subordinates and to the individual on his or her performance.
- Motivational. Creating a learning experience that motivates staff to develop themselves and improve their performance.

According to Stredwick (2005) there are two main purposes driving towards performance management. Firstly, the operational reasons (control, communication and effectiveness), which serve to lead and control. As organizations exist in an increasingly competitive environment, it becomes more and more important for employees to have clear guidance and direction towards the organization's aims and objectives. The performance management system sets out to communicate the link between an organization's mission and strategic direction and the required employee performance. The process can also be used as a form of strict control over employees. As can be observed; the list is long even additional points could be added. However, behind all these lies the notion those managers are interested to see if employees are performing as well as they can and also to assess the potential for growth (Kressler, 2003).

Most of the times performance appraisal is related with compensation level since both the employees and the employer want to assess whether the employees are fairly rewarded for the contracted services (Grote, 2002). The evaluation has to be on concrete or verifiable factors but some of the factors will be difficult to measure directly. Strebler (1997) as cited by Nyaoga (2010) clearly indicated that employee performance appraisal has become a key feature of an organization's drive towards competitive advantage.

Generally the above purpose of performance appraisal can be divided into two. The points related with compensation, promotion, demotion, layoffs, etc., could be termed as administrative purpose and the others which are forward looking like required training, identifying areas for growth, development planning, career planning, etc., can be called developmental purpose (Mathis and Jackson, 1997). The different purposes set to be achieved by the system demand a thorough thought to see whether such seemingly contradictory objectives could be achieved at all or fairly done. For this purpose one type of criteria or dimension will not be enough.

2.1.5 Effective Performance Appraisal System

Ensuring that the performance appraisal ties in with organizational goals is pivotal to the effectiveness of the appraisal. If the goals of the performance appraisal process are in contrast with the organizational goals, the resulting performance appraisal system could, in fact, be of harm to effective organizational functioning (Barrett, 1967).

Performance Appraisal is intended to gather crucial information and measurements about the actions of staff and the company's operations which are valuable to management for enhancing the employees' productivity, working conditions, their morale, and inner workings of the organization wholly (Rahman & Shah, 2012). „Effective managers recognize performance appraisal systems as a tool for managing, rather than a tool for measuring, subordinates. They may use performance appraisals to motivate, direct and develop subordinates“ (Wiese & Buckley, 1998, p244).

Having both the manager carrying out the appraisal and the employee setting goals mutually is crucial for the effectiveness of the performance appraisal. This can ensure that the employee will work harder to reach these goals as they participated in setting them initially. The degree of involvement of subordinates in the appraisal has been seen to be of benefit to the success of the system. Cawley et al (1998) proved that subordinate participation in the appraisal procedure is related to employee satisfaction and their acceptance of the performance appraisal system. Employee Participation is a key element of intrinsic motivational strategies that facilitate worker growth and development (Roberts, 2003). Folger (1987), as cited by Roberts (2003) stated that the participation of employees in the appraisal system gives employees a voice and empowers them to rebut ratings or feedback that they are unhappy with. Greater employee participation is known to create an atmosphere of cooperation, which encourages the development of a coaching

relationship, reducing tension, defensive behavior and rater – ratee conflict which could be caused by the appraisal (Jordan, 1990).

Pettijohn, Pettijohn, Taylor & Keillor (2001) identify participation and perceptions of fairness as integral to employees' perceptions of job satisfaction and organizational commitment. They conclude that Performance Appraisal Systems can be used to actually improve employees' levels of job satisfaction, organizational commitment, and work motivation.

On the same note, lack of effective performance appraisal system leads to an increased risk of litigation, there are several other detrimental outcomes of poorly implemented systems, including employee burnout and job dissatisfaction, damaged relationships, and increased turnover (Brown & Benson, 2005 ; Gabris & Ihrke, 2001). In addition, there is a large opportunity cost because poorly implemented systems waste time and resources, including time and money. To avoid such drawbacks in performance appraisal processes and ensure its effective implementation.

2.1.6. Benefits of Performance Appraisal

If undertaken properly, performance appraisal benefits both the employees and the organization a lot. For employees, it gives a chance to see their performance with others' point of view. It also results in position promotion and salary increment. It enables the organization to identify the actual skill gap of the individual being appraised and helps device proper training and development program and coaching service. Performance appraisals also give employees and managers a useful tool to aid in employee development and employee control. According to Reza (1997), performance appraisal has the following major benefits.

1. Motivation and Satisfaction Performance appraisal can have a profound effect on levels of employee motivation and satisfaction - for better as well as for worse. Performance appraisal provides employees with recognition for their work efforts. The power of social recognition as an incentive has been long noted.

2. Training and Development Performance appraisal offers an excellent opportunity - perhaps the best that will ever occur - for a supervisor and subordinate to recognize and agree upon individual training and development needs. From the point of view of the organization as a whole, consolidated appraisal data can form a picture of the overall demand for training. This data may be analyzed by variables such as sex, department, etc.
3. Recruitment and Induction Appraisal data can be used to monitor the success of the organization's recruitment and induction practices. By

following the yearly data related to new hires (and given sufficient numbers on which to base the analysis) it is possible to assess whether the general quality of the workforce is improving, staying steady, or declining.

4. Employee evaluation and control though often understated or even denied, evaluation is a legitimate and major objective of performance appraisal. But the need to evaluate or to judge is also an ongoing source of tension, since evaluative and developmental priorities appear to frequently clash. Yet at its most basic level, performance appraisal is the process of examining and evaluating the performance of an individual. On the other hand, Armstrong (2005), classified benefits of conducting performance appraisal in to three levels depending on the parties enjoying benefits of the system

2.1.8. Challenges of Performance Appraisal

The use of ratings and other techniques in PA assume that the human observer is reasonably objective and accurate but raters' memories are quite fallible and raters subscribe to their own sets of expectations about people, expectations that may or may not be valid. Despite the fact that a completely error-free PA is only an ideal we can aim for, with all actual appraisals falling short of this ideal, a number of factors that significantly impede objective appraisal have been isolated for discussion.

A. Bias

Bias is simply a personality-based tendency, either toward or against something. In the case of performance assessment, bias is toward or against an individual employee. All human beings have biases, but supervisors especially cannot afford to allow their biases to enter into their evaluation of subordinates in the firm (Kumbhar, 2011). This is very easy to say, but very difficult to do. Biases make the evaluation process subjective rather than objective, and certainly provide the opportunity for a lack of consistency in effect on different groups of employees (Ali, Mahdi and Malihe, 2012). So to overcome the bias problem, the appraiser needs to be objective and not let their feelings of liking or disliking the individual influence their assessment (Caruth and Humphreys, 2008).

B. Stereotyping

Stereotyping is mentally classifying a person into an affinity group, and then identifying the person as having the same assumed characteristics as the group (Afriyie, 2009). Though stereotyping is

almost always assumed to be negative, there are many incidents of positive stereotypes. However, regardless of whether the stereotype is positive or negative, making membership in a group, rather than explicitly identifying the characteristics of the individuals, creates the potential for significant error in evaluations (Holzer, 2007). Stereotyping can be avoided by getting to know each employee as an individual and objectively evaluating individual employees based on their actual performance (Denby, 2010).

2.2 Factors affecting Performance Appraisal system

2.2.1 Performance standard

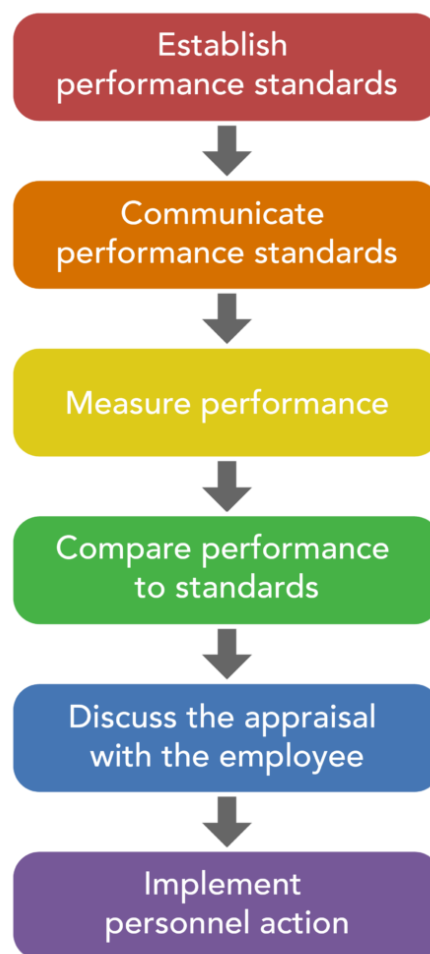


Figure 1 performance standard

Step 1: Establish performance standards

Performance standards are set to ensure achievement of departmental goals and objectives and the organizations overall strategy and objectives. Standards are based on the position, rather than an individual. In order to be clearly understood and perceived as objective, standards should adhere to the same rules that apply to goal-setting; that is, they should be “SMART:” specific, measurable, achievable, relevant and time bound.

Indiana University’s Human Resource department explains that “while a list of major job duties tells the employee what is to be done, performance standards provide the employee with specific performance expectations for each major duty.” Performance standards include both observable behaviors the how and the expected results that comprise satisfactory job performance.

Step 2: Communicate performance standards

In order to be effective, performance standards must be clearly communicated and understood to be expectations. Performance standards assume that an individual is competent, so initial and corrective training should be factored into the performance management process. If there is a specific training period after which an employee is assumed to be competent and performing to standards, that should be communicated as well.

Step 3: Measure performance

Performance that is expressed in numeric terms for example, cost, quantity, quality, timeliness is relatively easy to measure. Performance in the area of soft skills for example, communication, customer service and leadership—is more difficult to evaluate. DeCenzo, Robbins and Verhulst recommend using a variety of sources of information including personal observation, oral reports and written reports. They note, however, that what is measured is probably more critical than how an aspect is measured .the focus should be on measuring what matters rather than measuring what’s easy to measure.

Step 4: Compare actual performance to performance standards

In this step of the appraisal process, actual performance is compared to the performance standards. Documentation should highlight actions and results. For example, “Amir left confidential documents on the printer even after he had been warned to maintain control of confidential information.” Or “Amir’s process improvement recommendations saved the department \$3,500.”

Indiana University's Human Resource department identifies the following characteristics of effective documentation.

- Accurate
- Specific
- Consistent (covering the entire review period)
- Factual (not based on conjecture)
- Balanced, including instances of both positive and unsatisfactory performance
- In writing

Step 5: Discuss the appraisal with the employee

This is generally the step in the process that is the most difficult for managers and employees alike and it can be a challenge to manage emotions and expectations. Even when performance is strong, there can be differences of opinion on the next action. A significant difference of opinion regarding performance can create an emotionally-charged situation. If the manager is providing feedback and coaching on a regular basis, this shouldn't be the case. Related point: If an employee has consistently poor performance, the issue should be addressed corrective action taken in a timely manner and not deferred to an annual review. To identify and prepare for differences of opinion, management can ask employees to complete and submit a self-evaluation prior to the appraisal meeting. A key point to keep in mind is that the manager's ability to remain calm and civil will have a significant impact on the employee's confidence, motivation and future performance.

Step 6: Implement personnel action

The final step in the appraisal process is the discussion and/or implementation of any next steps: a reward of some sort a raise, promotion or coveted development opportunity or corrective action a performance plan or termination. Note, however, that corrective action that might help an employee achieve expectations shouldn't be tabled until the next formal appraisal. As performance gaps are identified, supervisors and managers should take the time to identify why performance is not meeting expectations and determine whether the employee can meet expectations with additional training and/or coaching. As mentioned above, if performance is such that termination

is warranted, that action should be taken in a timely manner as well. Ed Frauenheim,” Workforce Management” (July 20, 2009).

2.2.2 Performance Planning

Performance planning is a strategic process that ensures that an organization's goals are met by its employees. It involves setting specific, measurable, achievable, relevant, and time-bound goals for employees, and then creating a plan to help them meet those goals. Performance planning helps to ensure that employees are working towards the organization's goals, and that they have the tools and resources they need to be successful. It also allows organizations to track employee progress and identify areas where employees need additional support.

a) What are the benefits of Performance Planning?

One of the benefits of performance planning is that it allows employees and managers to identify goals and objectives that need to be accomplished in order for the employee to be successful. Additionally, performance planning can help to identify any gaps in the employee's skills or knowledge that may need to be addressed. Performance planning can also help to improve communication between employees and managers, and can help to ensure that employees are aware of the standards that are expected of them. Additionally, performance planning can help to identify areas in which employees need additional training or development. Finally, performance planning can help to document employee performance, which can be used as a basis for salary reviews or other types of performance-based evaluations.

b) Who uses Performance Planning?

Performance planning is a key process that is used by managers in organizations to ensure that they are able to meet the goals and objectives of the organization. It is also used to ensure that employees are able to meet the expectations of the organization and that they are able to improve their performance over time. The process of performance planning is used by managers to assess the performance of employees and to identify any areas where employees may need additional training or development in order to improve their performance.

c) How do you build a Performance Planning system?

There is no one perfect way to build a Performance Planning system, as the most effective system will be tailored to the specific needs of the organization and the employees. However, some key steps in creating a successful system include:

1. Establishing clear goals and objectives for the organization and individual employees.
2. Defining the key competencies that are needed to achieve the organization's goals.
3. Assessing the current levels of performance of employees against the defined competencies.
4. Setting specific performance goals for employees, aligned with the organization's goals.
5. Developing a plan of action for helping employees meet their performance goals.
6. Monitoring and assessing employee progress against performance goals on a regular basis.
7. Taking steps to adjust the plan as needed to ensure that employees continue to make progress.

A successful Performance Planning system is an important tool for helping organizations achieve their goals. By establishing clear goals and objectives, defining the key competencies needed to achieve those goals, and assessing the current levels of performance against those competencies, organizations can create a plan of action to help employees meet those goals. By monitoring and assessing employee progress, organizations can ensure that employees are making the necessary progress and can take steps to adjust the plan as needed. Jeffrey Pfeffer, "Low Grades for Performance Reviews,"(August 8, 2009).

2.2.3 Level of Trust

Performance appraisal accuracy often refers to accurate and trustable ratings which aim to avoid rating errors and biases. In the research done by Iqbal, Akbar and Budhwar (2015), found that there is a positive relationship between outcome of performance appraisal and level of trust between appraiser and appraisee. Level of trust of employee toward rates is essential component in determining effectiveness of performance appraisal (Brown, Gray, Mchardy, & Taylor, 2015). However, level of trust is mostly affected by the sense of subjectivity that embedded within the appraiser or respondent, where every human judgement is subjective no matter how objective the situation is (Low & Embi. 2012). Relationship and level of trust between employees and supervisors were found to have positive relationship towards performance appraisal in multinational corporations and influenced organizations' short-term profits (Maley & Moeller, 2014). Recent research also stated that employees who trusted their appraisers revealed more

information to their superiors and level of trust among employees and appraisers was among the factors that had impact on performance appraisal (Brown, O’Kane, Mazumdar & McCracken, 2018; Boon, Hartog & Lepak, 2019). The following hypothesis was put forwards.

2.2.4. Perceived Fairness of Performance Appraisal

Organizational justice is referred to employees’ perception on organizational processes and decisions and how these outcomes can influence their behaviors at work. Organizational justice is often relate closely to perceived fairness (Karam, et. al., 2019; Greenberg, 2004; Greenberg, 1997). Sudin (2011) stated that perceived fairness or organizational justice is crucial in performance appraisal process as it poses a huge impact on the effectiveness of performance appraisal where employees’ job satisfaction, motivation and organizational commitment are highly affected. This can be related to equity theory which stated that the perception of fairness is determined by the amount of efforts committed compared to the rewards or compensation they received (Kollmann, Stockmann, Kenbock, & Peschi, 2019; Peyton, 1994). For instance, employees will try to work on performance on low ratings only if they perceive the performance appraisal process was fair. Fairness is made up of three types of subjective perceptions which included distributive justice, procedural justice and interactional justice (Sudin, 2011). Distributive justice is perceived fairness of distributed rewards or resources (Hess & Ambrose, 2014). Here, perception of fairness of distribution will affect the behavior of the employee (Karam et al., 2019). For example, employees who received low salary increment will perceive this as unfair treatment and react negatively. Meanwhile, procedural justice is the perceived fairness employees had on the performance appraisal process which used to determine the outcome they received (Hess & Ambrose, 2014). Interactional justice is perceived degree to which one is treated with respect (Inoue, Tsutsumi, Eguchi, & Kawakami, 2019). Among the three forms of justice, distributive justice is highly related to employees’ satisfaction with outcomes (i.e. get promoted) and organizational commitment, as they perceived fairness when they think that they received outcomes that they deserved. On the other hand, procedural justice is highly linked to job satisfaction, level of trust, turnover rate and task performance as employees will put efforts to achieve the desired outcomes and were given explanation of why they received the given rates (Inoue et al., 2019). Employees’ perceived fairness has a direct impact on the effectiveness of performance appraisal that led to fair perception on performance appraisal system and eventually induces a positive impact on employees’ performance in the organization (Zohaib, 2014). The satisfied employees will lead to increase in

sense of organizational commitment which results in competitive organization performance (Karimi, Malik & Hussain, 2011). H3 was postulated as follows.

2.2.5 Clear Communication

Communication refers to the process by which information is conveyed and fully apprehend between two or more parties (McShane & Von Glinow, 2015). Effective communication is essential in an organization as employees work interdependently to support the daily operations. Indeed, communication is essential in conveying feedback in the event of conducting performance appraisal. An effective communication is in which it can transmit meaningful messages that encourages mutual understanding among the parties who involved in the process (Mishra, 2013). The first Communication Process Model by Shannon (1948) has laid the foundation for the later research in this area. The Communication Process Model is able to illustrate the key interpersonal characteristics of effective communication:

Communication in term of performance appraisal is a segment of performance appraisal process of sharing and transmitting appraisals information from appraiser (i.e. encoding message) to appraises (i.e. decoding message) either through face-to-face discussion or through communication gadgets (Ismail, Kithuru Mohamed & Rayee, 2016).

The context of employee evaluations takes on a somewhat different focus depending on whether one is appraising the performance of the kitchen staff, the nurses, medical technologists, the administration, or hospital volunteers. Communicating evaluation results to health institution employees can also be problematic because of the diversity of job scopes and responsibilities as well as their professional orientation and/or union affiliation. Therefore, this study hypothesizes that:

The PMAS: Guideline System and Reference Manual (2006) pointed out the following other factors that the system should positively reinforce.

- a) **Objectivity:** Assessments should be made against agreed, clearly stated targets.
- b) **Transparency:** There should be no “surprises”. Evaluations and decisions should be based on evidence drawn from well documented processes that can stand scrutiny.
- c) **Equitable Treatment:** All employees should be treated equally and must have equal and appropriate access to benefits, training and resources to achieve targets.

- d) Mutual Respect:** Discussions about performance should be conducted with due regard to accepted principles of courtesy, respect and an understanding of each other's roles and responsibilities.

By ensuring the proper application of the above requirements organizations should be able to build mutual trust among the different levels of the organizational structure.

2.3 Empirical Review

Performance appraisal sounds simple but researches tell us that it is commonly used in performance feedback and identify individual employee's strengths and weaknesses (Ruddin, 2005). For example, studies were done using a direct effects model to investigate communication openness based on different samples, such as perceptions of 229 workers of public listed companies in Klang Valley, Malaysia (Sudin, 2011) and perceptions of 133 employees of multinational companies in Malaysia (Darehzereshki, 2013). Outcomes of these studies found that perceived value of outcome and perceived fair treatment had increased when the appraisers able to clearly giving explanations about the appraisal system goals, policies and procedures, as well as adequately providing feedback in determining employee performance scores.

Also another research has broadly analyzed the impact of the social context of performance appraisals on employee reactions to these appraisals (Pichler, 2012). For instance, employees' satisfaction with the performance appraisal process as a whole, the performance appraisal feedback, or employees' evaluations of the perceived quality, justice, and fairness of the performance appraisal regime (Greenberg, 1986: Gupta & Kumar, 2013). Furthermore, employee participation in the performance appraisal process is positively related to the satisfaction with the performance appraisal system, perceived fairness, and acceptance of such a practice (Cawley et al., 1998).

Brown et al. (2010) analyze the relationship between performance appraisal quality measured by clarity, communication, trust, and fairness of the performance appraisal process and job satisfaction and commitment based on a sample of more than 2,300 Australian non-managerial employees of a large public sector organization. They find that employees who report a low performance appraisal quality (lowest levels of trust in supervisor, poor communication, and lack of clarity about expectations, perception of a less fair performance appraisal process) also report lower levels of job satisfaction and commitment.

Furthermore, (Cawley et al., 1998) found that clarity of performance expectations affected the motivation to a great extent. Feedback mechanism and open door policy affected motivation to a great extent. Integrity and fairness affected job performance and employees motivation to a great extent. In addition, distributive fairness affected job performance to a moderate extent. The study found that ideas and innovations, absenteeism/tardiness and timeliness had improved for the last five years. The study found that appraisal motivates staff by clarifying objectives and setting clear future objectives with provision for training and development needs to establish the performance objective. Communication provides employees with the chance of exercising a level of process control. Trust in supervisors is important for determining satisfaction with the appraisal system. Appraisals based on personal traits have little value for providing diagnostic feedback to employees or for designing training and development programs to ameliorate identified skill deficiencies.

Contemporary research studies have also linked performance appraisal to performance of employees as Resella, 2011 revealed that performance evaluation practices have a significant and positive impact on the performance of employees. Najeeb (2011) studied Performance Appraisal in Habib Bank Limited and concluded that transparent appraisal system is vital to an organization and the results of the appraisal affect the performance of any employee heavily.

Therefore, it is important to conduct this research to evaluate effectiveness of performance appraisal system existed in CBE and to examine the factors affecting the effectiveness of employee appraisal which are detailed as the effect of performance appraisal process, level of trust, perceived fairness and level of communication implemented towards the effectiveness of performance appraisal.

2.4 Conceptual framework

The conceptual framework indicates the crucial process, which is useful to show the direction of the study. The study shows the variables (level of trust, level of communication, performance standard, performance planning, and perceived fairness) lead the performance appraisal system to become effective if they implement in a correct manner. The following conceptual model will be used for this study

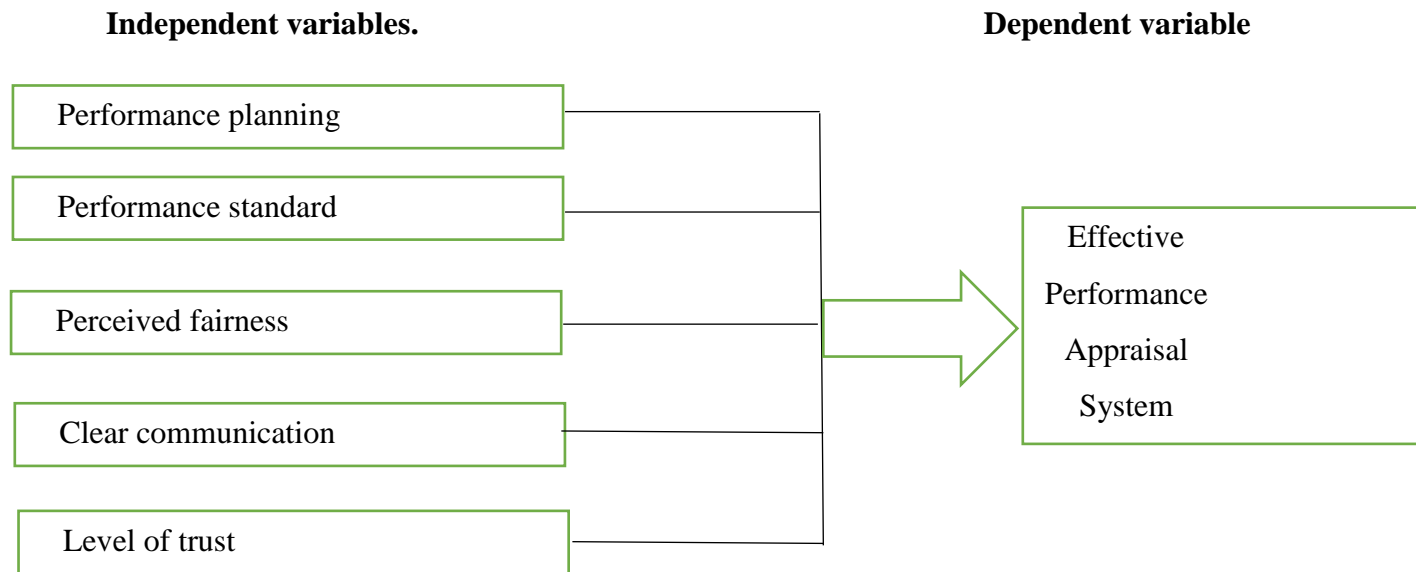


Figure 2 Factors affecting the Effectiveness of performance appraisal model (own survey)

2.5 Research hypothesis

H1: There is a significant positive effect between performance planning and Effectiveness of Performance Appraisal System.

H2: There is a significant positive effect between performance standard and Effectiveness of Performance Appraisal System

H3: There is a significant positive effect between level of trust and effectiveness of performance appraisal.

H4: There is a significant positive effect between level of Fairness and effectiveness of performance appraisal.

H5: there is a significant positive effect level of communication has positive effect on effectiveness of performance appraisal.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In fact, the research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data (Kothari, 2004). The study has used descriptive study that sets out to describe performance appraisal practice on commercial Banks. According to Kothari (2004), descriptive research includes surveys and fact-finding inquiries of different kinds. The major purpose of descriptive research is the description of the state of affairs as it exists at present. Descriptive research method allows describing the characteristics of specific individuals and groups. Data collected from respondent were analyzed and interpreted so as to arrive at meaningful findings. SPSS Version 16.0 was used to code and analyze the collected response from questionnaires. The participants of the study are employees of CBE working in different branches located in Addis Ababa and head office. The respondents were selected on the basis of a criterion which demands at least two years of service in the bank which is believed to give them enough exposure to the performance appraisal practice of the Bank.

3.2 Research Approach

Research approach is the general framework for the study that links, knowledge claims, strategies of enquiry and specific methods. The research approach implicitly reflects the researcher attitude as to how knowledge is constructed and also commands what method will be employed in the study. A research can be undertaken by adopting one of three research approaches – quantitative, qualitative or mixed. Quantitative research deals with numbers and statistics, while qualitative research deals with words and meanings. Quantitative methods allow you to systematically measure variables and test hypotheses whereas, qualitative methods allow you to explore concepts and experiences in more detail. To sum up, in order to achieve the research questions stated in the previous section, the researcher used both qualitative and quantitative approach (mixed approach) in collecting and analyzing data as will be discussed in the following section the core argument for a mixed methods approach is that the combination of both forms of data provides a better understanding

of a research problem than either quantitative or qualitative data by itself. The selection of one over the other approach for the conduct of the study is based on the research problem or issue or concern that needs to be addressed, the researchers own personal experience and the will and support of the audiences (Creswell, 2009).

3.3 Sources of Data

The data was collected by using two sources; the primary and secondary data sources.

Primary data: primary data were helpful to get original information from the respondents themselves to know their opinions, feelings, attitudes and perceptions towards a particular issue. Furthermore, to collect the primary data proper instruments like questionnaire was also employed. There are several methods of collecting primary data like observation, questionnaire, interview, and so on (Kothari, 2004). For this study, questionnaire and interview were used to collect the data. The primary data sources were by communicating the case to company's employees at different position.

Secondary Data: It includes data gathered from published and unpublished sources like books, journals, brochure, annual report of CBE, researches paper on similar studies and the internet.

3.4 Target Population

A population can be defined as all people or items (unit of analysis) with the characteristics that one wishes to study (Kothari, 2004). The target populations of this study are the permanent employees of CBE districts of Addis Ababa area; with the total number of more than 14,436 employees according to January 2022 report of the bank. CBE has thirty districts and in Ethiopia. Due to resource constraint, it is difficult to cover all these districts, and to keep the study manageable therefore, the study focuses only on eight districts under the new CBE structural establishments that located in Addis Ababa area based on purposive sampling due to the above stated constraints. Namely, Kirkos, Nifas Silk, Bole, Megenagna, Yeka, Arada, Merkato, Kolfie district and Head office organs. The total population that the researcher will carry on is numerically 14,436 who are all permanent employees in Addis Ababa including head office.

3.5 Sample Size and Sampling Techniques

3.5.1 Sample Size

According to Cooper and Schindler (2008), sample size is described as a smaller set of elements from the larger population. Mugenda (2003) argued that the choice of sample size is governed by the confidence you need to have in your data, level of certainty, the accuracy you require for any estimates made in your sample, the type of analysis you are going to undertake and finally the size of the total population from which your sample is drawn. The total population of this study is 14,436 permanent employees of currently working in Addis Ababa area branches, districts and head offices of the bank. The study was incorporated four branches under each district which was selected based on convenience and randomly distributed twenty-two (two for managerial and twenty for non-managerial) questionnaire for every selected branches. Due to time and resource constraint and to keep the study manageable the researcher limited to these branches with every district. Besides to this the degree of variability among branches in CBE is not significant and homogeneous and hence the sample size is expected to be the representative of the population. The sample Size designed by using the statistical formula developed by Yamane taro, (cited in Israel, 1992). Hence, the total sample size calculated using the formula is 389 and shared to each position based on the ratio of total population represented each position.

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

Where n is the sample size, N is the population size and e is the margin of error.

$$n = \frac{1}{1 + 1443(0.05)^2}$$

$$n = 389$$

Therefore a sample size of 389 will be select from a total population of 14436 employees. The sample size is sufficiently large enough to produce results among variables that are significantly different and it broadens the range of possible data and forms a better picture for analysis. The sample population is categorized in to two categories managerial and non-managerial which is to show the impact of PMS both category distribution is indicated the ratio of the total samples for employees of head office, districts (district office and branches) for both categories in Table 3.1

Table 1 sample distribution

Category(group) based on place	Category based on job	Number of employees	percentage	Sample size
Head office	Managerial	362	2.51	10
	Non-managerial	3260	22.58	88
Kirkos district	Managerial	177	1.23	5
	Non-managerial	1205	8.35	32
Nesaf Silk district	Managerial	209	1.45	6
	Non-managerial	1350	9.35	36
Bole district	Managerial	190	1.32	5
	Non-managerial	1123	7.78	30
Megenagna district	Managerial	171	1.18	5
	Non-managerial	936	6.48	25
Yeka district	Managerial	190	1.32	5
	Non-managerial	856	5.93	23
Arada district	Managerial	232	1.61	6
	Non-managerial	1355	9.39	37
Merkato district	Managerial	228	1.58	6
	Non-managerial	1232	8.53	33
Kolfie district	Managerial	253	1.75	7
	Non-managerial	1108	7.67	30
Total		14,436	100	389

Source: Own computation, 2022

3.5.2 Sampling Technique

The sampling method used in drawing samples from a population was driven by the objectives of the research activity. The sampling process was guided by the parameters in the population in line with specific objectives of the study (Cooper and Schindler, 2011). The study adopted Stratified

sampling, and simple random sampling to ensure that every one had an equal chance of being sampled, and also to ensure that different age groups and level of work experience will be represented. Hence, the researcher stratified the employees based on their job position to have confidential information by giving equal chance of representation from managerial and non-managerial and distribute questionnaire based on convenience to the researcher in selecting the branches where required employees are existing on and the researcher used stratified random sampling technique on selecting the respondents on both categories to have equal chance of representation for every demography.

3.6 Methods of data collection

Primary data were collected through the use of self-administered questionnaires and interview. This method of data collection has its own advantage because of it is low cost, it was also proven to be free from bias of the respondents, it also gives the respondents adequate time to give well thought answers and since large samples could be made use of, the results were more dependable and reliable (Kothari, 2004). The questionnaire contained structured questions using a method of Likert Scale ranging. To improve the response rate, there was a cover letter explaining the reasons for the research, why the research is important, why the subjects were selected and a guarantee of the respondents' confidentiality will have provided. To collect the data, the researcher himself involved in the collection of the questionnaire in order to make the respondents feel comfortable about their response they gave and give support to rater while they are filling the questionnaire. Before distributing the questionnaire permission was obtained from branch manager and every respondent. To increase the breadth of information obtained from the respondents in relation to the factors affecting the effectiveness of performance appraisal system on employee performance; this study used the following types of data collection instruments. Basically, the data was collected by using questionnaires and interview. The questionnaires were included closed-ended questions that was measured by a five-point Likert scale (from strongly Agree to strongly disagree) Semi structured interview will also schedule to gather information on the subject from the district human resource of the bank

3.7 Data Analysis Methods

After the data collected and plausible checks were conducted and inconsistent data was cleared appropriately. Then coded to the system, so to make the data usefully and relevant to analysis. By

doing this it helps to filter out the incomplete and irrelevant information and accuracy of the data was maintained. The edited data was going through analysis process to come up with concrete conclusions. Data processing and analysis was done by using statistical package for social science (SPSS) to display findings and it helps to make it easier by processing all variable and cases. In order to achieve the findings and results for the dissertation, the researcher used descriptive analysis to summarize the data. This method was numerical and/or graphical. Graphical methods are known for recognizing patterns in the data, while the numerical methods of analysis are acknowledged for giving precise measures. The analysis consisted of graphs, tables, and charts to outline the responses received which was examined and discussed. The reasons for using this procedure were to make it easier for the reader and to compare and understand the findings by presenting the data using frequency (F). The study also utilizes correlation analysis, and multiple regression models to examine the degree of relationship of independent variable, which are factors affecting PAS and dependent variable effectiveness of PAS in CBE.

$$Y = \alpha_1 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Where:

Y= effectiveness of performance appraisal system

X1= performance appraisal planning

X2= level of trust

X3=perceived fairness

X4=clear communication

X5=performance standard

α_1 = the intercept term-

Constant e= error term

3.8 Reliability and Validity

Reliability is the extent to which a measurement procedure yields the same answer however and whenever it is carried out. The reliability of the scale was determined by Cronbach's alpha method. For the reliability test, all the variables show Cronbach's alpha values which are more than 0.7, indicated that fair reliability (John, 2003; Adams, Khan, & Raeside, 2014). Table 3.2 shows the

reliability analysis of the variables presented in the study. A coefficient alpha ranged between 0.8 and 0.9 are interpreted as having very good reliability while alpha value between 0.60 and 0.70 indicates fair reliability (John, 2003). Indeed, Hair, Black, Babin and Anderson (2010) stated that common lower limit for Cronbach's alpha is 0.70. Thus, all the variables for this study are reliable as all recorded values are more than 0.7.

Table 2 Cronbach's alpha

Reliability Statistics

Variable	Cronbach's alpha	N of Items
Performance planning	0.703	4
Perceived fairness	0.712	3
Clear Communication	0.789	4
Performance standard	.774	4
Level of trust	0.724	4
Effectiveness of PAS	0.751	4

3.9 Ethical Consideration

Ethical conduct states that it is the responsibility of the researcher to assess carefully the possibility of harm to research participants, and to the extent that it is possible, the possibility of harm should be minimized (Bryman & Bell, 2007). During the data collection and interpretation processes, the researcher convinced the participants that any confidential information they disclose will keep confidential and convince them the important of the study will to help the bank and the employees. The respondents also was told that, the exercise will only for academic purposes and that confidentially will assured and no one would fall a victim because of any adverse findings in connection with their professional duties. This was to be done in order to motivate them to give their responses without reservation. Every questionnaire attached to a cover letter which clearly explained the purpose of the survey. The questionnaire didn't require the names of the respondents; this was to protect their identity and remain anonymous. As a result, the employees were aware from the beginning what the researcher was doing, why and where the information was going and why it was being gathered.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1. Response Rate

As per the sampling design 389 questionnaires were distributed. After receiving the questionnaires, a thorough verification process was done before going to further analysis to check for completeness and consistency of the questionnaires. From the total distributed questionnaires 387(99.4%) of the questionnaire were found to be completed correctly and used for further analysis and the remaining 2 (0.5%) questionnaires were not returned.

4.2 Demographic Characteristics of Respondents

The demographic characteristics of respondents are discussed under gender, educational level, age, job category, and employee's experience. This was analyzed to ascertain the demographic characteristics of the respondents used for the current study. The various findings relative to the respondents' demographic characteristics are presented and discussed with the aid of frequency, percent, and tables as shown below:

Table 3 Demographic characteristics of respondents

Demographic Characteristics of Respondents	Frequency	Percentage
Gender	387	100%
Male	224.8	58.1%
Female	162.2	41.9%
Education level of respondents	387	100%
Diploma	19.4	5%

Degree	239.92	62%
Masters	143.2	37%
Others	2	0.5%
Age(in years)	387	100%
Below 25	17.8	4.6%
26-35	257.7	66.6%
36-45	90.5	23.4%
Above	20.9	5.4%
Experience(in years)	387	100%
Below 5	54.6	14.1%
6-10	215.9	55.8%
11-15	83.6	21.6%
Above 15	32.9	8.5%
Position	387	100%
Managerial	59.6	15.4%
Non managerial	327.4	84.6%

Source: Own survey 2022

4.3 Analysis of Collected Data

4.3.1 Descriptive Analysis of Study Variables

In this section the descriptive analysis was presented, the researcher used frequency, percentage, mean and standard deviation to show the result obtained from the primary source. All of the variables were measured using five point Likert scale ("1" Strongly disagree; to "5" Strongly agree). The

interpretations of the Likert scale results are: scores of 1 to 2.32 indicate low level, scores of 2.33 to 3.65 indicate medium level, and scores of 3.66 to 5 indicate high level (Alhakimi and Alhariry, 2014).

4.3.1.1 Analysis of the effect of performance standard in the effectiveness of PAS

Table 4 Analysis of the effect of performance standard in the effectiveness of PAS

Item	Frequency	Percent
The performance standard of the bank is measurable		
Strongly disagree	66	17
Disagree	164	42.3
Neutral	95	24.55
Agree	43	11.11
Strongly agree	19	4.9
Total	387	100
The performance standard of the bank is specific		
Strongly disagree	48	12.4
Disagree	112	28.94
Neutral	65	16.93
Agree	159	41.09
Strongly agree	3	0.77
Total	387	100
The performance standard of the bank is achievable		
Strongly disagree	89	23
Disagree	53	13.695
Neutral	217	56.07
Agree	16	4.13
Strongly agree	12	3.1
Total	387	100
The performance standard of the bank is relevant		
Strongly disagree	90	23.26

Disagree	179	46.25
Neutral	45	11.62
Agree	47	12.14
Strongly agree	26	6.7
Total	387	100

Source: own survey 2022

As can be observed from item (1) of table 7, the respondents were asked to express their level of agreements about whether the bank’s performance standard is measurable or not and the response of the employees exhibit that 66(17%) strongly disagreed 164(42.3%) disagreed 95(24.55%) were neutral .on the other hand, 43(11.11%) of the respondents were agreed that the performance standard of the bank is measurable. Besides to this, minimal number of respondents i.e. 19(4.9%) were also indicate their strong agreement. as confirmed by majority of respondents the bank had replied “the performance standard of the bank is not measurable”. The researcher made further analysis to check its strength by using mean and standard deviation. Performance standards are set to ensure achievement of departmental goals and objectives and the organizations overall strategy and objectives react in this regard as it will enhance the employees’ performance.

As can be seen from the data item 2 of the above table, 159(41.09%) of the respondents agreed that the performance standard of the bank is specific and 3(0.77%) of them strongly agreed on the statement. The relics of the respondents 48(12.4%), 112(28.94%) and 65(16.93%) were strongly disagreed, disagreed and neutral on the statement under this item respectively

According to item 3 of table 1 above, 89(23%) strongly disagree, 53(13.695%) disagree, 217(56.07) neutral and 12(3.1%) strongly agree.. In relation to item 4 of table 7, when respondents were asked if the performance standard of the bank is achievable, 89(23%) strongly disagree, as it will hinder the employees’ performance of the organization.

According to item 4 the analysis 179(46.25%) disagree, 45(11.62%) neither agreed nor disagreed, 47(12.14%) agree and the rest 26(6.7%) strongly agree that the performance standards of the bank are relevant. So it is possible to conclude that, the bank may not be efficient and effective in developing relevant performance standard. Performance standards are set to ensure achievement

of departmental goals and objectives and the organizations overall strategy and objectives react in this regard it will enhance the employees' performance.

4.3.1.2 Analysis of fairness in the effectiveness of PAS

Table 5 Analysis of fairness in the effectiveness of PAS

Item	Frequency	Percent
I am able to express my views and feelings during the appraisal		
Strongly disagree	90	23.26
Disagree	179	46.25
Neutral	45	11.63
Agree	47	12.14
Strongly agree	26	6.72
Total	387	100
I feel that the appraisals done are not biased		
Strongly disagree	4	1.03
Disagree	95	24.54
Neutral	107	27.65
Agree	139	35.9
Strongly agree	42	10.85
Total	387	100
The appraisal are done based on accurate information		
Strongly disagree	87	22.48
Disagree	166	42.89
Neutral	52	13.44
Agree	68	17.57
Strongly agree	14	3.6
Total	387	100

Source: own survey, 2022

The current employees feeling were asked whether there are able to express their views and feelings during the appraisal. As a result, the research finding in item (1) of table 8 above indicates that, 47(12.14%) of the respondents agreed, 45(11.63%) remain neutral whereas 179(46.25%) disagreed and 90(23.26%) strongly disagreed and the rest 26(6.72%) strongly agreed to the statement ‘I am able to express my views and feelings during the appraisal’ So the bank should facilitate and encourage for employees expressing their views and feelings during the appraisal e since it helps employees effective on their duty and leads to service effectiveness.

According to the findings on item (2) of table 8 show that, the respondents who strongly agreed to the statement that is mentioned in item 2 reveals that, 42(10.85%) strongly agreed, 139(35.9%) agreed, 107(27.65%) neutral, 95(24, 54%) disagreed and those who strongly disagreed are 4(1.03%).this indicates that majority of the think the appraisal methods are consistent. Thus, this will be the sources for employee satisfaction and in turn it will lead to effectiveness.

The relationship between managers and employees lead to have good communication to have smooth working environment. Treating employees fairly and respectfully is one of the ways that makes the relationship between managers and employees to be smooth.

As can be seen from item 3 of table 8 above, 68(17.57%) of the respondents agree that the appraisal are done based on accurate information. Besides 14(3.6%) of the respondents were strongly agreed on the statement while 52(13.44%) of the respondents become neither agreed nor disagreed. On the other hand, 166(42.89%) of the respondents feel that the appraisals done are biased. By making respondents express their feeling the bank can minimize the biasness of the appraisals done which leads to dissatisfaction.

So the bank should give concern for the appraisal to be done based on accurate information to the overall business and plans to the employees.

4.3.1.3 Analysis of level of trust in the effectiveness of PAS

Table 6 Analysis of level of trust in the effectiveness of PAS

Item	Frequency	Percent
Manager continuously records your Performance over time		
Strongly disagree	57	14.7
Disagree	161	41.6
Neutral	75	19.37
Agree	70	18.03
Strongly agree	24	6.2
Total	387	100
Manager has no problem in Providing comments directly to you.		
Strongly disagree	23	5.94
Disagree	99	25.58
Neutral	81	20.93
Agree	138	35.65
Strongly agree	47	12.14
Total	387	100
The manager helps you to improve in your performance		
Strongly disagree	58	14.98
Disagree	106	27.39
Neutral	57	14.72
Agree	139	35.91
Strongly agree	27	6.97
Total	387	100
You have trust on your manager that the appraisal will be carried out objectively.		
Strongly disagree	56	14.47
Disagree	122	31.52
Neutral	40	10.33
Agree	109	28.16
Strongly agree	60	15.50
Total	387	100

Source: own survey 2022

The employees were asked whether the Manager continuously records their performance over time. As a result, the research finding in item 1 of table 9 above indicates that 57(14.7%) of the respondents were strongly disagreed, 161(41.6%) were disagreed, 75(19.37%) remain neutral. Whereas 70(18.03%) and 24(6.2%) of the respondents were agreed and strongly agreed respectively. therefore, to a large extent, of the employees don't believe that the bank Manager continuously records their performance over time. This does not motivate employees because employees will not be committed to their roles for the job they assigned if they are not treated fairly and rationally to their performance appraisal system. Therefore, the bank should make close follow up on the fairness and rationality of the PAS which motivate them for the best performance on their job.

According to findings on item 2 of the table above shows the level of agreement to the statement under item 2 reveals that 23(5.94%) of the respondents were strongly disagreed, 99(25.58%) disagreed, 81(20.93%) indifference while the rest 138(35.65%) and 47(12.14%) of the respondents agreed and strongly agreed respectively. In overall 185(47 %) of the respondents does not believe in the manager has no problem in providing comments directly to them. When the manager has problem in providing comments directly to employees they become discouraged and loss sense of belongingness on their job. Thus, this will be the sources for dissatisfaction and in turn it will be the cause to PAS ineffectiveness.

The finding from the item 3 of table 9 indicates 58(14.98%) of the respondents were strongly disagreed, 106(27.39%) were disagreed while 57(14.72%) of them remain neutral. On the other hand, 139(35.91%) of the respondents were agreed to the statement 'The manager helps you to improve in your performance'. Therefore, the bank should focus on employee satisfaction to get effective PAS.

A trust between appraisers and appraisee make employees stay motivated on their job and become good performers. As can be seen from item 4 of the table regarding the trust they got from their supervisor's, 56(14.47%) were strongly disagreed, 122(31.52%) were disagreed and 40(10.33%) of the respondents remain neutral while the rest 109 (28.16%) and 60(15.50%) of the respondents were agreed and strongly agreed with the statement 'Manager has no problem in providing comments directly to you'. This indicates, majority of the respondents agreed that the manager has a problem in providing comments directly to the employees. The mean and standard

deviation of this analysis shows a value of 2.53 and 1.31% respectively and this proves the analysis accordingly. Hence, for employee motivation and better performance, the Managers should have no problem in providing comments directly to the employees to ensure for effectiveness its PAS.

4.3.1.4 Analysis of clear communication in the effectiveness of PAS

Table 7 Analysis of clear communication in the effectiveness of PAS

Item	Frequency	Percent
My superior explains the appraisal procedures thoroughly		
Strongly disagree	57	14.72
Disagree	161	41.60
Neutral	75	19.37
Agree	70	18.08
Strongly agree	24	6.20
Total	387	100
The appraisal details were communicated in a timely manner		
Strongly disagree	58	14.98
Disagree	106	27.39
Neutral	57	14.72
Agree	139	35.91
Strongly agree	27	6.97
Total	387	100
The superiors are able to provide feedback to my questions.		
Strongly disagree	52	13.43
Disagree	122	31.52
Neutral	45	11.62
Agree	114	29.45
Strongly agree	56	14.47
Total	387	100
My superior is candid in communication with me.		
Strongly disagree	49	12.66

Disagree	100	25.83
Neutral	50	13.69
Agree	112	28.94
Strongly agree	76	19.63
Total	387	100

Table 2 Analysis of clear communication in the effectiveness of PAS

Source: own survey 2022

As can be observed from item (1) of table 10 above, the respondents were asked to express their level of agreement with the statement under item (1). In view of that, as can be observed from the response, 24(6.20%) strongly agreed, 70(18.08%) agreed, 75(19.37%) neutral, 161(41.60%) disagreed and 57(14.72%) strongly disagreed to the statement that ‘My superior explains the appraisal procedures thoroughly’. Conclusively, to a larger extent, it can be said that the majority of the respondents, did not agreed with the statement of under item one. Hence, the bank should seriously follow up that the superior is candid in communication with the employees which leads to ineffective PAS. 58(14.98%). As revealed in item (2) of table 10 above, respondents express the level of agreement on the statement ‘The appraisal details were communicated in a timely manner’. As a result, 27(6.97%) of the respondents strongly agreed with the statement, 139(35.91%) agreed, 106(27.39%) disagreed and 57(14.72%) of the respondents were strongly disagreed. On the other hand, 120(31.6%) of the respondents were neither agreed nor disagreed. This shows majority of the respondents, 196(51.45%) were in doubt that whether the superiors explains the appraisal procedures thoroughly. The researcher has made further analysis with mean and standard deviation with a value of 2.43 and 0.99% respectively and this shows the strength of the analysis. Therefore, the superiors should explains the appraisal procedures thoroughly before going on to the implementation.

4.3.1.5 Analysis of performance planning in the effectiveness of PAS

Table 8 Analysis of performance planning in the effectiveness of PAS

Item	Frequency	Percent
The bank Sets specific performance goals for employees, aligned with the organization's goals.		
Strongly disagree	8	14.72
Disagree	148	41.60
Neutral	126	19.37
Agree	90	18.08
Strongly agree	17	6.20
Total	387	100
The bank Develop a plan of action for helping employees meet their performance goals		
Strongly disagree	65	14.98
Disagree	105	27.39
Neutral	61	14.72
Agree	129	35.91
Strongly agree	27	6.97
Total	387	100
The bank Monitor and assess employee progress against performance goals on a regular basis.		
Strongly disagree	65	13.43
Disagree	105	31.52
Neutral	56	11.62
Agree	119	29.45
Strongly agree	42	14.47
Total	387	100
The bank Takes steps to adjust the plan as needed to ensure that employees continue to make progress.		
Strongly disagree	65	12.66
Disagree	116	25.83
Neutral	38	13.69
Agree	102	28.94
Strongly agree	62	19.63

Total	387	100
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As can be observed from item (1) of table 11 above, the respondents were asked to express their level of agreement with the statement under item (1). In view of that, as can be observed from the response, 17(6.20%) strongly agreed, 90(18.08%) agreed, 126(19.37%) neutral, 148(41.60%) disagreed and 8(14.72%) strongly disagreed to the statement that ‘The bank Sets specific performance goals for employees, aligned with the organization's goals.’. Conclusively, to a larger extent, it can be said that the majority of the respondents, did not agreed with the statement of under item one. As revealed in item (2) of table 11 above, respondents express the level of agreement on the statement ‘The bank Develop a plan of action for helping employees meet their performance goals’. As a result, 42(14.47%) of the respondents strongly agreed with the statement, 119(29.45%) agreed, 105(31.52%) disagreed and 65(13.43%) of the respondents were strongly disagreed. On the other hand, 56(11.62%) of the respondents were neither agreed nor disagreed. Therefore, the superiors should explains the appraisal procedures thoroughly before going on to the implementation.

4.2.1.6 Analysis of Effectiveness of Performance Appraisal

Table 9 Analysis of the effectiveness of PAS

Item	Frequency	Percent
The bank Assess the current levels of performance of employees against the defined competencies.		
Strongly disagree	43	11.11
Disagree	47	12.14
Neutral	35	9.04
Agree	118	30.49
Strongly agree	145	37.46
Total	387	100
The bank Set specific performance goals for employees, aligned with the organization's goals		
Strongly disagree	65	16.79
Disagree	105	27.13
Neutral	61	15.76
Agree	129	33.33
Strongly agree	27	6.97
Total	387	100
The bank Develop a plan of action for helping employees meet their performance goals		
Strongly disagree	65	16.79
Disagree	121	31.26
Neutral	32	8.26
Agree	103	26.61
Strongly agree	66	17.05
Total	387	100
The bank define the key competencies that are needed to achieve the organization's goals.		
Strongly disagree	3	0.77
Disagree	58	14.98
Neutral	88	22.73
Agree	183	47.28
Strongly agree	57	14.72
Total	387	100

Source: own survey 2022

According to findings of item 1 from table 13 43(11.11%) strongly disagreed, 47(12.14%) disagreed 35(9.04%) of the respondents remain neutral. On the other hand, 118(30.49%) and 145(37.46%) of the respondents were agree and strongly agree to the statement ‘the bank assesses the current levels of performance of employees against the defined competencies’ this indicates majority of the respondents, 263(67.9%) agreed with the statement.

The finding from item 2 of table 13 above indicates 65(16.79%) strongly disagreed, 105(27.13%) disagreed while 61(15.76%) of the respondents were remain neutral. On the other hand, 129(33.33%) and 27(6.97%) of the respondents were agree and strongly agree with the statement ‘The bank set specific performance goals for employees aligned with the organization’s goals.’ The result shows majority of the respondents, 170(43.9%) were in the level of agreement with the statement.

Results for item 3 of the above table for the statement ‘the bank develop a plan of action for helping employees meet their performance goals.’65(16.79%) of respondents were strongly disagreed, 121(31.26%) disagree and 32(8.26%) were remain neutral. On the other hand, 103(26.61%) and 66(17.05%) were agree and strongly agree to the statement. This shows majority of the respondents were in the agreement level that they are satisfied with the way they are being evaluated and ranked.

As revealed in item (4) of table 12 above, respondents express the level of agreement on the statement ‘The bank define the key competences that are needed to achieve the organization’s goals’. As a result 3(0.77%) of the respondents were strongly disagreed, 58(14.98%) were disagreed, 88(22.73%) of the respondents were neither disagreed nor agreed. On the other hand, 183(47.28%) and 57(14.72%) of the respondents were agreed and strongly agreed to the statement. This indicates majority of the respondents, 240(83.62%) were in the agreement level with the statement.

4.4 Interview Conducted with the HR Directors

On top of the questionnaire, an interview has been conducted with the HR Director in three districts from the given eight districts. Concerning the current performance appraisal approach, practice, and level of effectiveness.

Regarding the appraisal approach and important components of the rating tool, the directors have stated that the following elements:

- Performance objectives which clearly specify what fulfillments are expected of each individual employee. The type and level of objectives are different across various work units and job position.
- Target for each performance objective that shows specific target of each semiannual of the year and over all target of the year as well.
- Initiatives of each performance objective which indicates what effort and creativities are required to achieve the specified targets of each performance objective.
- Employee actual rating where what the employee actually performed in each semiannual is put.
- Rating which compares the actual performance with the target and show the extent of achievement out of 100%

Similarly, regarding the role of the raters/immediate bosses, the directors have explained that each are involved in the performance appraisal process being responsible for all of the appraisal steps from beginning to end, starting from the employee's first day on the job until the annual performance appraisal. To be specific;

- Explains to the employee how they help the department attain its goals
- Works with the employee to define key result areas, goals, and performance standards and make sure they understands the job duties and expectations.
- Provide frequent informal coaching. Point out the good work that the employee is doing. Help employees with performance deficiencies to meet expectations.
- Work with the employee to create development plans.
- Make informal notes when the employee does a good job, follows through on development plans, or has problems doing so. These notes will help the rater with periodic reviews and the completion of the performance management process.
- Keep track of praise or complaints from customers regarding an employee's work.
- Put together all saved notes or documents about the employee's performance and assess their performance on job duties and behaviors.

- Ask the employee for feedback about how s/he performed during the year and complete performance appraisal, then discuss ratings and comments with the employee.

Moreover, the directors have mentioned the following factors which might affect the appraisal system:

- Identification of the appraisal criteria is one of the biggest problems faced by the top management. For the purpose of evaluation, the criteria selected should be in quantifiable or measurable terms.
- Creating a rating instrument which focus on development and that can work for employees from different work units and positions.
- Some raters may not be up to the required expertise and knowledge to handle the overall performance appraisal process.
- Many rating errors are being committed by immediate bosses. Like halo effect, central tendency error, leniency, and so on.
- Resistance from some of the employees because of lack of awareness.
- There is lack of commitment from the management regarding working in collaboration with the HR directorate related with different intervention mechanisms in order to enhance effectiveness of the appraisal system.

Finally, the director was asked to measure the effectiveness of performance appraisal system of the organization and raised specifically they didn't measure before but they are working on that and they have a lot of gaps for instance:

- Awareness and understanding of employees as well as the management group;
- Having a formal and strong communication channel across the organization;
- Introducing a well-designed and finalized rating tool/instrument.
- Setting clear performance objectives and realistic performance standards.
- Collecting performance evidences of individuals on a weekly base.
- Conducting performance ratings with less/free from error.
- Conducting the performance rating within the given period/schedule

4.4 Correlation Analysis

Correlation is the degree of correspondence between variables. This implies the relationship is mutual or reciprocating, but we do not include in our concept of correlation any proposition that one thing is the cause and the other the effect (Robert and Richard, 2008). The data collected is screened and analyzed through SPSS (Statistical Package for Social Science). Uniformity of data is examined by utilizing skewness, which conform to the required standards. Then, the parametric tests were used to analyze data and spearman correlation and ordinal regression Analysis were carried out. For this study, all variables were checked for normality of distribution. The distribution was not symmetric. Therefore the data were not normally distrusted. As shown in fig3 the collected data can be tested by using Shapiro-Wilk test which details the level of significance must be >0.05 for it to be normally distributed so this indicates that the data has no normality. Uniformity of data is examined by utilizing skewness, which did not conform to the required standards. Due to the non-normality of the collected data non-parametric tests were used to analyze data and spearman's correlation and multiple regression analysis were carried out. Linear regression analysis works well, even with non-normal distribution.

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	df	Sig.
CC	.117	387	.000	.971	387	.000
EPA	.115	387	.000	.954	387	.000
PP	.116	387	.000	.947	387	.000
PS	.114	387	.000	.948	387	.000
PF	.159	387	.000	.951	387	.000
LOT	.120	387	.000	.964	387	.000

Figure 3 Tests of normality

Correlations analysis was conducted to test relationship between independent and dependent Variables. Table8 shows these relationships. Spearman's correlation is a bivariate analysis which is able Spearman rank correlation is a non-parametric test that is used to measure the degree of association between two variables (Schober, Christa, & Lothar, 2018).

Correlations

			EPA	PP	PS	PF	LOT	CC
Spearman's rho	EPA	Correlation Coefficient	1.000	.736**	.182**	.176**	.580**	.495**
		Sig. (2-tailed)	.	.000	.000	.001	.000	.000
		N	387	387	387	387	387	387
	PP	Correlation Coefficient	.736**	1.000	.107*	.132**	.675**	.611**
		Sig. (2-tailed)	.000	.	.035	.009	.000	.000
		N	387	387	387	387	387	387
	PS	Correlation Coefficient	.182**	.107*	1.000	.430**	.213**	.097
		Sig. (2-tailed)	.000	.035	.	.000	.000	.057
		N	387	387	387	387	387	387
	PF	Correlation Coefficient	.176**	.132**	.430**	1.000	.175**	.061
		Sig. (2-tailed)	.001	.009	.000	.	.001	.230
		N	387	387	387	387	387	387
	LOT	Correlation Coefficient	.580**	.675**	.213**	.175**	1.000	.812**
		Sig. (2-tailed)	.000	.000	.000	.001	.	.000
		N	387	387	387	387	387	387
	CC	Correlation Coefficient	.495**	.611**	.097	.061	.812**	1.000
		Sig. (2-tailed)	.000	.000	.057	.230	.000	.
		N	387	387	387	387	387	387

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

* . Correlation is significant at the 0.05 level (2-tailed).

Figure 4 Correlation matrix

Notes:PAP;performance appraisal planning;LOT:Level of trust;PF:perceived fairness;CC:clear communication;PS:performance standard

From the fig4, the results had shown that performance appraisal planning has a positive significant correlation of 0.736 with the performance standard at level 0.01. Likewise, for the other independent variables which included performance standard, level of trust, perceived fairness, clear communication, shows significant correlation at (0.182), (0.580), (0.176), (0.495), at a level of 0.01. The study shows that performance standard has highest positive correlation relationship with

performance planning at level 0.01. Other variable shows positive significant relationship at level of 0.01 as well.

4.5 Multiple regression analysis

Multiple regression analysis was conducted to examine the relationship between independent and dependent variables. Table 3 shows the findings of multiple regression analysis. Linear regression by itself does not need the normal (gaussian) assumption.

Figure 5 multiple regression

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.768 ^a	.590	.585	.46816

a. Predictors: (Constant), CC, PF, PS, PP, LOT

b. Dependent Variable: EPA

Figure 5 reports the model of effectiveness of performance appraisal system with the coefficient of determination R square = 0.585 at 0.05 a significant level. The coefficient of determination indicated that 55.2 % of the variation in the effectiveness of PAS for the sample of 387 can be explained by the performance appraisal planning (X1), level of trust(X2), perceived fairness (X3), clear communication (X4), and performance standard (X5) while 41.5 % remains unexplained.

The results of the summary Analysis of Variance (ANOVA) were presented and interpreted below

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	120.235	5	24.047	109.716	.000 ^b
	Residual	83.506	381	.219		
	Total	203.742	386			

a. Dependent Variable: EPA

b. Predictors: (Constant), CC, PF, PS, PP, LOT

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.802	.159		5.057	.000
	PP	.610	.042	.664	14.480	.000
	PS	.111	.052	.079	2.139	.033
	PF	.032	.037	.033	.886	.376
	LOT	.131	.069	.122	1.903	.058
	CC	-.014	.066	-.013	-.216	.829

a. Dependent Variable: EPA

From regression analysis done, R2 value is significantly greater than 0 and this indicate that the predictors are able to account for a significant amount of variance in effectiveness of performance appraisal. Thus, the regression model is significant. From the ANOVA table (testing using alpha =.05), the overall regression model was significant. From Table 4, the p value for each variable were analyzed, where $p < 0.05$ is considered as significant. Thus, from the results generated, it shows that there is a positive significant relationship between performance appraisal planning and performance standard on the effectiveness of performance appraisal. This indicates that increase in overall performance appraisal planning and performance standard of employees will increase the effectiveness of performance appraisal the banking sector. Furthermore, the results also show that performance standard has the highest beta coefficient value (0.079), which means that it poses the greater impact on the effectiveness of performance appraisal.

The following section discusses about the results for hypotheses. Hypotheses 1 stated that performance appraisal planning has a positive impact on the effectiveness of performance appraisal. From the above regression analysis shown in fig5, there is a significant relationship between performance appraisal planning and effectiveness of performance appraisal, where $p = .00$ (sig. $p < .05$). Thus, hypotheses 1 is accepted. This finding is supported by the previous study (Cynthia, 1985; Deb, 2008).

Hypotheses 2 stated that the performance standard has a positive impact on the effectiveness of performance appraisal. From the regression analysis in table, the p value obtained for this variable is $p= 0.033$ which is less than .05, result in the stated variable is significant in affecting the effectiveness of performance appraisal. Thus, the hypothesis is accepted. The result is concurrent with the previous study developed by Brown et al. (2015). As per stated that trust can be affected by subjectivity of the employee event given with positive rating (Low & Embi, 2012).

Hypotheses 3 stated that there is a positive effect of perceived fairness on the dependent variable. Refer to the regression analysis in Table 15, the p value of this factor is $p=0.376$ which is not considered as significant ($p < 0.05$). The hypotheses is rejected. The result is not concurrent with the previous study Ismail et al., (2016).

Hypotheses 4 assumed that there is a positive relationship between level of trust and effectiveness of performance appraisal. This hypothesis need to be rejected as the regression analysis shows that the p value is $p=0.058$ which is more than 0.05. There is no significant impact of level of trust towards the dependent variable. This does not support the earlier study by Bartz (2017) and Rondeau (1992).

Hypotheses 5 stated that there is a positive effect of perceived fairness on the dependent variable. Refer to the regression analysis in fig3, the p value of this factor is $p=0.829$ which is not considered as significant ($p < 0.05$). The hypotheses is rejected. The result is not concurrent with the previous study Ismail et al., (2016). Table 15 presents the summary for hypotheses results. As shown by the table, two hypotheses (H1 and H2) were accepted and the other three hypotheses (H3, H4 and H5) were rejected.

In this study, five determinant factors which are extracted from previous studies were examined and tested. The generated results revealed that not all discussed factor has significant effect to the effectiveness of performance appraisal. Results show that performance appraisal planning and performance standard are significant which able to positively affect the effectiveness of performance appraisal. However, results did show that level of trust and level of communication do not significantly impact the effectiveness of performance appraisal in CBE

From the results of significant studies mentioned above, hypothesis on the relationship between performance appraisal planning and performance standard are accepted, while the hypothesis on

the relationship of level of trust ,perceived fairness level of communication are rejected. Deviate results might cause by the difference of organizational cultural and practices.

Refer to the findings, it was noted that performance appraisal planning is one of the significant factor in affecting effectiveness of performance appraisal. Thus, it is necessary for the human resource managers and regulators develop a successful Performance Planning system for helping organizations achieve their goals. By establishing clear goals and objectives, defining the key competencies needed to achieve those goals, and assessing the current levels of performance against those competencies, organizations can create a plan of action to help employees meet those goals. By monitoring and assessing employee progress, organizations can ensure that employees are making the necessary progress and can take steps to adjust the plan as needed

Table 3 Hypthosis result

H1: There is a significant positive relationship between performance planning and Effectiveness of Performance Appraisal System.	ACCEPCTED
H2: There is a significant positive relationship between performance standard and Effectiveness of Performance Appraisal System	ACCPECTED
H3: There is a significant positive relationship between level of trust and effectiveness of performance appraisal.	REJECTED

H4: There is a significant positive relationship between level of Fairness and effectiveness of performance appraisal.	REJECTED
H5: there is a significant positive relationship level of communication has positive effect on effectiveness of performance appraisal.	REJECTED

CHAPTER FIVE

FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 Summary of Findings

This part of the study aims to summarize the findings that have emerged from the data analysis presented in the previous chapter. The purpose of this study was to investigate the factors affecting effectiveness of the current employee's performance appraisal system of CBE. To do this the researcher has used effectiveness variables and related concepts and also statistical tools to meet the necessary. This research has a descriptive nature which describes the existing phenomenon as it exists. Majority of the respondents replied that the appraisal system and objectives of the organization are not aligned with each other.

- The current performance appraisal system is not properly formulated in a way which enables too closely follow the performance of employees and take the appropriate coaching and counselling as a corrective action when it is needed.
- Larger proportion of the respondents responded that the current performance appraisal system is built without giving a proper attention for good performance planning as an element for an effective performance appraisal system.
- Regarding organization and employee objectives, only below the average respondents have agreed that there is clear objective. Moreover, majority of the respondents replied that no discussion is made between employees and their immediate boss on organization and employee objectives. On the other side, significant proportion of the respondents also replied that the appraisal system doesn't reinforce the translation of overall objectives of the organization into specific job objectives.
- Related with communication, majority of the respondent agreed that they are not clearly communicated about the purpose of the appraisal system. In addition, majority of the respondent have asserted that they have no clear direction about what they are going to do and they are not having a regular discussion regarding their performance.

- As far as measurement system concerned, largest share of the respondents have stated that performance standards of their respective job are not clear and realistic. Similarly, most of the respondents indicated that the current appraisal approach is developed in a way which gives a room for biased judgments or exposed for subjectivity. Additionally, most of the respondents asserted that the organization doesn't regularly review and discuss on the performance standards considering the existing context.
- Majority of the employees believed that there is no transparent discussion regarding performance appraisal and also they replied that the system lacks confidentiality. And they believe that a trust between appraisers and appraisee make employees stay motivated on their job and become good performers.
- Furthermore, most of the respondents argued that employees are not evaluated as per the pre-established performance standards, the existing performance appraisal doesn't show their performance in an objective manner, the current performance appraisal system doesn't as such support values/cultures of the organization, it doesn't show that much positive impact on ultimate performance improvement, and it doesn't properly differentiate between poor performers and good performers.

5.2 Conclusion

- The banking industry relies greatly on the professional workforces in order to execute its strategy and achieve objectives. Therefore, banking organizations especially public banks become increasingly concerned with the effectiveness of performance appraisal due to the reason that motivation, satisfaction, efficiency and effectiveness of the employees are greatly influenced by it. In relation to this, the study examined the factors that can affect the effectiveness of performance appraisal in commercial bank of Ethiopia both theoretically and empirically.
- The results of the study indicate that performance appraisal planning and performance standard as the significant and key factor which affect the effectiveness of performance appraisal and should be focused by the human resource managers to improve on overall organizational objectives.
- According to the findings, level of trust and level of communication is not as significant to impact on the effectiveness of performance appraisal. From the theoretical perspective, this study helped to identify the effect of performance appraisal planning, level of trust,

perceived fairness and level of communication on the effectiveness of performance appraisal.

- Based on the findings, most of the employees responded that the performance objective is not clearly defined in the appraisal process and performance objectives are not directly related to the objective of the organization. Hence, the fact indicates that effectiveness of the current performance appraisal system of the organization is affected by the absence of clarity and alignment between employee performance objective and objective of the organization.
- Majority of the respondents believed that the system was developed without employees' input and participation in the planning process. Employees are unable to understand the current performance appraisal system. This may be because of employees were not participated in the process of the current appraisal system formulation and execution as well.
- Based on communication concern, majority of the respondent reflected that the existing communication mechanism is not as such capable to clearly communicate about the purpose of the appraisal system and there is no formal communication process are in place in order to create awareness to the employees about the organization's objective. In addition, concerning transparency, majority of the employees believed that there is no transparent discussion. Therefore, it is possible to conclude that effectiveness of the current performance appraisal system is not working properly because of poor communication and it is possible to say that the organization has a lot to do to bring an effective performance appraisal system.
- Majority of the employees replied that their rating is not being evaluated against the required performance standard in a fairly manner. Hence, since fair evaluation system is the vital element of an effective appraisal system, effectiveness of the organization's current performance appraisal system is affected because of biasness.
- Largest portion of the respondents have stated that performance standards of their respective job are not measured and not regularly reviewed and discussed. Therefore, it

indicates that the organization has no a well-designed performance measurement system which is used to ensure the effectiveness of performance appraisal system.

5.3 Recommendations

The findings have revealed numerous potential weaknesses that are preventing the effectiveness of the system that could affect employee's performance. The organization needs to improve the performance appraisal system accordingly if it is to be successful in carrying out its objective. Based on the results of the study, the following recommendations have been drawn for the organization to make their appraisal system more effective.

- Since the major purpose of a performance appraisal system is to reinforce the efforts of employees towards the achievement of objectives of the organization, CBE has to do a lot to bring the required level of alignment between its performance appraisal system and objectives of the organization. To do so, the organization has to assess performance of employees based on the cascaded organizational objectives. Moreover, the system has to be constructed in a way which can be easily understandable by all the employees of the organization. From the factor analysis conducted above, performance appraisal system provides information related to long-term goals. Thus, management should look into this during the planning phase in performance appraisal process, so that employees are able to visualize and acknowledge expectations from their outputs in relate to organizational goals.
- The organization needs to give a greater emphasis for employees' participation to incorporate employees' voice and ensure their ownership whenever there is any issue which affects its performance appraisal system.
- One of the major purposes of a performance appraisal system is developing employees. Therefore, CBE has to work a lot to align its performance appraisal system and employee development objectives of the organization.
- The ultimate objective of any performance appraisal system is obviously discriminating between good and poor performers. As a result, the organization needs to recognize those good performers and council and coach those who are performing below the standard in order to develop/improve their performance.

- Communication is also the vital element of an effective performance appraisal. Hence, the organization has to install a well-formulated communication channel which enables employees to be aware of the purpose of the appraisal system, to be informed what they are going to do, and to frequently discuss with their rater about their performance.
- Performance standards of the respective job have to be constructed in a clear, realistic and measurable manner and these standards have to be regularly reviewed and discussed. Moreover, the appraisal approach should also be free from biasness.
- Concerning problems with the current performance appraisal system, the organization better give attention for all of the identified problems based on their extent of occurrence and resolve accordingly. For instance, problems; lack of emphasis for employees' participation in the appraisal process and employees are not rated according to the nature of their job has to be given due attention.
- From the generated results, it is important that the performance appraisal systems should be outlined in such a way that the performance appraisal process is each stage of the process is embedded with implementations that are relevant to the practice of the employees from different departments. Besides, the layout of the performance appraisal system should create perceptions of fairness relative to employees' efforts and expectations. This can devote greatly towards positive attitudes, such as high motivation and greater effort in achieving organizational objectives.
- Ongoing feedback should be given to employees regularly and must be accurate. Therefore, CBE's Performance appraiser schedule should be properly planned and regular in line with its accuracy so as to ensure the effectiveness of PAS.

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Appendix

ST.MARY'S UNIVERSITY SCHOOL OF POSTGRADUATE STUDIES Masters of Business Administration

Questionnaires': prepared for permanent CBE employees Addis Ababa and Addis Ababa area

My name is Abel kahsay. I am a Master's of Business Administration student at St Mary university School of postgraduate. The purpose of this questionnaire is to collect data in order to study the factors affecting the effectiveness of performance appraisal system in Commercial Bank of Ethiopia.

Kindly cooperate in filling the questionnaire as your genuine, complete, and timely responses are crucial for the success of my study. Besides, I would like to assure that the data collected using this questionnaire is purely for academic requirement and your responses will be held confidentially and anonymously. Hence, the researcher kindly requests you to respond each item carefully.

Note:

- ❖ No need of writing your name
- ❖ Please fill the answer by putting “√” mark
- ❖ Kindly provide your response attentively and return the completed questionnaire as soon as possible
- ❖ PAS means Performance Appraisal System

Thank you for participating in this questionnaire!

Section I: Background Information

1. Gender 1. Male 2. Female

2. Educational Qualification

1. Diploma 2. Degree 3. Masters 4. Other -----

- 3. Age (**in year**)

Blew-25 26-35 36-45 above - 46

4. Years of experience (**in year**)

Below 5 6-10 11-15 Above 16

5. Your current position in the bank 1. Managerial 2. Non-managerial

6. In which district office/branch of the bank you are currently working? _____

Section II: Factors affecting the effectiveness of Performance appraisal system (PAS) in Commercial bank of Ethiopia.

Indicate the extent to which you agree with the following statements by using a scale of 1 to 5

Where, 1=strongly disagree, 2= disagree, 3= neutral, 4= agree, 5= strongly agree.

Please tick (√) in the box that best reflects your answer where:

Variables of effective PAS:		Measurement scale				
		1	2	3	4	5
A	Performance appraisal planning					
1	The bank Sets specific performance goals for employees, aligned with the organization's goals.					
2	The bank Develop a plan of action for helping employees meet their performance goals					
3	The bank Monitor and assess employee progress against performance goals on a regular basis.					
4	The bank Takes steps to adjust the plan as needed to ensure that employees continue to make progress..					
B	Perceived Fairness	1	2	3	4	5
1	I am able to express my views and feelings during the appraisal					
2	I feel that the appraisals done are not biased					
3	The appraisal are done based on accurate information					
C	Level of trust	1	2	3	4	5
1	Manager continuously records your Performance over time					
2	Manager has no problem in Providing comments directly to you.					
3	The manager helps you to improve in your performance					

4	You have trust on your manager that the appraisal will be carried out objectively.					
D	Clear communication	1	2	3	4	5
1	My superior explains the appraisal procedures thoroughly					
2	The appraisal details were communicated in a timely manner					
3	The superiors are able to provide feedback to my questions.					
4	My superior is candid in communication with me.					
E	Performance standard	1	2	3	4	5
1	The performance standard of the bank is measurable					
2	The performance standard of the bank is specific					
3	The performance standard of the bank is achievable					
4	The performance standard of the bank is relevant					
F	Effectiveness of Performance Appraisal	1	2	3	4	5
1	The bank Assess the current levels of performance of employees against the defined competencies.					
2	The bank Set specific performance goals for employees, aligned with the organization's goals					
3	The bank Develop a plan of action for helping employees meet their performance goals					
4	The bank define the key competencies that are needed to achieve the organization's goals.					

Thank you!

ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
MASTERSOF BUSINESS ADMINISTRATION
PROGRAM

**MBA Research on factors affecting the Effectiveness of Employee Performance Appraisal
Interview to be completed by Commercial bank of Ethiopia HR Manager**

Dear Respondent:

This interview is prepared by graduate student of St. Mary's University in the field of Business Administration as the partial fulfillment of the requirement for Master's Degree. This interview is prepared to assess the effectiveness of employee performance appraisal of CBE which can assist to prepare a thesis.

The validity of your response has great contribution for the success of my senior thesis. Thus, I would like to ask with due respect to give me the right response.

Interview

1. What are the objectives of the performance appraisal system?
2. What are the important components of the performance appraisal system format?
3. What is the role of rater?
4. What are the main challenges which might affect the appraisal system?
5. How do relationships and management styles affect the performance appraisal practice?
6. How do you measure the effectiveness of performance appraisal?