

**The Effect of Performance Appraisal on Employee's  
Performance in Commercial Bank of Ethiopia  
Jimma District**

*A thesis submitted to the School of Graduate Studies of Jimma University  
in Partial Fulfillment of the Requirements for the Award of the Degree  
Masters of Business Administration (MBA)*

**BY:**

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**JIMMA UNIVERSITY**

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Mr. Ashenafi Haile  
&  
Mr. Emnet Negash**



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**MAY, 2016**

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## CERTIFICATION

As thesis research advisors, we hereby certify that we have read and evaluated the thesis prepared by Selamawit Abera under our guidance, which is entitled ““The Effect of Performance Appraisal on Employee’s Performance in Commercial Bank of Ethiopia Jimma District”. We recommend that the thesis be submitted as it fulfills the requirements for the degree of Requirements of Masters of Business Administration (MBA).

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## DECLARATION

I hereby declare that this thesis entitled “The Effect of Performance Appraisal on Employee’s Performance in Commercial Bank of Ethiopia Jimma District” has been carried out by me under the guidance and supervision of Mr. Ashenafi Haile and Mr. Emnet Negash.

The thesis is original and has not been submitted for the award of any degree or diploma to any university or institutions.

Researcher’s name

Date

Signature

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### ***Abstract***

Organizational performance is the synergetic sum total of the performance of all employees in the organization. The effectiveness of an organization's performance appraisal system is a prerequisite for ensuring the success of its selection, training, and employee motivation practices. The study focuses on to find out the effect of performance appraisal on employee's performance, the subjects of the study were 158 employees and they were selected by employing stratified sampling methods. Out of 158 participants selected for the study, only 138 valid questionnaires were collected and filled the properly representing 90% of the total sample. The reliability of the adapted scales was tested and found to be reliable. In analyzing, the data through descriptive analysis mean and standard deviation of variables were computed. The research revealed that competence, assessment and development, management by Objectives, performance based pay and employee training all had an effect on employee Performance in commercial Bank of Ethiopia Jimma District. However the factors, employee training, Performance based pay, and management by objectives were the key factors that influenced Employee performance. However, the factor, competence, assessment and development could not be ignored since it was rated to a moderate extent by the employees an indication that it also contributed a lot to employee performance. This correlation and multiple regression analysis also revealed that the factors employee training, Performance based pay, and management by objectives were the main factors that had an impact on employee performance in CBE Jimma District.

**Keywords:** Performance appraisal, Employee's performance,

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## **ACRONYMS /ABBREVIATIONS**

ANOVA	Analysis Of Variance
CBE	Commercial Bank of Ethiopia
HR	Human Resource
PA	Performance Appraisal
SD	Standard Deviation
SPSS	Statistical Package for Social Science
EP	Employees performance





# CHAPTER ONE

## 1. INTRODUCTION

### 1.1 Background of the study

One of the most important success factors of any organization is the employees themselves, who are seen as an organization's most crucial asset and its most valuable resource, since organizational goals can only be achieved through their efforts (Eskildsen and Dahlgardm, 2000). Therefore, the growth and existence of any organization mainly depend on the way the organization treats its employees, accordingly the great importance of the human factor creates a demand for ways to keep employees within the organization and to be able to motivate them. According to Eskildsen and Dahlgard, without satisfied and motivated employees it is impossible to produce world-class products and impossible to achieve satisfied and loyal customers. (2000: 1082).

The current era is highly competitive and organizations regardless of size, technology and market focus are facing many challenges linking the relationship between employee performance appraisal and employees performance. To overcome these restraints a strong and positive relationship and bonding should be created and maintained between employees and their organizations. Human resource or employees of any organization are the most central part so they need to be motivated and persuaded towards tasks fulfillment (Quratul- AinManzoor, 2011).

Organizations, private or public alike are set up to accomplish their own goals and objectives such as the provision of goods and services. Organizations need people of diverse backgrounds both skilled and unskilled to exert their energies towards the accomplishment of their goals. People are the greatest single asset available to an

organization. In real terms, an organization is people. They constitute the only asset that can work towards an organizational goal. Whatever business we are in, whatever shape the economy is in, our success as a manager depends on building a team of highly motivated people: people who want to work hard and do their jobs well (Saul W. Gellerman, 1992).

Performance appraisal is one of the most problematic components of human resource (HR) management (e.g. Allen and Mayfield, 1983). All involved parties — supervisors, employees, and HR administrators typically are dissatisfied with their organization's performance appraisal system (Smith *et al.*, 1996) and view the appraisal process as either a futile bureaucratic exercise or, worse, a destructive influence on the employee-supervisor relationship (e.g. Momeyer, 1986). This is certainly true of most organizations, at least in the USA, wherein surveys typically reveal widespread dissatisfaction with the appraisal process (Huber, 1983; Walsh, 1986). Despite these indictments, managers are reluctant to abandon performance appraisal which they still regard as an essential tool of HR management (Meyer, 1991). Appraisal, according to Smith (2000), involves the identification of cause and effect relationships on which employment and labour policies are based or can be based and are a routine process that organizations use to evaluate their employees. It is a systematic assessment that is as objective as possible of an ongoing programme or policy, its design, implementation and results. Its aim is to appraise the relevance and fulfillment of objectives, efficiency, effectiveness, impact and sustainability. Although, performance appraisal itself is often a process that involves documentation and communication, the tendency in recent years has been to formalize the appraisal process, whereas in years past, an informal approach with very little record keeping sufficed, now more documentation is required.

Organizations usually formalize part of the process by using a standard form. Currently, many organizations are implementing or planning to implement, reward and/or recognition programmes believing that these will help bring about the desired cultural

change. In some organizations, large amounts of money are being invested in these types of activities and some managers are required specifically to set aside a certain amount from their budgets for this purpose (Denning, 2001).

This rationale is based on the assumption that these types of incentives will encourage employee loyalty, foster teamwork and ultimately facilitate the development of the desired culture that encourages and supports knowledge sharing. Others maintain that to encourage knowledge-sharing organizations should design reward and recognition systems that stimulate sharing of all kinds: goals, tasks, vision as well as knowledge (Wright, 2004).

One factor that contributes to an effective performance appraisal system entails ensuring that the system focuses on performance variables as opposed to personal traits (Smither, 1998). Whereas experts disagree about whether performance should be measured in terms of the results produced by employees (e.g. Kane *et al.*, 1995) or in terms of work-related behaviors (e.g. Murphy and Cleveland, 1991), they agree that measuring personal traits has several drawbacks. For example Jankowicz (2004) notes that the validity and reliability of trait-based performance appraisals is highly suspect because the rater's perceptions of the traits being assessed are affected by his/her opinions, biases, and experiences that may have little to do with the particular employee. In addition, 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 (Squires and Adler, 1998). Furthermore, based on his review of the findings from several court cases involving performance appraisal, Malos (1998) concluded that, to be legally sound, appraisals should be job-related and based on behaviors rather than traits. For an appraisal system to be effective, employees must believe that they have an opportunity for meaningful input into the appraisal process (Weick, 2001). Such input may range from having the opportunity to challenge or rebut the evaluation one receives to judging one's own performance through self appraisal. Regardless of the nature of employee input, it is clear that giving employees a voice in their own appraisals enhances



the perceived fairness of the appraisal process, which, in turn, increases the likelihood that employees will accept the appraisal system as a legitimate and constructive means of gauging their performance contributions. As noted by Gilliland and Langdon (1998), without the perception of fairness, “a system that is designed to appraise, reward, motivate, and develop can actually have the opposite effect and create frustration and resentment”.

Currently Commercial Bank of Ethiopia has been pursuing an aggressive growth strategy, responsibility of supporting national development through stretch objectives on resource mobilization, service quality, bank branch accessibility and providing innovative product.

### **Profile of the company**

CBE is one of the state owned commercial banks in the country established in 1942. The bank has the following Vision & Mission statements

#### **Vision Statement:**

To become a world-class Commercial bank by the year 2025.

#### **Mission Statement:**

We are committed to best realize stakeholders' needs through enhanced financial intermediation globally and supporting national development priorities, by deploying highly motivated, skilled and disciplined employees as well as state-of-the-art technology. We strongly believe that winning the public confidence is the basis of our success.

The bank has succeeded to raise its number of branches 965 at end of June 2015. It has also managed to secure a total workforce of more than 22,908 at the end of June 2015. In CBE, the following job positions are commonly available at branch level- Branch Manager, one up to four Customer Service Managers, usually two Senior Customer

Service Officers, one or two Credit Relationship Officers, various numbers of Customer Service Officers & Junior Officers (Entrant level for one year), and other support staffs. Branch managers and Customer Service managers are the responsible parties to implement the Performance appraisal practices at branch level.

Thus, in CBE introduced a new performance appraisal system since 2013, which aims to improve the financial sector in achieving higher productivity and service quality. In this system, emphasis is given to performance-based appraisal system which allowed development of action plan to coach and counsel employees on a continuous basis. “The most notable features of the system include the need to set annual work targets and standards of performance between the manager and subordinate, a mandatory quarter review of the work performance in relation to the target set, the use of different appraisal forms for different categories of employees according to grade and their role. The CBE’s approach to performance management is developmental, Goal accomplishment **(WHATs)** and behavior **(HOWs)** are measured Objectives / targets are cascaded from top down using the BSC approach. The process of performance appraisal in commercial bank of Ethiopia as:-

- Business Targets are evaluated on a quarterly basis
- Leadership and Value competencies are assessed annually
- All employees are assessed for organizational value competency proficiency
- Leadership competencies are assessed for all employees in supervisory roles
- Selected leadership competencies are assessed for employees JG 13 and above in non supervisory roles

- All assessment areas have equal importance
- Final annual scores are on a weighted average score basis

## **1.2 Statement of the problem**

Performance appraisal plays a key role to measure the employee's performance and help the organization to check the progress towards the desired goals and objectives (Ijbmr, 2012). Performance appraisal help aligns individual goals and objectives with the organization goals. The system engages, motivates employees and thereby directs them toward achieving the strategic goals of the organization (Verhulp, 2006).

Performance appraisal system is a prerequisite for ensuring the success of its selection, training, and employee motivation practices. At a strategic level, the need for rapid and effective organizational change in today's dynamic social, economic, and political environment requires that employees continually realign their performance with the evolving goals and objectives of the organization (O'Donnell and Shields, 2002). The need to continually re-align performance characterizes many organizational departments which continue to struggle with getting their members to embrace the philosophy and practices that are geared at enhancing performance (Scrivner, 1995; Vinzant and Crothers, 1994).

As noted by Kane et. al. (1995, p. 285), an appraisal system “must be considered a major organizational change effort which should be pursued in the context of improving the organization's effectiveness”.

This study therefore, seeks to fill this knowledge gap by investigating the effect of performance appraisal systems in on employee performance in the Commercial Bank of Ethiopia Jimma District.

## **1.3. Research Questions**

1. What is the relationship between performance appraisal and employee performance
2. What is the effect of competence assessment and promotion on the employee's performance?
3. What is the effect of management by objectives on the employee performance?
4. What is the effect of performance based pay on the employee performance
5. What is the effect of employee training on the employee performance?

#### **1.4. Objectives of the study**

##### **1.2.1. General Objective**

The study's main objective was to investigate the effect of performance appraisal systems on employee performance in the Commercial Bank of Ethiopia Jimma District.

##### **1.2.2. Specific objectives are:**

1. To investigate the effect of competence assessment and development on the employees performance in CBE Jimma District.
2. To assess the effect of management by objectives on the employee performance in CBE Jimma District
3. To establish the effect of performance based pay on the employee of performance in CBE Jimma District.
4. . To determine the effect of employee training on the employee performance in CBE Jimma District.

#### **4.5. Significance of the Study**

The Output of this studies help the management is able to identify to evaluate their existing PA systems, by identifying the perceived satisfaction of employees towards their current PA process that can provide and promote excellent feedback towards their employees thus enhancing employees“ work performance.

To the researcher, the finding of this study adds to the existing knowledge in analysis of relationship between employees’ performance and performance appraisal system.

#### **4.6. Scope of the Study**

This study tries to investigate the relationship between performance appraisal and employee’s performance in Commercial Bank of Ethiopia Jimma District staff selected.

The study conducted in Jimma District, SouthWest Ethiopia for the time being.

#### **4.7. Limitation of the Study**

The following were faced as some of the limitations

- The student researcher conducted this study while simultaneously assuming strong office responsibilities as a result, the student researcher obliged to take samples instead of census.
- Due to resource constraints the study encompasses only one district among the fifteen districts of the bank.

#### **4.8. Organization of the Report**

The research paper comprised of five chapters. In the first chapter there are background of the study, statement of the problem, the general and specific objectives, the significance, the scope and limitations of the study and organization of the study.

Review of related literature presented in chapter two, provides the literature on various theories with the aim of laying down the theoretical basis underpinning this study.

Chapter three discusses and justifies the methodology used for the study. Chapter four presents the data and analyzes the findings. The last chapter (chapter five) brings to a close by summarizing the major findings, give conclusions and recommendations.

## **CHAPTER TWO**

### **2. REVIEW OF RELATED LITRATURE**

This chapter briefly describes the meanings, antecedents and consequences of the variables used in this research. Furthermore, literatures were reviewed and based on the reviews, the hypothesis were developed. Finally, the theoretical framework for this research was shown.

#### **2.1. Definitions of Performance Appraisal (PA)**

Performance Appraisal - much have we heard of this word yet many failed to understand what it means (Scholtes, 1993). There are various authors, leaders, managers and gurus who have defined PA according to their knowledge. But again, this buzz word appears to be mere a jargon to the ordinary people on the street

(Scholtes, 1993). Probably, the differences in the definition of the word itself are due to the scale of impact it has caused to the people, organization, economy and so forth, individually (Kumar, 2005; Pettijohn et al., 2001). The existence of the PA principles has been observed since early 1900s (Vance et. al, 1992). At that point of time, it was designed to support a top-down, control-oriented style of management. Vance (1992, p.315) noted that PA is a "control system that is used by almost all organizations to specify the behavior that employees must perform in accordance with the organizational objectives". It enabled corporations to retain control over their employees, develop the employees, individually as well as team centered and involved the employee in setting goals for the organization (Mount, 1983; Vance et. al, 1992). Furthermore, PA served as a "tool for managing the effectiveness and efficiency of employees" (Spicer & Ahmad, 2006, p.214). Coutts and Schneider (2004, p.67) noted PA as a "vital component of a broader set of human resource practices; it is the mechanism for evaluating the extent to which each employee's day-to-day performance is linked to the goals established by the organization". Lowenberg and Conrad, (1998), observed similar initiative. These reviews suggested that PA functioned as a tool for administrative purposes within an organization. On the other hand, some other authors suggested that PA was more of a tool that carried employees' developmental purposes. Murphy and Cleveland (1995) defined PA system as a tool that accomplished specific goals, such as self enhancement or improvement of relationships with subordinates. Moreover, PA acts as valuation reference to reward employees, both intrinsically and extrinsically, and thus improve the employees' performance by continuous communication and feedback between both the employee and the organization (Vance et. al, 1992). Boice and Kleiner (1997, p.197) noted that PA was "most commonly undertaken to let an employee know how his/her performance compares with the supervisor's expectations and to identify areas that require training or

development. Common to most definitions of PA is the concept of improving performance and developing people, although its use in organizations continues to be varied. Some other definitions of PA are as stated below:

a) PA is defined “as a tool to identify and monitor staff’s competences, as well as taking into account a company’s core competence and external demands” (Ubeda & Santos, 2007, p.110).

b) PA is defined “as a structured formal interaction between a subordinate and his/her superior. It usually embraces of a periodic interview, in which the work performance of the subordinate is examined and discussed” (Arbaiy & Suradi, 2007, p.195).

c) PA is a "central management process, which means that it needs to be linked to such activities as business planning, clinical audit, etc" (Edmonstone, 1996, p.12).

d) PA is defined "as a tool to achieve a variety of human resource management objectives" (Kumar, 2005, p.1).

Though there are various definitions of PA which exist, it leads to a very similar meaning. For the purpose of this research, PA is defined as a tool used to achieve the following objectives with an organization:

a) To retain control over their employees (e.g. Mount, 1983; Vance et. al, 1992).

b) To involve the employee in setting goals for the organization (e.g. Vance et. al, 1992).

c) To evaluate the extent to which each employee’s day-to-day performance is linked to the goals established by the organization (e.g. Coutts & Schneider, 2004; Lowenberg & Conrad, 1998).

d) To reward employees, both intrinsically and extrinsically (e.g. Vance et. al, 1992).

e) To accomplish specific goals, such as self-enhancement or enhancing relationships with supervisor /subordinates (e.g. Murphy & Cleveland, 1995).



f) To improve the employees' performance by continuous communication and feedback between both the employee and the organization (e.g. Vance et. al, 1992).

g) To identify areas within an employee that requires training or development (e.g.

Boice & Kleiner, 1997). h) to specify the behavior that employees must perform in accordance with the organizational objectives (e.g. Vance et. al, 1992).

## **2.2 The importance of PA**

As noted by Vance et. al, (1992), the existence of PA was visible since the early 1900s. The role of PA and the importance of the process itself have been changing over the years to suit the goals and objectives of organizations. Henderson (as cited in Boice & Kleiner, 1997) noted that PA systems are not generic or easily passed from one company to another; their design and administration had to be tailor-made to match employee and organizational characteristics and qualities. Generally, PA was incorporated for a number of potential agendas. Edmonstone (1996) noted that some of the agendas that lead to PA procedures being conducted within an organization include:-

a) Improvement in the communication between boss and subordinate through the use of feedback between them.

b) Identification of the scope for performance improvement and the means to achieve this.

c) Identification of individual training and development needs.

d) Identification of the potential of individuals for future promotion, succession planning, or for retention or termination purposes.

e) As the basis for remuneration and reward, on the basis of performance.

f) As a powerful means of managerial control, through the setting of objectives in a hierarchical fashion and a review of success or failure in achieving these. From the reviews of the literatures, these stages of PA process are noticeable, each with its own

importance. First stage of the PA process is about providing direction for the employees. Lawler (as cited in Vance et. al, 1992) noted that PA provides direction for employees' behavior in-line with the organizational goals where necessary control can be achieved through a clear system of rules and procedures to direct and standardize employee behavior, resulting in predictability and accuracy of performance. Similar idea was noted by Edmonstone (1996). The second stage practices the evaluation of the employees' current performance and then reflected, improving both performance and supervisor-employee relationship. Arbaiy and Suradi (2007) noted that performance appraisal system allowed managers to evaluate the management of the effectiveness and efficiency of employees and/or other resources within the organization, thus creating competitive advantages amongst employees. Furthermore, Kane, Bernardin and Wiatrowski (1995) suggest that, in providing feedback, supervisors should allow employees the opportunity to share their insights and evaluations concerning their own performance. Thus, an effective PA feedback seemed to involve, inform, and motivate employees and also create improved supervisor-employee communications (Edmonstone, 1996; Villanova, Bernardin, Dahmus & Sims, 1993).

Finally, the third stage discusses the important role PA plays towards the future development of both the employees and the organization as a whole. This was seen in Arbaiy and Suradi (2007) where the authors noted that PA is conducted to identify strengths and weaknesses, as well as opportunities for improvement and skills development. Moreover, Squires and Adler (1998, p.446) suggest that an appraisal system must not only evaluate what has been accomplished, but also "guide future development, leverage existing strengths, and address skill deficiencies".

### **2.3. Types of Appraisal**

There are several ways by which appraisal can be carried out. Belcourt et al (1999) identify seven different types used in performance appraisal. These are discussed in the following paragraphs.

- **Managerial / Supervisor Appraisal**

The managerial or supervisor appraisal has been the traditional approach to evaluating an employee's performance. Belcourt et al, (1999) and other writers such as Certo (2000) conclude that, in this appraisal, the superior appraises the subordinate and in most situations a review is done by the supervisor's superior. The reviews, according to them, reduce subjectivity, superficial and or biased evaluations. This appraisal style is more acceptable to staff than the others.

- **Self – Appraisal**

Sometimes employees are asked to evaluate themselves on a self – appraisal form. This form of appraisal according to Belcourt et.al, (1999) is beneficial when managers seek to increase an employee's involvement in the review process. This process gets the employees thinking about their strengths and weaknesses and may lead to discussions about barriers to effective performance. During the performance interview, the manager and employee discuss job performance and agree on a final appraisal. Critics of the style argue that self-raters are more lenient than managers in their assessments and may tend to present themselves in a highly favorable light. Used in conjunction with other methods, self-appraisal can be a valuable source of appraisal information.

- **Subordinate Appraisal**

This is a system where managers give feedback on how their subordinates view them. Subordinate appraisals give employees power over their bosses, and this creates hesitation among managers to endorse such a system. Nevertheless, to avoid potential problems, Bohlander et al (2001) opined that subordinate appraisal should be submitted anonymously and combined across several individual raters.

- **Peer Appraisal**

This is a process where individuals of equal rank who work together are asked to evaluate each other. Peers can readily identify leadership and personal skills along with other

strengths and weaknesses of their co-workers. One advantage of peer appraisal is that it gives more accurate and valid information than appraisal from supervisors.

- **Team Appraisal**

This is an extension of the peer appraisal while peers are on equal standing with one another, they may be seriously together. In a team setting, it may be nearly impossible to separate one's individual contribution from the others. Writers such as Mathis and Jackson (2006), argue that in such situations appraisal can be dysfunctional since it detracts from the critical issues.

- **Customer Appraisal**

This is the situation where customers of the organization are asked to rate the performance of staff they come into contact with mostly. The belief behind this method is that overt behaviors exhibited by workers towards the clients can better be assessed by the customers. The organization develops a simple and user-friendly format that is used by the customers to rate the performances of the staff. This kind of appraisal also has the added advantage of truly identifying good and bad performers from yet another credible source. The information gathered is therefore analyzed in conjunction with other relevant data for the overall rating of the staff.

- **360 Appraisal**

This is a combination of all the other styles to arrive at an objective reality of situations. This style removes subjectivity from the ratings as others would be compared with each other. The 360° feedback method of appraisal, assesses employee performance from several angles; peers, customers, supervisors and subordinates. According to Fletcher (1993), normally the ratings are collected and collated by an external consultant or by an internal human resource department. Edwards and Ewen (1996) in their view, the 360° is an extraordinarily effective tool for change.

## **2.4. Performance Appraisal Process**

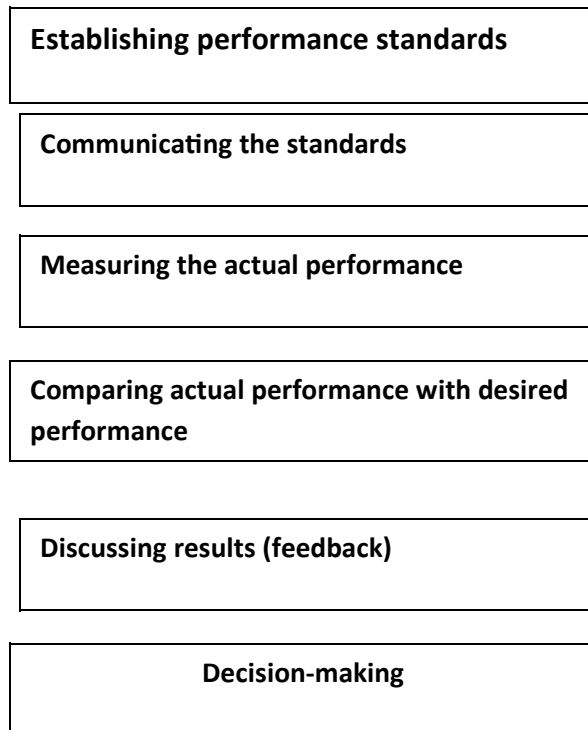


Figure 1-PA steps Source: [www.whatishumanresource.com](http://www.whatishumanresource.com)

- **Establishing performance standards –**

The first step in the process of performance appraisal is the setting up of the standards which will be used to as the base to compare the actual performance of the employees. This step requires setting the criteria to judge the performance of the employees as successful or unsuccessful and the degrees of their contribution to the organizational goals and objectives. The standards set should be clear, easily understandable and in measurable terms. In case the performance of the employee cannot be measured, great care should be taken to describe the standards.

- **Communicating the standards –**

It is the responsibility of the management to communicate the standards to all the employees of the organization. The employees should be informed and the standards should be clearly explained to the employees. This will help them to understand their roles and to know what exactly is expected from them. The standards should also be communicated to the appraisers

or the evaluators and if required, the standards can also be modified at this stage itself according to the relevant feedback from the employees or the evaluators.

- **Measuring the actual performance –**

The most difficult part of the performance appraisal process is measuring the actual performance of the employees that is the work done by the employees during the specified period of time.

It is a continuous process which involves monitoring the performance throughout the year. This stage requires the careful selection of the appropriate techniques of measurement, taking care that personal bias does not affect the outcome of the process and providing assistance rather than interfering in employees' performance.

- **Comparing actual performance with desired performance –**

The actual performance is compared with the desired or the standard performance. The comparison tells the deviations in the performance of the employees from the standards set. The result can show the actual performance being more than the desired performance or, the actual performance being less than the desired performance depicting a negative deviation in the organizational performance. It includes recalling, evaluating and analysis of data related to the employees' performance.

- **Discussing results (feedback) –**

The result of the appraisal is communicated and discussed with the employees on one-to-one basis. The focus of this discussion is on communication and listening. The results, the problems and the possible solutions are discussed with the aim of problem solving and reaching consensus. The feedback should be given with a positive attitude as this can have an effect on the employees' future performance. Performance appraisal feedback by managers should be in such way helpful to correct mistakes done by the employees and help them to motivate for better performance but not to demotivate. Performance feedback task should be handled very carefully as it may lead to emotional outburst if it is not handled properly.

Sometimes employees should be prepared before giving them feedback as it may be received positively or negatively depending upon the nature and attitude of employees.

- **Decision-making –**

The purpose of conducting employee performance appraisal is for making decisions about employees without any bias by the HR manager. Decision-making by HR managers about employees rewarding, promotions, demotions, transfers and sometimes suspensions/dismissal of employees are depended upon the employee performance appraisal. The decision taken by HR manager should match exactly with performance appraisal results of employees to avoid grievance or disturbances in between them, as they affect overall performance of the organization.

## **2.5. Methods of Performance Appraisal System:**

Most appraisal methods used throughout the world today are based, to some extent at least upon the following techniques: Graphic rating scales; behaviorally anchored rating scales (BARS), behavioral observation scales (BOS); mixed standard rating scales; and management by objectives (MBO). Most commentators agree that goal-based appraisal systems, in which an employee's work performance is measured against specific goals, are the most satisfactory (Dorfman et al., 1986; Locke and Latham, 1984; Latham and Wexley, 1981). Lastly, in the past few years, there has been growing interest in the practice community for what has been termed "non-traditional" appraisal systems (e.g., Coens and Jenkins, 2000; Lawler, 2000). These systems are less structured than the more traditional systems, with less emphasis on ratings or rankings, and more emphasis on developmental meetings between supervisors and employees as needed. The study of Bladen (2001) indicated that these approaches have been growing in popularity, but most firms that have moved in this direction have developed hybrid models, which still retain some aspects of the traditional systems.

According to Muezyk and Gahle (1987), an organization's success or failure may be determined by the ways in which performance is managed.

## **2.6. Employee's Performance:**

High employee's performances lead an organization and have greater opportunities for employees than those who have low performance (Vans cotter, 2000). "Performance is related to that organization hires the person to do and do well"(Campbell 1993). Performance is not only related to the actins but also involves judgment and evaluation process (Ilgen & Schneider, 1991). The activities that can be examined and measurable are reflected as performance (Campbell, 1993).

Organizations need highly performance of its employees so that organization can meet their goals and can able to achieve the competitive advantage (Frese, 2002).(Borman and Motowidlo, 1993) differentiate between work and performance. Work related to the person abilities through which employee performed activities which is contributed by the technical core. Performance not related to the technical core characteristics but it cares about the organization psychological environment and social environment in that organization achieve its objectives. It involves behaviors such as helping colleagues or being a reliable member of the organization (Frese, 2002). Performance appraisal emphasizes on the performance variables not on personal traits (Smither, 1998). (Kane, 1995) argued that performance should be measured in term of the work related behavior. Murphy in 1991 argued that analyzing performance through personal characteristics has different disadvantages.

(Jankoz, 2004) argued that the validity and reliability of attribute based performance appraisal are greater suspected as the perception of superior officer maybe biased. (Squires and Adler, 1998) appraisal based on traits of employee has little value. (Malos, 1998) concluded that fair appraisal



Arabian Journal of Business and Management Review (OMAN Chapter) Vol. 3, No.1; August 2013 is based on job related behaviors not traits of persons. Employees must believe that in performance appraisals there is great opportunity for them (Weick, 2001). Without fairness the performance appraisal system, rewards, motivations and developments create negative impact and frustration (Gilliland and Langdon, 1998).

## **2.7. Empirical studies related with performance appraisal**

Contemporary research studies have also linked performance appraisal to performance of employees as Resella, 2011; Rosemond Boohene, 2011; Liza Daoanis, 2012; Warokka, Gallato & Moorthy 2012 revealed that performance evaluation practices have a significant and positive impact on the performance of employees. Former studies have also reported that performance appraisal is positively related to productivity. Doris Resella Senyah, 2011; Anne Wanjiru Gichuhi, Owili Abaja & Isaac Ochieng 2013 concluded that productivity is significantly and positively affected by performance appraisal's criteria, frequency and feedback system. Performance appraisal has been found to have significant relationship with promotion, rewards, bonus & salary increments (Horsoo,2009; Femi,2013). Further, performance appraisal has been studied in relation to job satisfaction as reported by Monis & Sreedhara, 2010; Karimi, Malik & Hussain, 2011 that performance appraisal positively and significantly predicts the satisfaction of employees.

## **2.8. Underlying theories of performance appraisal**

- **Justice theory**

More recently, Roch and Shanock (2006) used exchange theory to incorporate all four justice dimensions into one theoretical framework. They found that procedural, interactional, interpersonal, and informational justice were related to social relationships, either with the organization (i.e. procedural justice) or with the supervisor (i.e. interactional, interpersonal, and informational justice), whereas distributive justice is related more to an economic exchange

relationship. In the current study, we draw upon this integrative framework and apply it specifically to a performance appraisal context. This conceptualization may hold the key to explaining employees' perceptions of fairness concerning their performance appraisals and appraisal systems. Below we discuss relevant performance appraisal literature pertaining to each of the four justice dimensions.

- **Procedural justice perceptions;**

According to Rosenzweig and Nohria, (1994) model, judgments will depend on the relative weighting of the perceived fairness of the structural components of the performance appraisal procedure. Three specific procedures have shown prominence in the performance appraisal research (assigning raters, setting criteria and seeking appeals). Folger *et al.* (1992) and the subsequent empirical work by Taylor *et al.* (1995) emphasized the importance of setting criteria and seeking appeals. Silverman and Wexley (1984) found that participation in construction of behaviorally anchored rating scales led to favorable perceptions regarding the performance appraisal interview process and outcomes. Stratton (1988), found that perceptions of appeal procedures were positively related to evaluations of supervisors, trust in management, and job satisfaction.

- **Distributive justice perception;**

Distributive justice is deeply rooted in the research of the original equity theorists. There are two types of structural forces associated with the distributive justice of a performance appraisal as an outcome. The first type is decision norms (e.g. equity). Receivers of distributions Research Journal Structured to conform to existing social norms, like equity, typically believe that the distributions are fair. Raters, however, may also feel driven to develop appraisals that conform to other distribution norms such as equality, need, or social status which may seem unfair to those being rated (Leventhal, 1980).

The second type of structural force relates to the personal goals of the rater (e.g. to motivate, teach, avoid conflict or gain personal favor). Whether employees consider a particular appraisal as fair or unfair can depend on their perceptions of the rater's goals. Employees may consider an appraisal as fair if they perceive that the evaluator is trying to

motivate them, improve their performance or expand their perceptions of their own capabilities. Goals that may not be perceived as fair can include conflict avoidance, favoritism and politics.

- **Interpersonal justice perceptions;**

Interpersonal justice concerns fairness perceptions that relate to the way the rater treats the person being evaluated. Greenberg (1986a) provided evidence that individuals are highly influenced by the sensitivity they are shown by their supervisors and other representatives within the organization. This is especially true when raters show concern for individuals regarding the outcomes they receive. Specifically, Greenberg found that apologies and other expressions of remorse by raters have been shown to mitigate ratees' perceptions of unfairness.

- **Informational justice perceptions;**

Informational justice concerns fairness perceptions based on the clarification of performance expectations and standards, feedback received, and explanation and justification of decisions. Like procedural justice, the focus is on the events which precede the determination of the outcome, but for informational justice, the perceptions are socially rather than structurally determined. Information about procedures can take the form of honest, sincere and logical explanations and justifications of any component of the allocation process. In the context of performance appraisals the most common interactions will involve the setting of performance goals and standards, routine feedback, and explanations during the performance appraisal interview.

- **Implicit Person Theory**

Dweck (1986) defined implicit theories as lay beliefs about the malleability of personal attributes (e.g., ability and personality) that affect behavior. A prototypical entity implicit theory assumes that personal attributes are largely a fixed entity, whereas an incremental

implicit theory assumes that personal attributes are relatively malleable. Implicit theory research, conducted with children and students by educational and social psychologists (Kamins & Dweck, 1999), has focused largely on the motivational implications of holding a primarily entity or incremental implicit theory. Within an organizational context, several studies have examined how implicit theories of ability influence aspects of self-regulation including the goals that people set (e.g., Wood & Bandura, 1989), their level of self-efficacy (e.g., Martocchio, 1994), the resilience of their self efficacy following setbacks (e.g., Wood & Bandura, 1989), and their performance on complex decision-making tasks (e.g., Taberero & Wood, 1999). However, no published studies, to our knowledge, have examined the effect of managers' implicit theories on their judgments of others.

Implicit theories can be domain specific, pertaining particularly to areas such as ability, morality, or personality. Chiu, Hong, and Dweck (1997) argued, however, that judgments about others are more likely to be influenced by a person's implicit person theory (IPT), that is, his or her domain-general implicit beliefs about the malleability of the personal attributes (e.g., ability and personality) that define the type of person that someone is, as well as how he or she behaves.

In the present series of studies we investigated the potential role of IPT in the revision of a manager's performance appraisal judgments. This is an important issue in organizational psychology because failure by managers to recognize a significant decrease in the performance of a medical surgeon, a paramedic, a security guard, an airline pilot, or a nuclear power plant operator, for example, could be catastrophic. Similarly, failure to acknowledge a significant improvement in the behavior of an employee can lead to employee frustration, resentment, and withdrawal.

- **Equity Theory**

The pay-for-performance effect is clearly rooted in the equity theory that emphasizes employees' perception of fairness. According to the theory, employees will perceive a practice to be fair or equitable when their input-output ratio is equal to that of a referent.

When paid in accordance to individual performance, it is likely that employees perceive fairness or justice in the ratio. Studies have shown that a rating based on individual performance and a salary based on the rating tends to enhance employee perceptions of distributive justice (Campbell et al., 1998; Greenberg, 1996).

It is true that the equity aspect has been largely ignored in collectivistic cultures such as Korea, in which pay-for-performance was rarely utilized. As described, however, recent changes in the compensation techniques of Korean companies toward an ability/performance basis are quite notable. Despite the suspicions that the technique conflicts with the traditional cultural value of the country, an increased number of companies have used it as the preferred remedy to enhance flexibility and productivity.

- **Social Justice Theory**

The organizational justice literature provides a robust framework for explaining and improving perceptions about performance appraisals. Organizational justice is deeply rooted in social exchange theory. Social exchange theories make two basic assumptions about human behavior (Mowday, 1991): social relationships are viewed as exchange processes in which people make contributions for which they expect certain outcomes; and, individuals evaluate the fairness of these exchanges using information gained through social interactions. The original version of social justice theory suggested that social exchanges were perceived as fair when people sensed that their contributions were in balance with their rewards (Adams, 1963). This equity theory later became known as the distributive form of organizational justice because it involved the allocation or distribution of outcomes (Greenberg, 1990). Subsequent research discovered that individuals would accept a certain amount of injustice in outcome distributions as long as they perceived that the procedures that led up to those outcomes were fair (Cropanzano and Folger, 1991). Procedural justice describes the phenomena of perceived fairness in the allocation process. Leventhal (1980) identified seven procedural categories that individuals can use in order to determine the fairness of organizational processes. These include procedures for selecting agents, setting ground rules, collecting information, making decisions, appealing decisions, safeguarding employee rights, and changing

procedures. An individual's awareness of unfair practices in any one of the seven factors can lead to perceptions of injustice. Since the publication of Leventhal's model, researchers have clearly demonstrated the existence of two justice factors: a distributive factor associated with the fairness of distribution of outcomes, and a procedural factor associated with the fairness of the means used to determine the outcomes.

## 2.9. Theoretical Framework

The organization goals are divided and they incorporate the employee work plan. Performance appraisal involves what is expected to employees and employees remain in the focused of supervisor (Casio, 2003). Evaluation involves employee performance comparison with the objectives that has been described in the beginning of the appraisal period (Lillian, Mathooko & Sitati, 2012). Evaluation tells about the performance of employee that which employees have met their goals. Regular assessment make able to employees to focus his attention on that what is expected to him give feedback to employees and motivates him too (Casio, 2003). Positive Arabian Journal of Business and Management Review (OMAN Chapter) Vol. 3, No.1; August 2013 feedback tells employee that his work done well and also illustrates what is needed to improved. The good appraisal and supervisor must communicate to employee that how the performance of them can improved and motivates him (Lillian, Mathooko & Sitati, 2012).

**Figure 2**

**Conceptual framework**



Employee training

**Independent Variables**

**Dependent Variables**

## **CHAPTER THREE**

### **3. RESEARCH DESIGN & METHODOLOGY**

The main aim of the study was to determine the relationship between employee performances with performance appraisal system in Commercial Bank of Ethiopia Jimma District.

#### **3.1. Research Model**

Based on the existing literature and researches, To determine the relationship between Employee Performance (E.P) (dependent variable) and the variables (which were the performance appraisal systems), namely; Competence, assessment and development, management by objectives, performance based pay and employee training (which were the independent variables) in the Commercial Bank of Ethiopia Jimma District, to

answer the research question and objective of the study, the following model was developed.

Model  $Y_1 = \alpha + \beta_i v_i + e$  where,

$E.P = \alpha_0 + ax_1 + bx_2 + cx_3 + dx_4 + e$

E.P = Employee Performance

Where  $\alpha$  = constant coefficient

$\beta_i$  = Independent variables (where  $i=1,2$ )

a, b, c and d = Regression coefficients

$x_1$  = Competence, assessment, and development

$x_2$  = Management by objectives

$x_3$  = Performance based pay

$x_4$  = Employee training

e = Error term (The expected value of the error term is zero)

### **3.2. Research Design**

The research design in this study is descriptive and explanatory type and employed quantitative research techniques. According to Strauss et. al. (1998:10), quantitative research design analyzes information gathered from questionnaires handed out to target individuals or groups. In order to achieve the desired result of this research it makes sense to choose quantitative technique at large as it enabled the researcher to be able to look into all areas of the subject at hand.

The study involved self administered questionnaire with sample employees of CBE, Jimma district this questionnaire was used for measuring the relationship between performance appraisal and employee performance and was well tested on reliability and validity scales. (Cronbach's alpha in the range of 0.73 to 0.82). In this study was assessed



and quantified by using 5-point Likert scale where 1= Strongly Disagree, 2= Disagree, 3= Indifferent, 4= Agree and 5= Strongly Agree.

The research examines and checks the relationship between performance appraisal system independent variables and employee's performance as dependent variable. The variables considered for this study were centered on the main factors according to the literature review related to the study.

### **3.2.1. Sampling Technique**

Kothari (2004) has stated that when the population from which the sample is to be drawn does not constitute a homogeneous group, a stratified sampling technique is required to obtain a representative sample. As a consequence, this study adopted stratified random sampling where the population of study was divided into the Management member, customer services staff (clerical) and the non clerical staff (Messengers, Guards and Drivers) by considering the position. A stratified random sampling design was used to ensure that every possible characteristic of employees have categorical representative in the study. List of staff and names were collected from Jimma district HR and used to select the participant

### **3.2.2. Sample size**

The target populations were Commercial Bank of Ethiopia employees and the study populations were permanent employee of Commercial Bank of Ethiopia Jimma District. Currently Jimma district has total number of 660 employees as of August 31, 2015. This study included all categories of Workers those served for more than a year in the different branches at the time of the data collected. The researcher utilized primary data collected from respondents.

Based on Cooper and Schindler (2008) recommendations, 10%-20% of population is a sufficient sample size. It is not possible to collect the data from the entire staff. In this regard, sample size was calculated as follows:

Sample Size  $s = 20\% \text{Population (N)}$  where,

$N = \text{Total Population}$

$s = \text{Sample Size so,}$

$$s = 660 * 20\% = 660 * 0.2 = 132$$

None Response rate = 20 % (calculated sample size):

$$\text{None Response rate} = 132 * 20\% = 26.4 \sim 26$$

$$\text{Total Sample Size} = 132 + 26 = 158$$

The Sample size was composed of 158 employees, including none Response rate at 20% which was 26 selected from 660 populations

**Table -1**

**Population and Sample distribution**

<b>Employee Categories</b>	<b>Description</b>	<b>Total</b>	<b>Proportionate sample size</b>	<b>Sample size</b>
<b>Management staff</b>	<b>Branch managers, Customer Service mgrs</b>	<b>119</b>	<b><math>158/660 * 119 = 28.48 \sim 28</math></b>	<b>28</b>
<b>Customer service services(Clerical)staff</b>	<b>officer(CSO), credit relation officer(CRO), Senior CSO</b>	<b>480</b>	<b><math>158/660 * 480 = 114.90</math></b>	<b>115</b>
<b>Non clerical Staff</b>	<b>Messengers, Guards and Drivers</b>	<b>61</b>	<b><math>158/660 * 61 = 14.6</math></b>	<b>15</b>
<b>Total</b>		<b>N=660</b>		<b>158</b>

Therefore, the study has been conducted using 158 as sample from the total population of six hundred sixty (660) but only 138 respondents filled the questionnaire properly and ready for further analysis. This gives a 138(87%) response rate, which, therefore, taken to be acceptable according to Punch (2003) response rate at least 60 percent of the sample selected.

### **3.3. Data Collection Instruments**

The researcher used primary data source. Questionnaire were filled by sampled targets that encompasses Management staff, Clerical and non clerical employees in CBE Jimma District. The questions developed to collect quantitative data. Data has been collected by applying the standard questionnaire. Questionnaire has been adopted from the papers of (Al-Ghamdi, 2011; Verhulp, 2006). In questionnaire general questions are about gender, age, employment status, and education level .I have used Likert scale of fifth continuum from 1 to 5. 1= strongly disagree, 2=disagree, 3= uncertain, 4=agree and 5= strongly agree in this questionnaire.

As far as secondary data are concerned; relevant data were collected by reading and reviewing publications of the bank, HRM books and literatures, websites of the bank (internet) and other available sources.

Questionnaire was adopted instead of newly developed due to validity concern and so there was no question mark on its validity. To ensure whether items were measuring the same dimension, Cronbach Alpha test was employed. Reliability of questionnaire was checked through Cronbach Alpha test. Questionnaire scales were modified to make it suitable for sample employee selected for the study. Thus, 25 statements of item were included in the adapted questionnaires. By utilizing a 5- Likert scale standardized survey questionnaires were used to collect the primary data from employees working in commercial Bank of Ethiopia Jimma District.

### **3.4. Reliability Test of Items**

According to (Sekaran, 2003), reliability test was performed to check the consistency and accuracy of the measurement scales. Reliability refers to whether an instrument is consistent, stable and free from error, despite fluctuations in test taker, administrator or conditions under which the test is administered. As suggested by Cronbach (1951) and

(Nunnally, 1978), the measure of the internal consistency or reliability of a Likert scale (psychometric test) score, the reliability coefficients between 0.70–0.90 are generally found to be internally consistent.

Therefore, in this study the questionnaires were distributed for respondents found in Jimma District and the Cronbach Alpha reliability test was checked and found above 0.7 for all variables. The values are satisfactory because the satisfactory level is required to be more than 0.7 for the scale to be reliable (Cronbach & Meehl 1955). The Cronbach’s Alpha reliability statistics is depicted below.

**Table 2-Reliability of test of items**

<b>Variables</b>	<b>Cronbach Alpha</b>	<b>No. of Items</b>
Competence & Assessment, and development	0.767	7
Management by objectives	0.777	6
Performance based pay	0.701	5
Employee training	0.713	7

### **3.5. Data Analysis Techniques and Study Variables**

The researcher has used descriptive analytical tools, reliability test, arithmetic mean (weighted average), standard deviation, correlation analysis; comparison with cross-tables, linear regression analysis and ANOVA was applied to determine the relationship between independent variables and dependent variable. The correlation

analysis was done to analyze the strength of the relation of independent variables and dependent.

The researcher used a statistical analysis program called Statistical Package for Social Science (SPSS) (Version 16) to clean and enter the data after it is recorded by the Likert scale. To describe the profile of the respondents and the study variables Frequency distribution, Mean and Standard Deviation were utilized. Further correlation analysis, comparison with cross-tables, linear regression analysis was applied to determine the relationship between employee performances with performance appraisal system. The correlation analysis was done to analyze the strength of the relation of independent variables and dependent variables.

The opinions of the employees were collected through 5 point Likert scale. In the Likert scale, the values 1, 2, 3, 4, and 5 are taken as 'Strongly disagree', disagree, neither agree nor disagree', 'agree', and 'Strongly agree' respectively. The value 3 is neutral. This means that the mean score of value 3 indicates no effect of variable. The mean score more than 3 means a positive effect of the variable. But the mean score less than 3 means a negative effect of the variable. Items responses were summed or averaged to create a total score. Description of Mean Score of the study, the 5-point Likert scale has the following mean scale values:

4.0 – 5.0 strongly agree (SA)

3.0 – 4.0 agree (A)

3.00 mean score means has No Effect on the variables to be measured (NE)

2.0 – 3.0 Dis agree (DA)

1.0 – 2.0 strongly Dis agree (SDA)

Weight Average =  $\frac{\sum(ws)}{\sum s}$  where ,

W=weight of respondent

S= Number of respondent

### **3.6. Ethics in the study**

According to Borg and Gall (1989), it is argued that the researcher has to ensure confidentiality of data and sources. Additionally, they argue that names of the participants and the places they live or work must not be revealed. In this study, the confidentiality of participants and data collected was observed. The study does not bear participants' names or names of their respective branches. Also, the survey instrument did not require anybody to provide information that would make anybody reading the report to identify the data sources. In other words, secrecy of both participants and data was strictly observed.

# CHAPTER FOUR

## 4. RESULTS & DISCUSSIONS

In this chapter, the results of the empirical study are reported. Results are presented in respect of the relationship between employee performances with performance appraisal system in CBE, Jimma district context.

### 4.1. Demographic Characteristics of Respondents

- Frequency Analysis

Table 3-Age of Respondents

Age Category	Frequency	Percent	Cumulative Percent
20 - 30	64	46.37	46.37
31 - 45	53	38.41	84.78
46 - 55	15	10.87	95.65
56 And above	6	4.35	100
Total	138	100	

Source: Data collected from respondents 2015

Out of the 138 respondents 46% were between the age of 20 and 30, 39% of the respondents were between the age of 31 and 45, 10.87% of the respondents were between the age of 46 and 55 and six individual were found at the age of 56 and above of the total number of respondents. Most of the respondents are under the age of 30; this is because this age group is the one actively filling the new vacant posts created due to new branch openings.

**Table 4 -Gender Respondents**

<b>Sex</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
<b>Male</b>	<b>115</b>	<b>83.3</b>	<b>83.3</b>
<b>Female</b>	<b>23</b>	<b>16.7</b>	<b>100</b>
<b>Total</b>	<b>138</b>	<b>100</b>	

Source: Data collected from respondents 2015

From the total of 138 respondents 83% or 115 respondents were male and the remaining 17% or 23 respondents were females.

**Table 5- Educational level (Qualification) of Respondents**

<b>Qualification</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
<b>Diploma</b>	<b>10</b>	<b>7.2</b>	<b>7.2</b>
<b>First degree</b>	<b>125</b>	<b>90.6</b>	<b>97.8</b>
<b>Second degree</b>	<b>3</b>	<b>2.2</b>	<b>100</b>
<b>Total</b>	<b>138</b>	<b>100</b>	

Source: Data collected from respondents 2015

When we look at the compositions of educations status of the respondents, 10(7%) of the respondents were diploma holders, 125(91%) of the respondents were first degree holders and 3(2%) of the respondents were second degree holders. First degree holders are largest in number because the bank has started hiring first degree holders since 2010 and most diploma holders have upgraded their educational qualification.



**Table 6 -Work Experiences (Service year) of Respondents**

<b>Service Years</b>	<b>Frequency</b>	<b>Percent</b>	<b>C u m u l a t i v e Percent</b>
<b>1 - 5 years</b>	<b>61</b>	<b>44.2</b>	<b>44.2</b>
<b>6 - 10 years</b>	<b>41</b>	<b>29.7</b>	<b>73.9</b>
<b>11 - 15 years</b>	<b>25</b>	<b>18.1</b>	<b>92</b>
<b>16 - 20 years</b>	<b>6</b>	<b>4.4</b>	<b>96.4</b>
<b>21 years and above</b>	<b>5</b>	<b>3.6</b>	<b>100</b>
<b>Total</b>	<b>138</b>	<b>100</b>	

Source: Data collected from respondents 2015

Regarding to the service years of the respondents, out of the 138 respondents 61(44%) were within the range of 1 to 5 years of working experience, 41(29.7%) were having 6 to 10 years of working experience, 6 of the respondents were with the experience of 16 to 20 years and only 5 respondents were served for 21 years and above in the bank. Following the recent wide expansion of branches in CBE, most of the staffs are with service years five and less than five years.

### **3.2. Descriptive Analysis**

In this analysis, mean and standard deviation is used to explain the characteristics of the data. Mean refers to the arithmetic average of the scores and is the most frequently used measure of central tendency.

**Table 7- Weighted average result of the variable**

<b>Variables</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>	<b>Weight</b>	<b>N</b>	<b>mean</b>
Competence, assessment, & development	9	26	28	65	10	455	138	3.3
Management by objectives	6	20	38	66	8	464	138	3.4
Performance based pay	8	15	21	71	23	500	138	3.6
Employee training.	6	17	19	76	20	501	138	3.6

In Table7 above, summarizes that, the weighted average results of the responses of the respondents towards effects of performance appraisal on employees performance listed in the questionnaire, the respondents agree in all question

**Table 8 - Descriptive Statistics result of the Variable**

<b>Study Variables</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>N</b>
Assessment and Promotion	3.3	1.1	138

Management by objectives	<b>3.4</b>	<b>1.1</b>	<b>138</b>
Performance based pay	<b>3.6</b>	<b>1.1</b>	<b>138</b>
Employee training.	<b>3.6</b>	<b>1.1</b>	<b>138</b>

Source: Data collected from Respondents 2015

In the Table 8 above, the descriptive statistics of the variables are presented. Among the dependent variables, the relationship performance appraisal with employees performance was perceived to be the highest ( $M = 3.6$ ,  $SD = 1.1$ ) in the District context, among the employees in CBE Jimma District is moderate. In all variables, led to satisfaction of their job at Jimma district. Employees in highest number responded to be satisfied from performance appraisal.

### **3.3. Correlation Analysis**

Correlation refers to synonym for association or the relationship between variables. It measures the degree to which two sets of data are related. Higher correlation value indicates stronger relationship between both sets of data. When the correlation is 1 or -1, a perfectly linear positive or negative relationship exists; when the correlation is 0, there is no relationship between the two sets of data. Coetzee (2003) noted that when considering the correlation between the independent variable and the dependent variables, the larger the magnitude of the correlation, the stronger the linear association. The standard correlation coefficient is Pearson's  $r$ . which applies primarily to variables distributed more or less along interval or ratio scales of measurement.

**Table 9 - Correlations among the variables**

<b>Variables</b>	<b>X1</b>	<b>X2</b>	<b>X3</b>	<b>X4</b>
------------------	-----------	-----------	-----------	-----------

assessment, and promotion (x1)	<b>1</b>			
Management by objectives (x2)	. 0.172 *	<b>1</b>		
Performance based pay (x3)	0.324 *	0.425*	<b>1</b>	
Employee training (x4)	0.368*	0.480 *	0.596*	<b>1</b>
Employee performance	<b>0.344</b>	<b>0.588</b>	<b>0.549</b>	0.603

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

Table 9 Shows that, Pearson’s correlation has been conducted to test the relationship between performance appraisal and employees performance. Based on the above table 9, shows the correlation coefficients that gave the measure of the relationship between the dependent variable (Employee performance (E.P)) and the independent variables, which were; Competence, Assessment, and Development (X1), Management by objectives (X2), Performance based pay (X3), Employee training (X4). From table 9 there was a low positive correlation (relationship) between employee performance and Competence, Assessment, and Development (X1) with a correlation coefficient of 0.344. The relationship between employee performance and Management by objectives (X2) high, with a correlation coefficient of 0.588; the correlation between employee performance and Performance based pay (X3) was also high with a correlation coefficient of 0.549 There was also a high positive correlation between employee performance and employee training with a correlation coefficient of 0.603. From the study the researchers deduced that the variables management by objectives, performance based pay, and employee training were the main variables that affected employee performance.

### 3.4. Regression Analysis

Multiple regressions are widely used to estimate the size and significance of the effects of independent variables on a dependent variable (Antonakis, &Deitz, 2011).The regression analyses were applied to confirm the weighted average results.

In this study, the regression analysis was used to test the direct effect of the dependent variables were first regressed onto the performance appraisal variable (independent variable).

The multiple regression equation was:

$$E.P = a_0 + ax_1 + bx_2 + cx_3 + dx_4 + e$$

E.P = Employee Performance

Where  $a_0$  = constant

a, b, c and d= Regression coefficients

$x_1$ = Competence, assessment, and development

$x_2$ = Management by objectives

$x_3$ = Performance based pay

$x_4$ = Employee training

e= Error term

The estimate multiple regression model is given by;  $E.P = a_0 + ax_1 + bx_2 + cx_3 + dx_4$

**Table-10** Regression analysis, Relationship between Independent variables and Dependent Variable

a) Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.895a	.801	.792	7.612

b). Coefficients

	Un standardized Coefficients $\beta$	Std. Error	standardized Coefficients $\beta$	t.	Sig.
(Constant)	25.254	3.793		6.659	0.052
assessment, and development (x1)	2.303	0.285	0.266	8.085	0.000
Management by objectives (x2)	1.449	0.427	0.331	3.393	0.001
Per formance based pay (x3)	2.143	0.351	0.330	6.100	0.000
Employee training (x4)	2.401	0.784	0.423	3.061	0.000

a. Predictors: (Constant), assessment, and development, Management by objectives, Performance based pay, Employee training

b. Dependent Variable: Employee performance

Based on the above table 10 Employee training (sig 0.000, beta =0.423,  $p < 0.05$ ), Management by objectives (sig 0.001, beta =0.331,  $p < 0.05$ ) and Performance based pay (sig 0.000, beta =0.330,  $p < 0.05$ ) respectively statistically significant largest contribution to the prediction of employee performance (dependent variable) where as assessment, and development (sig 0.000, beta =0.266,  $p < 0.05$ ) slightly least contribution for prediction of employee performance (dependent variable). In this model adjusted R2 value = 0.792 this means the model explain 79.2% of the variation in job satisfaction. The equations this model comes out:

$$Y_1 = 25.25 + 2.3x_1 + 1.45x_2 + 2.1x_3 + 2.4x_4$$

Thus from the value obtained from this research that the proportion of variation associated to the independent variables had a large effect since the value is greater than 50%.

#### 4.5. Demographic factors and Performance appraisal

To test whether there is any significant difference in employee demographic factor with their performance appraisal satisfaction Correlation was used to find out the significant of various demographic factors with performance appraisal satisfaction and one way ANOVA test was performed to determine whether there were significant differences in performance appraisal in relation to participant demographic factors.

In the current study, the technique was used to determine whether performance appraisal differ significantly in relation to gender, age, professional qualification and working experience.

**Table 11: Correlation of Demographic Factor and Performance appraisal**

	1	2	3	4	
<b>Gender Of Respondent(1)</b>	1				
<b>Age of Respondent(2)</b>	0.05	1			
	0.53				

<b>Educational Qualification(3)</b>	<b>-0.01</b>	<b>-0.01</b>	<b>1</b>		
	<b>0.95</b>	<b>0.87</b>			
<b>Work experience(4)</b>	<b>0.22</b>	<b>0.49</b>	<b>0.03</b>	<b>1</b>	
	<b>0.01</b>	<b>0.00</b>	<b>0.71</b>		

### **Relationship between Performance appraisal and demographic factors**

A one-way ANOVA survey has been conducted in order to explore the relation between performance appraisal and Age, Gender, Educational qualification and work experience. No significant relationships were found between demographic factors and the performance appraisal satisfaction. The result indicates that there were no any significant relationships were found between demographic factors and the performance appraisal satisfaction.

## **CHAPTER FIVE**

### **5. Summary of Major Findings, Conclusions and Recommendations**

#### **5.1. Summary of Major Findings**

The entire study targeted at evaluating the effect of performance appraisal systems on employees performance in the selected in commercial Bank of Ethiopia Jimma District.



The research revealed that competence, assessment and development affected employee performance to a moderate extent as indicated by the respondents.

The research revealed that management by objectives enhanced the performance of the bank estate to a great extent with an indication of the respondents. The researcher also sought to know the extent to which a number of factors of management by objectives affected performance. These factors included; a climate of achievement is generated by mutual trust and goal setting between the employee and his immediate manager at the estate, A successful program with the communication necessary to achieve desired results requires commitment and dedication, One of the major contributions of management by objectives is that it enables the firm to substitute management by self-control for management by domination, the MBO method concentrates on actual outcomes, If the employee meets or exceeds the set objectives, then he or she has demonstrated an acceptable level of job performance, Employees are judged according to real outcomes, and not on their potential for success, or on someone's subjective opinion of their abilities, The guiding principle of the MBO approach is that direct results can be observed, whereas the traits and attributes of employees (which may or may not contribute to performance) must be guessed at or inferred, The MBO method recognizes the fact that it is difficult to neatly dissect all the complex and varied elements that go to make up employee performance and MBO advocates claim that the performance of employees cannot be broken up into so many constituent parts - as one might take apart an engine to study it. The research revealed that, the statements; one of the major contributions of management by objectives is that it enables the firm to substitute management by self control for management by domination, and was the main effects of management by objectives on the performance of the District.

The study also revealed that performance based pay affected employee performance to a great extent. The researcher was interested by the extent to which a number of factors of performance based pay enhanced the performance of the District. The factors to test which included; Satisfaction of employees and supervisor/organization, Appraisal

process, Evaluation of employees for reward purposes, Evaluation of employees for reward purposes and appraisal process were the main factors of performance based pay that enhanced the performance of the bank as revealed by the research. In addition the statements; The appraisal process is directly linked to rewards, Performance based pay increases employee motivation in the organization, and Merit rises and bonuses are decided arbitrarily by supervisors and managers were the main factors of performance based pay that influenced the effectiveness of performance appraisal systems in the organizations as revealed by the research.

Effect of employee training on the employee performance in CBE Jimma District a great extent of the respondents' indication. Form of training methods/approaches and Required knowledge/objectives affected the effectiveness of the performance appraisal in the organizations. The research revealed that all these factors influenced the effectiveness of the performance appraisal in the organizations to a moderate extent.

The researchers wanted to find out the relationship between the employee performance (EP) which was the dependent variable and the independent variables which were; competence, assessment and development, management by objectives, performance based pay, and employee training. The researchers also sought to know the effect of the independent variables (i.e. performance appraisal systems) namely; competence, assessment and development, management by objectives, performance based pay, and employee training on the dependent variable; employee performance (EP) by using the multiple regression analysis.

The obtained results show that there is significant relationship exist between Performance appraisal and employee's performance.

The findings also highlights that employees must experience positive appraisal reactions in order for performance appraisal to positively influence employee attitudes and behavior (Kuvaas, 2006; Murphy & Cleveland, 1995). Klein and Snell (1994) noted that goal setting in performance appraisal process had a greater impact on attitudinal reactions for poor performers, probably because these employees needed goal setting to clarify what was needed in order to improve performance. Thus, whereas the ultimate goal of performance appraisal is to improve the effectiveness of employees (Kuvaas, 2006), the

findings from this study suggest that it is more effective in influencing attitudes and behavioral intentions. This is because employee performance is relatively strongly influenced by individual abilities and skills (Sonnentag & Frese, 2002) and constrained by technology and work design (Organ, 1997).

Therefore, management of Commercial Bank of Ethiopia Jimma District should focus on those variables in order to achieve the performance appraisal satisfaction of their employees.

One-way ANOVA test was conducted to identify any statistically significant differences between demographic factors and performance appraisal. The results of this study reveal that, there are no significant differences in performance appraisal in relation to gender, age, educational qualification and work experience (years of service). Performance appraisal remains unaffected by the demographic factors

## **5.2. Conclusions**

From the findings, the study concluded that Appraisal system should be to improve the employee performance that will leads towards the organization success. The system must be deeply observed the people and recognize that employees are the most important resource.

The following are the major conclusions drawn from the research findings, the study concluded that competence, assessment and development, management by objectives, performance based pay and employee training all affected employee performance in Commercial Bank of Ethiopia Jimma District. However the factors, employee training, performance based pay, and management by objectives were the key factors that influenced employee performance as indicated by the respondents whereby the rated the three to a great extent. However, the factor, competence, assessment and development could not be ignored since it was rated to a moderate extent by the employees and indication that it also contributed a lot to employee performance.

Also, from correlation analysis and the multiple regression analysis, the performance appraisal systems namely; management by objectives, performance based pay and employee training has the largest effect on employee performance. The factor; competence, assessment and development also had a positive effect on employee performance as indicated by the positive

correlation coefficient of 0.27. The value of the coefficient of determination obtained which was 79.2% indicated that proportion of variation associated to the independent variables had a large effect since the value is greater than 50%. This was an indication that all the independent variables (competence, assessment and development, management by objectives, performance based pay and employee training) had a large effect on the dependent variable, which was the employee performance (E.P)

### **5.3. Recommendations**

This study recommends that Based on the findings it is realized that the relationship between PA and employees performance of CBE, Jimma district.

- The District should take initiative to give proper training to all its employees in order to improve their performance in all the branches.
- To improve efficiency in the District should adopt the system of Performance based pay on all its employees.
- Commercial Bank of Ethiopia should also take proper consideration of competence, assessment and development of the employees.
- In addition the Bank should adopt management by objectives in order to improve performance of its employees
- This study can help Commercial Bank of Ethiopia to properly understand the Performance appraisal practice in producing higher performance if it is properly handled and wisely implemented which ultimately results in increasing the productivity of individuals and the firm in general.



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## **Appendix A**

Jimma University

College of Business and Economics

Masters of Business Administration (MBA) Program

This questionnaire is designed for preparing a thesis on the title of “The relationship between performance appraisal and employee performance in Commercial Bank of Ethiopia, case of Jimma District” for the partial fulfillment of the requirements for the award of the degree of Masters of Business Administration (MBA).

The outcome of the study will be used in order to suggest possible solutions for problems identified while conducting the study and I would like to confirm you that all the information you provide in this questionnaire will be confidential and will entirely be used for research purpose.

I kindly request you to spent your precious time to fill the questionnaire as frank as & reasonable as possible.

Thank you for your cooperation!

Selamawit Abera

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E- Mail [beyselam@gmail.com](mailto:beyselam@gmail.com)

**Direction**

-Please answer by making a ✓ mark wherever appropriate

-In case you have ambiguities on any of the questions, please do not hesitate to contact me using my address shown above.

### Part I -Personal Profile

#### 1. Age

20-30

31- 45

46-55

56 & above

#### 2. Sex

Male

Female

#### 3. Education Level

Diploma

First degree

Second degree

other

#### 4. Total years of Experience with this Organization

1-5

6-10

11-15

16-20

21 &

above

Part II. The following set of statements describes your general perceptions towards the relationship between Performance appraisal systems with employee performance in your current organization. For each statement, please indicate to which extent you feel it is agreeable or disagreeable. Please Tick “X” (or Click) on one answer. There’s no right or wrong answers.

Description	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1. Do you agree with the evaluation results you get?					
2. In your opinion performance appraisal can evaluation employee properly?					
3. Do you always get the expected results of the performance evaluation whatever you are expecting?					
4. Do the evaluation results impact on your behavior, attitudes and morale?					
5. Performance Appraisal affects performance?					
6. How do you feel when you get the results of appraisal?					
7. Performance appraisal is used as a decision making tool for the increasing the performance and set promotion standards?					
8. Promotion opportunities fair and satisfactory?					
9. Are promotional opportunities fair and satisfactory in your organization?					
10. Promotion opportunities affect performance?					
11. When employees are rewarded, they seek for the tools and processes which may be beneficial for the organization and so the performance and interest on the work increases?					
12. In order to have high performance, it is effective to motivate employees involve at workplaces?					

13. Appreciation and being praised by their managers for successful employees increase their success at work?
14. Giving more responsibility and increasing the authorization for employees is effective to increase their performance?
15. Performance of the employee may be increased by promoting them?
16. Increase of performance may be seen if managers observe the talents of the employees and direct them to improve their talents?
17. When your performance has not met minimum standards, your manager discusses with you the reasons?
18. Performance is effectively monitored?
19. Rewarding mechanism affects performance?
20. Your Manager communicates with you frequently about your performance?
21. Is there a fair consistent basis for measuring performance and individual contribution to business objectives?
22. Do you get feedback of your evaluation?
23. Do you wish to improve your result score?
24. The benefits such as rent, living allowance and fuel for heating increase the loyalty to

the organization and success at work?

25. Are you satisfied with the current performance appraisal system of your organization?

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