

# Effectiveness of Employee Performance Appraisal System of Commercial Bank of Ethiopia

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## Abstract

This study aimed to address the factors that affect the effectiveness of the performance appraisal system of the Commercial Bank of Ethiopia. A study used a quantitative research design and deductive methods. The study sample was from a total population of 4,125 employees, all from branches in the Addis Ababa districts. A stratified sampling method was applied to select representative units of measurement. Questionnaire was the only primary data collection instrument. A simple random sample determined 120 respondents from each stratum, contributing to generalizing the findings. The scope of the study was delimited to 140 branches found in Addis Ababa. The analysis was done with SPSS software and presented descriptive statistics, correlations, assumption tests, and regression analysis. The correlation results indicated a positive relationship between the factors and the effectiveness of the appraisal system. The regression test results showed that independent variables/factors/ significantly contributed to variance at a significance level of 0.05. The study's findings revealed that employees think that the factors like feedback richness, improved performance of employees, motivation, Perception towards performance appraisal, and purpose of appraisal result affect the effectiveness of the appraisal system implemented in CBE. At the same time, managers and immediate supervisors thought that the approach to evaluating the performance of employees implemented was not affected by them. The investigation indicated a significant difference between raters' and rates' perceptions of the effectiveness of the performance appraisal system. Based on the findings, the researcher is going to recommend that the management creates intensive awareness for both raters and rates about the appraisal system, increase the participation of all employees towards the policy and procedure formulation to enhance their belongingness and exploit uses of appraisal, the feedback provided by raters should be specific and timely and be against predetermined performance expectations, ensure whether the system achieves the intended objectives or not, provide training for raters, and link the result of appraisal with rewards to motivate the performers.

**Keywords:** Employee Performance Appraisal, Effectiveness, Appraisee, Appraiser

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## Chapter One

### Introduction

#### 1.1 Background of Study

Performance appraisal is a major topic of controversy in management circles. To achieve organizational goals, managers must determine and assess an organization's and its employees' performance levels (Kurt, 2004) as cited in (Sualihu Bintu, 2014). Without a well structured system of appraisal, people will judge the performance of others, including subordinates, naturally, informally, and arbitrarily. The human bias to evaluate can create serious workplace motivational, ethical, and legal problems. With a structured appraisal system, there is a chance of ensuring that the judgments will be lawful, fair, defensible, and accurate (Jansirani et al., 2013).

In CBE, employee performance is measured on quarterly bases. The district human resource sub-process is responsible for whether the evaluation system is properly and timely measured or not. Each employee, who works in the branch, performance is measured by branch managers. Their performance is mainly measured based on financial (deposit of local and foreign currency) and nonfinancial (ATM card, mobile banking, and internet banking user recruitment) targets. The system is focused on the quantitative performance of employees. It quickly measures employees' performance by only extracting the data from the system. It omits employees' behavioral part, which is mandatory for service delivery organizations like banks. Employees have got from 1 to 5 marks from unsatisfactory to exceptional scores respectively. According to the H.R. policy of the bank, such result is directly connected to reward and promotion, training and development, and succession planning. Branch managers fill in the results of each employee for three copies and convince each employee about the result. Both of them sign the evaluation form then one copy is sent to the district H.R. sub-process for documentation.

Even though all these processes were conducted, a considerable amount of resources (material, human, and time) were invested in measuring employees' performance. Even the H.R. policy was direct. The result of

evaluation links with reward, promotion, succession, training, and development. Nothing has seen links except documentation. This results in employees not perceiving it as a valuable tool for their future.

According to a preliminary interview with 20 employees before conducting this research, no one worried whether he/she had got one up to 5. Regarding the importance, appraisal in CBE lost its acceptance in employees' minds. Different studies conducted in Ethiopian organizations indicated that performance appraisal systems have some deficiencies in linking the result with developmental and motivational decisions, unclear standards measured performance of involved parties, and do not provide constructive feedback to performers to improve their performance. The same problems have been seen in CBE. It was understood that researching the effectiveness of performance appraisal is vital to the CBE staff, academicians, H.R. personnel, and professionals and practitioners of it.

Commercial Bank of Ethiopia (CBE) was legally established and took its shape as a share company in 1963. CBE took over the commercial banking activity of the then-state bank of Ethiopia, which was initially founded in 1942. The state bank of Ethiopia has been responsibly engaged in performing the duties of both commercial and central banking (CBE annual report

2013/14). Commercial bank of Ethiopia is a state-owned bank. CBE is essential to the country's economy and dominates the asset, deposit, capital, customer

base, and branch network market. While CBE faces growing competition in the banking industry from private banks, it still stands in the leading position with its long-year bank service experience (CBE annual report 2013/14). The rich experience of the bank in the service market & its solid capital base and extensive branch network enabled CBE to attract and overcome highly high demand from both private and public companies, and the bank uses this as an opportunity to increase its revenue in a sustainable base (CBE, 2009, p. 10).

CBE had 1100 branches across the country by Jan 2016. Combines a broad capital base with 18,524 talented and committed employees (CBE Muday magazine, 2016). According to MIS data, the number of employees reached 25,000 recently. It had about 13 million account holders as of 30 June 2016. The bank's total asset as of 30 June 2014 is 244.13 billion, and the total deposit is 233.02 billion (CBE, 2013, p. 14). Currently, the bank has 1163 branches all over the country. It still takes the lead contributing the lion's share in the country's economy more than other private competitor banks (CBE MIS department, 2014).

## 1.2 Statement of the problem

Performance appraisal is an essential human resource management tool that provides information to many critical human resources decisions such as compensations and benefits (Boxall & Purcell, 2003), training and development needs (Naming, 2005), layoffs, staffing, pay raises, drug testing, and discipline (Cropanzano & Stein, 2009). Naming asserts that performance appraisal has been studied extensively over the last few decades, yet scholars continue to argue about the validity and merits of these systems.

The preliminary study for five 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 essential feedback for future performance; lack of awareness for both employees and managers about the uses of appraisal result; even though there were H.R. 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 did not link for any motivational decisions even though it could be conducted at a

regular interval. The problem was seen after respondents' preliminary interviews in different Ethiopian organizations. As per the study cited by (Belete G. et al., 2014) Performance appraisal system has many multidimensional problems in the Ethiopian institution's 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 needs to be training for both appraisers and appraises about conducting performance appraisal and its objective. According to the research findings, most institutions have yet to use performance appraisal procedures and standards. This is supported by the fact that no employee has been fired and punished or taken corrective measures about performance-related problems Meseret Yazachew (2007, p. 77).

In general, this study was conducted to examine the effectiveness of the PMS implemented in CBE in terms of fairness, Perception of employees towards P.A.,

Objectives/purposes of P.A., feedback richness, motivation, and reliability of P.A. system, which has yet to assess before since its implementation by the research and development sub-process of the bank. For the sake of researcher knowledge, this sub-process has yet to research the effectiveness of performance appraisal implemented in the bank. A paper related to this topic has yet to be put in place at the bank's library.

## 1.3 Research questions

The following research questions formed the basis upon which the study will be conducted:

- How do perceptions of employees towards the performance appraisal system in CBE affect the system's

effectiveness?

- Does the performance appraisal system implemented in CBE carry out with open communication between supervisors and subordinates?
- To what extent does the performance appraisal system implemented in CBE contribute to employee performance improvement?
- How does the performance appraisal system implemented in CBE effectively motivate an employee to work harder?
- To what extent do appraisers and employees/appraisees accept the effectiveness of the performance appraisal system implemented in CBE?

#### **1.4 Research objectives**

General objectives of the study assessing the effectiveness of employee performance appraisal practice of Commercial bank of Ethiopia.

The specific objectives of the study were the following:

- To examine the performance appraisal system by diagnosing the strength and weaknesses of the system.
- To identify what roles (purposes) the performance appraisal system serves and how employees perceive the system.
- To examine whether appraisers provide timely feedback and conduct a post-assessment discussion with employees.

#### **1.5 Significance of the study**

The findings of the study are helpful in several groups and organizations. In the first place, the study's findings will be helpful in the management of CBE as it will expose the management to employees' views regarding the PAS in the bank. It will also help management take proactive measures to make them aware of the relevance of the need for the appraisal and improve the bank's appraisal system.

The employees will also benefit as the study will expose the problems that make implementing the PAS difficult. Once these problems are addressed, it will help create a working environment conducive for them (both appraisers and appraisees) in performing their duties.

The study's findings are also used as a platform for researchers who want to conduct further and in-depth research on the performance appraisal system area or other related issues.

#### **1.6 Scope of the Study**

The research scope will be limited to studying the effectiveness of the employee performance appraisal system in CBE with a specific focus on Addis Ababa district branches only. The study uses this scope, which is manageable by researcher capacity; respondents are relatively homogeneous in the knowledge of the job, work environment, and training availability. Due to these and other reasons, the respondent's answers will not bias significantly. On the other hand, because of the scope, the study findings represent only Addis Ababa branches even though, as it is well known, CBE has many branches throughout the country. Meanwhile, the study excludes employees who work in the head office and another sub-process because their work nature differs from the branch.

CBE classifies all branches into 15 districts based on geographical area. Each district's human resource manager reports to the corporate H.R. manager (H.R. policy guideline 2006/07). Every HR practices under the district are the duties and responsibilities of a district H.R. manager and his/her subordinates. (HRM procedure manual 2010, pp.14) says handling the conventional HRM activities ranging from planning to terminating their respective districts. If the district HRMs are responsible and play a significant role in the effectiveness of employees' P.A., it was reasonable taking four districts for this study among the 15.

The study used the time frame of 20 March 2017 and 30 April 2017 to assess the effectiveness of performance appraisal for a significant conclusion. The period was the time to measure the third quarter performance of employees, which was a suitable interval to obtain relevant information about the topic. The study also focuses on the factors or variables that affect the effectiveness of performance appraisal: feedback richness, the purpose of the result, improved performance, reliability of measurement, Perception of involved parties towards P.A., and motivate employees. Even though different factors affected its effectiveness, the study stuck on the abovementioned variables and concluded based on their data.

## **Chapter 2**

### **Review of Related Literature**

#### **2.1 Concept and Definition Performance appraisal**

According to Ghorpade (as cited in Akinyele, 2010), performance is the accomplishment of the task that makes

up an employee's job. According to Akinyele, it shows how an employee is seen doing his/her work. For example, a worker could make a frantic effort to perform his duties at the workplace and end up coming out with little or below-average output (Flaniken, 2009). Here, the effort could be high, and yet performance is low. Performance, therefore, depends on such factors as effort, ability, enthusiasm, hard work, motivation, information, and feedback (Cropanzano & Stein, 2009).

a Performance appraisal system is an opportunity for employees and those concerned with their performance, typically line managers, to engage in a dialogue about each individual's performance and development, as well as the Support required from the manager.

While performance appraisal is an integral part of performance management, it is not performance management. Instead, it is one of the ranges of tools that can manage performance. (CIPD, 2011)

From the definitions above, several issues emerged. P.A. involves comparing any employee's performance with a performance standard, and the performance standards describe what the employee is expected to do regarding behaviors and results. P.A. must be systematically done and related to the individual's performance on the job. It must also provide information on the job and help the employee develop his/her potential for the organization's benefit.

## 2.2 Purposes of performance appraisal

As cited in the study of (Migiro S. & Taderera M., 2010), Performance appraisals have administrative (Analoui & Fell, 2002) and motivational purposes (Beer & Ruh, 1976). They serve several purposes (Kumar, 2005; Millmore et al., 2007). These purposes include: (1) to let subordinates know formally how their current performance is being rated; (2) to identify subordinates who deserve merit raises; (3) to locate individuals who need additional training; (4) to identify candidates for promotion; (5) to identify the scope for performance improvement and the means to achieve it; (6) to serve as a source of information for management to make decisions about promotions, salaries, training needs, and training support (7) as a means of managerial control, through the setting of objectives; and (8) to facilitate personal improvement and development.

Hence, organizations need to rate their employees so that people can be identified to assume leadership positions or acknowledged for rewards when appropriate (Gibbons & Kleiner, 1994). However, Becker et al. (2001) emphasize that performance appraisal systems need to be more coherent regarding what is measured and what is essential. Human resource managers must understand precisely how people contribute to a company's results by being valuable and how to measure this contribution.

According to Ivancevich (2004:257) and Rao (2000:220), evaluation has many purposes; among them are:

- A. **Development.** It can determine which employees need more training and help evaluate the results of training programs. It helps the subordinate-supervisor counseling relationship and 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 by which an individual boasts intensity, direction, and persistence of effort toward attaining a goal.
- C. **Human resources and employment planning.** It can be a valuable input to skills inventories and human resource planning.
- D. **Communications.** It can be a basis for an ongoing discussion between superiors and subordinates about a job-related matter. The parties get to know each other better through interaction and an efficient feedback process.
- E. **Legal Compliance.** It can serve as a legally justifiable reason for promotions, transfers, rewards, and discharges.
- F. **HRM research.** It can be used to validate selection tools such as a testing program.

## 2.3. Effective Employee performance appraisal

An evaluation system will only achieve its objectives if there are some consequences to the evaluation. It is useless and wastes effort, time, and money. It should serve as a standard to plan promotions, empowerment, salary revisions, and training and development. The success of every appraisal system depends on the key results of such a tool. A good result is only possible by giving importance to employee value (Liza E. Daoanis, 2012). Evaluations without appropriate action and results are useless; they will only create more organizational problems. Employees will always look forward to finishing a job with enthusiasm if they are given appropriate recognition or reward for doing a good job. People will be more creative and willing to extend a mile of their time and will always work at their best.

Employee performance appraisal is an effective means for assessing employee performance and implementing strategic initiatives to improve employee performance (Lawler & McDermott, 2003). However, a considerable literature stream also suggests employee dissatisfaction regarding the performance appraisal system

(Roberson & Stewart, 2006) cited by Ikramullah, M. et al. (2011, pp. 94). For instance, (Morgan, 2006) noticed that PMS in many organizations still needs to meet the expectations of employees. Similarly, prior findings by Smither and London (2009) have elucidated that 80-90% of managers reflect that performance appraisal still needs to improve employee and organizational performance.

Many researchers have identified several indicators that affect the outcomes of performance appraisal systems. In this point, the main factor is the appraisal source. Since it suggests that employee performance can be evaluated through several sources such as supervisors, managers, self, peers, and even customers (Wood & Marshall, 2008), another prominent characteristic of performance appraisal is that the target of performance that has been appraised or evaluated (Thurston, 2001). Typically, performance appraisal systems are accessed for multiple purposes starting from developmental and administrative reasons. Feedback richness is an effective indicator that may affect performance appraisal outcomes. Feedback richness elaborates on the specific appraisal environment through frequent, specific, and timely employee feedback to employers regarding jobs (Kinicki et al., 2004).

Perceived accuracy of PAS has been regarded as an essential aspect of evaluating the satisfaction and motivation of employees regarding performance appraisal (Wood & Marshall, 2008; Selvarajan Cloninger, 2009). In this regard, prior studies suggest that if employees perceive that appraisal outcomes are accurate, they are more likely to recognize these results and act on them (Roberson & Stewart, 2006).

On the other hand, employee perception of fairness also measures the effectiveness of performance appraisal outcomes (Youngcourt et al., 2007). In this respect, previous studies have suggested that justice or fairness of performance appraisal can be evaluated into three dimensions. These are distributive, interactional fairness, and procedural (Colquitt et al., 2001). In this regard, distributive fairness represents the extent to which appraisal outcomes are distributed fairly (Smither and London, 2009). In the appraisal context, the distributive context relates to the performance appraisal ratings employees gain. On the other hand, procedural fairness aims at the extent to which procedures deployed by the organization for appraisal are fair in deriving appraisal outcomes (Zapata-Phelan et al., 2009). The concept of interactional fairness represents how employees receive treatment from peers and supervisors while appraising performance (Roberson & Stewart, 2006) cited in Ikramullah, M. et al., (2011, pp. 94).

Thurston (2001) has addressed the specific aspects of performance appraisal and revealed that an appraisal system's effectiveness and success depend on employees' reactions and feedback. This suggests that employee feedback is a critical factor in assessing the effectiveness of the appraisal system. This feedback can be positive or negative regarding the outcomes of the appraisal system. Prior studies have revealed that positive feedback is more likely to be accepted, whereas employees often hesitate to accept adverse outcomes of the appraisal system (Rao, 2004). On the other hand, Roberson and Stewart (2006) suggest that if negative feedback is delivered effectively and persuasively, employees will take it seriously and focus on eliminating the negative aspects of their performance.

Prior literature has suggested that performance appraisal is effective for attaining different objectives. In this regard, Selvarajan and Cloninger (2009) have revealed that an effective performance appraisal system improves and motivates employees' performance. It can be identified who are the weak performers and the strong performers within organizations.

#### **2.4. Outcomes of Effective Performance Appraisal**

According to (Hafiz Muhammad et al., 2009) cited in their study, Common outcomes of an effective performance appraisal process are employees' learning about themselves, their knowledge about how they are doing, and their learning about 'what management values.

(Beer, 1981). According to Stephan and Dorfman (1989), outcomes of an effective performance appraisal are improvement in the accuracy of employee performance and an established relationship between performance on tasks and a clear potential for reward. Dobbins, Cardy, and Platz-Vieno (1990) gave five outcomes, i.e., using evaluations as feedback to improve performance, reduced employee turnover, increased motivation, the existence of feelings of equity among employees, and linkage between performance and rewards. Nurse (2005) viewed the provision of information for developing managerial strategies for training and development as an outcome. Teratanavat, Raitano, and Kleiner (2006) found outcomes like reduced employee stress, review of overall progress, the linkage between current performance and employee goals, and development of specific action plans for the future.

(Nurse, 2005) has also discussed the impact of appraisal on employees and organizations. He specifically suggested that appraisal results provide information to managers to take further steps about promotions and the development of employees. (Rao, 2004) suggests that weak performance areas are identified through an effective performance appraisal system. In this way, managers can make decisions regarding the training of employees to improve those weak areas. Moving further, (Teratanavat, Raitano, and Kleiner, 2006) suggest that effective performance appraisal reduces employees' stress levels. This way, the performance appraisal system interlinks employees' current, past, and future performance.

In the same line of thought, prior studies have identified five significant outcomes of effective performance appraisal (Rao, 2004). These are: 1) using results of performance appraisal to improve employee performance, 2) enhancing motivation, 3) reducing employee turnover, 4) associating rewards and employee performance, and 5) establishing equity among employees (Rao, 2004; Selvarajan & Cloninger, 2009).

## **2.5. Detriments to Effectiveness of Performance Appraisal**

The literature revealed the following aspects that can harm the effectiveness of performance appraisal: exemptions to the apparent employees, the conduct of performance appraisal to punish the low performers, rewards on nonperformance, doubts in the mind of performers about appraisal's after effects, organization's politics that leads to the disturbing performance of targeted employee (Deluca, 1993); use of fundamentally flawed appraisals, focus on encouraging individual, which automatically discourages teamwork/collaboration; inconsistencies in setting and applying appraisal criteria, focus on extremes (exceptionally good or poor performance), appraisal's focus on achievement of short-term goals, Support to autocrat supervisors, the subjectivity of appraisal results and creation of emotional anguish in employees (Segal, 2000); use of vague qualities and irrelevant measurement criteria, use of useless checklists for evaluation, monologues instead of dialogues in feedback sessions, the reluctance of appraisers to offer feedback, supervisor's misguidance to the appraiser (Nurse, 2005); inaccuracies at supervisor/organization's end (Horvath & Andrews, 2007).

## **2.6. Efficiency of Performance Appraisal**

Although most organizations have adopted methods for personnel appraisal, their effectiveness still needs to be improved. Most of the controversy holds that some appraisals reflect personnel preferences instead of the performance of the individual being rated. Another principal shortcoming is that the evaluator looks more at the behavior of the rate than his contribution to the organization Dr. Shambhu (2008). According to Christos K (1989), with large sizes and significant differences in salaries and wages, the efficient use of labor is a crucial determinant of relative profitability. The level of staff expenses appears to hurt banks' ROA in the study of Bourke (1989). However, Molyneux (1993) found a positive relationship between staff expenses and total profits. As he suggests, high profits earned by firms in a regulated industry may be appropriated through higher payroll expenditures raised constantly by performance appraisal.

According to Pallavee and Usha (2012), a Performance appraisal system helps to promote a better understanding of an employee's role and clarity about his or her functions, gives a better understanding of personal strengths and weaknesses about expected roles and functions, identifies development needs of an employee, establish common ground between the employee and the supervisor, increase communication, provide an employee with the opportunity for self-reflection and individual goal setting, help an employee internalize the culture, norms, and values of the organization. This helps develop an identity with and commitment to the organization prepares employees for higher-level positions, and assists in various personnel decisions.

The traditional Performance Appraisal Process of the 1990s focused almost entirely on defining what was to be achieved. However, today's competency-based Performance Management Schemes are plentiful and becoming the model for the future. These mixed models assess and reward both results and demonstration of competencies, both what employees deliver and how they do it (Dr shambhu, 2008).

## **2.7. Issues that can be raised related to employee performance appraisal**

### **2.7.1 Implementation of employee performance appraisal**

Fletcher, C. (2001), there are various questions concerning implementing performance appraisal systems. Some of these questions are: who designed the system; how often is appraisal conducted; who is the primary source of appraisal; and which appraisal methods are used? Performance appraisal has been among the most praised, criticized, and debated management practices for decades (Lawler, 1994). However, it has been identified as one of the least popular human resource management practices. Human resource managers need more confidence in their performance systems (Beer, 1981) since they have to play the roles of both judge and jury (Beer, 1987). Beer, 1987 further noted that most managers need to be trained to handle difficulties that arise from negative feedback.

Grote (1996) discusses the training of appraisers and appraisers about the importance of continuous training for personnel staff and human resource managers, especially for new managers (appraisers). In concluding their study, Taylor and O'Driscoll (1994) identified three directions for training in performance appraisal: improving managers' skills, addressing appraisers' performance problems, and discussing employees' development needs and career aspirations. To ensure successful implementation, it must be a complete understanding, acceptance, and Support of the appraisal system and its purposes.

For the appraisals to be effective, the top management must be supportive in providing information, clear performance standards must be set, the appraisals must not be used for any other purpose apart from performance management, and the evaluations must be free from any rating biases (Goff & Longenecker, 1990). Armstrong (2001) notes that accuracy and fairness in measuring employee performance are paramount in performance

appraisals.

According to Robert and John (2013), one begins to see the appraisal process gets highly complicated very quickly and remember that anytime a process in an organization is complicated, it costs money. So why do we even do performance appraisals? What value provided to the organization and the individual makes evaluating our workers' performance so critical?

If performance appraisals are done correctly, they can provide us with a series of valuable results. However, if done correctly, evaluating employee performance can lead to higher job satisfaction and productivity. The three primary reasons organizations complete performance evaluations are communicating decision-making and motivation.

The first primary reason for performance appraisal is to provide an opportunity for formal communication between management and the employees concerning how the organization believes each employee is performing. "Organizations can prevent or remedy the majority of

performance problems by ensuring that two-way conversation occurs between the manager and the employee, resulting in a complete understanding of what is required, when it is required and how the employee's contribution measures up."

The second primary purpose of performance appraisals is to allow management to make decisions about employees within the organization. They need to make decisions based on information acquired from the communication. Accurate information is necessary for management decision-making and is a critical component to allow the manager to improve organizational productivity. Using information from annual performance appraisals to evaluate our workforce, including pay raises, promotions, demotions, training and development, and termination, is essential.

The third primary purpose of performance appraisal is to motivate employees to improve their work individually for developmental purposes, improving organizational productivity overall. What is motivation, and are performance appraisals normally motivational? From a business perspective, motivation can be defined as the willingness to achieve organizational objectives.

### **2.7.2 Acceptability of employee performance appraisal system**

Performance management tools must be valid, reliable, acceptable, feasible, and specific. Valid means that it measures the process that needs to be measured. Reliable means the measure generally works consistently each time we use it. Acceptability and feasibility deal with the measure being good with the people who use it and a reasonable measure capable of being successfully applied in a particular situation. Finally, specific means the measure defines the performance well enough to understand the current performance level achieved and what, if anything, employees need to improve their performance to comply with standards (Robert and John (2013)).

Acceptability mainly deals with the performance appraisal system being accepted because it is perceived as distributional, procedurally fair, and valid for the position. Thus, in recognition of the large amounts of time and money that need to be invested in developing and implementing an appraisal system, an ineffective appraisal system would be a severe threat and loss of resources to an organization. Based on these facts, it seems essential for each organization regularly check whether performance appraisal is perceived as intended and if users still support the system and process.

According to Elverfeldt (2005), Performance appraisal systems must effectively improve or sustain employee performance. Otherwise, they could be a better use of time and money spent on development and implementation. From literature analyses, it became clear that the most significant factor in determining performance appraisal system effectiveness is the acceptance of its users.

### **2.7.3 Knowledge of employees about the system**

In order to develop an effective Performance appraisal system, the individuals involved as raters should undergo training (Goff & Longenecker, 1990). They should be trained in managing, motivating, and evaluating employee performance. The system should not be considered a simple "quick fix" solution. The raters should see it within its broader context of performance management (Boice & Kleiner, 1997).

The criteria that must be met in order to make rates perceive the system to be fair include having a formal system of appraisal, rates must have a very high degree of job knowledge, the rates must have an opportunity to appeal against their performance ratings, the dimensions of performance must be relevant, and having action plans to deal with any weaknesses. The organizational climate must be cooperative rather than competitive (Murphy & Cleveland, 1995). It is not only the rates and attitudes towards the PAS that are critical. Even the attitude of the raters is also critical to the system (Brown *et al.*, 2010). The attitudes and approach of the rater to the process have been shown to influence the quality of the appraisals. Some raters have indicated that they are reluctant to conduct the appraisals, saying they hated conducting appraisals, "second only to firing employees."

## **2.8 Guidelines for successful implementation of performance appraisal system**

As cited by Rafikul and Shuib (2005), the guidelines are

- 1. Employee participation:** In any case, if the employees perceive the appraisal system as biased,

unfair, and needing more rigor, then it is unlikely that they will accept the outcomes of the system. Participation allows the employees to raise their voices in the appraisal process. Performance standards, criteria for evaluation, and the evaluation form can all be developed with the help of employees. Greater employee participation generates good cooperation and Support, which facilitates the development of a coaching or counseling relationship, thereby reducing appraisal-related tension and rater-rate conflict (Jordan, 1992). Somerick (1993) suggested that concerning the appraisal system, if any problem occurs, that can be discussed in the dialogue session immediately, not months later, when the employee's performance has been rated and documented in his/her file.

2. **Developing performance standards:** Standards that measure the essential job duties and responsibilities. Once again, employee participation facilitates the development of reliable, valid, fair, and helpful performance standards.
3. **Goal setting:** Goal setting has been a powerful motivational tool. The majority of goal-setting research has been carried out in non-appraisal settings. Goal setting consists of performance goals that are specific, moderately challenging, and accepted. Goal setting within performance appraisal has been associated with greater appraisal satisfaction and increased performance (Dobbins et al., 1990).
4. **Sound performance appraisal interview:** If the appraisal interview is conducted well, the efficacy of the appraisal system is maintained. The interviewer must be aware of sensitivity to employee needs for privacy and confidentiality. It is of utmost importance to provide undivided attention during the interview and reserve adequate time for a complete discussion of the issues (Roberts, 1994). To encourage employees to participate in the evaluation, Krug (1998) suggested asking open-ended questions, i.e., the questions that cannot be answered with a simple yes or no. Notably, he suggested that instead of asking a question like, "Do you enjoy your job?" ask, "How do you feel about working in this company?" The latter question requires a more thoughtful and informative answer.
5. **Self-evaluation:** Self-evaluation allows employees to assess their performance systematically. Studies have indicated that self-evaluation increases employees' perceived fairness in the appraisal process. Employees can evaluate themselves by completing their appraisal form and presenting the draft for discussion with the evaluator. McCarthy (2000) comments that employees who can assess their performance can develop creative solutions that would have stayed the same in the one-sided managerial evaluation.
6. **Management feedback:** Management's feedback is required for a common-sense reason. When the employees do good jobs, they expect a pat on their backs (positive feedback); on the other hand, if the poor performers do not receive any constructive feedback which tells them to improve, they will think that the present level of performance is accepted in the organization. They may need to put more effort into improving effective performance appraisal systems, Camardella (2003, p. 105). there must be formal and informal performance feedback. Roberts (2003, p. 93) echoes Camardella by saying:  
Feedback is essential in gaining the maximum benefits from goal setting. With feedback, employees can adjust job performance or receive positive reinforcement for effective job behavior. Effective performance feedback is timely, specific, behavioral in nature, and presented by a credible source. Performance feedback effectively changes employee work behavior and enhances job satisfaction and performance.  
In the feedback, what the employee is doing right should be emphasized. Focus also should be paid to employees' strengths. Provide a short list of areas where the employee needs to improve, highlight the most important ones to be improved first.
7. **Develop user-friendly procedure:** Performance criteria and rating procedure should be simple enough, and the raters and rates should understand them well. Performance criteria should encompass the key aspects of an employee's job. If any key aspect is ignored, it sends the message that it is unimportant and can be ignored.
8. **Design specific and relevant appraisals:** Sometimes employees complain about the appraisal system by saying, "Our Company uses the same appraisal for all positions. I feel that "the things I am measured on do not have much to do with what I do from day to day."  
(McCarthy, 2000, p. 24). The appraisal system will be successful only when the items appraised address the requirements and essential functions on the job. The criteria used should be specific and directly related to the job.
9. **Evaluator training:** The research conducted by the American Management Association reveals that the main reason for employee and supervisor's frustration with the performance appraisal forces is that many managers are poorly trained in how to give feedback to employees (cited in Krug, 1998). The person who conducts the appraisal exercise should receive



extensive training in goal setting, setting performance standards, conducting interviews, providing feedback, avoiding rating biases, etc. He/she should know how to conduct appraisals accurately, consistently, fairly, and objectively.

- 10. Revise performance appraisal process:** No system is permanent, and the appraisal system is not an exception. Feedback on the appraisal process should be regularly solicited from both supervisors and employees. Longenecker and Fink (1999, p. 22) state: It is essential to systematically and regularly review system operations to ensure that processes and practices are followed and effective. Some measures that can be used to assess the health of your appraisal system include employee acceptance and trust in the appraisal system.

## 2.9 Drawbacks of Performance Appraisals

Performance appraisals have negative and positive effects on organizations; performance appraisals have several drawbacks because the activity looks stressful.

Performance appraisal system practice in an organization can give both an employer and its employee a different perspective/interpretation of the appraisal outcome. When an area of improvement is identified which is to be corrected, it may sometimes lead to your employee feeling that the appraisal was nothing more than a "chewing out" session, causing reduced morale.

Some of the significant limitations of performance appraisal include bias of appraisals, ambiguity in standards, insufficient evidence; several qualities remain without an appraisal, leniency or strict tenancy, average rating problems, the influence of a man's job, and similarity error (Smriti, 2014).

According to Ruth (2012), the training provided by employers needs to be more robust for preparing supervisors to provide unbiased feedback to employees in a manner that motivates workers to strive for higher performance ratings.

Another drawback of the performance appraisal system is that supervisors/raters feel the time it takes to prepare an employee performance appraisal exercise. Interaction between the rater and the rate is usually frightening because of the proximity within which raters and rates work in small business settings.

## 2.10 Empirical Studies on Performance Appraisal

Pettijohn et al. (2001) undertook a study to examine the attitudes of nearly 32,000 American federal employees toward P.A. A descriptive survey design was used. A questionnaire and an interview guide were used to elicit data from the respondents. Pettijohn et al. concluded that the employees were dissatisfied with how P.A. was conducted and that less than one-fifth felt that the process motivated employees to perform well. They, however, claimed that there is no empirical evidence that P.A. itself is undesirable. This is because, from their study, almost half (46 percent) liked the process concept, indicating where they ranked among co-workers.

Simmons (2002) undertook a study to examine the views of experts on P.A. in universities and colleges. He used stratified random sampling to select appraisers and appraisee from 430 elements. Simmons' study found that employees viewed the P.A. process as beneficial.

Managers and professionals also found the process to have overall value, with very few suggesting it should be discarded all together. However, problems identified from Simmons' study

included patchy application, uneven managerial commitment, lack of continuity between appraisal, the link with performance-related pay and teamwork, and the appropriateness of individual performance reviews for lower-graded staff merit further attention. However, there was a generally negative perception of the effects of the link between individual performance review and pay.

Mani (2002) also found from her study at East Carolina University that many employees are motivated by factors that do not relate to the PAS. According to her, many are self-motivated or motivated by the enjoyment of their work, and pay an extrinsic reward, ranked third among the things that motivate these employees. However, she warned that this self-motivation and enjoyment of work would cease if employees' pay is not adequately increased, as pay increases were also seen as a symbol of recognition.

Wilson and Nutley (2003) did a study on the assessment of how appraisal systems facilitate women's progress in Scottish universities. They found a general decline in the use

of appraisal systems in Scottish universities. However, women were still subjected to a disciplinary technology such as P.A. Though there was no statistically significant gender difference about the purpose of P.A., men perceived the P.A. of the university more positively and higher than female employees. Wilson and Nutley recommended in their study that employees with shorter lengths of service and at the junior levels only stay with their organizations for a short time. Organizations with more such employees may experience high turnover, which is suitable for some organizations.

Singh Sanjeet (2011) conducted A Study of the Effect of Performance Appraisal on the Organization and the Employee. The findings showed that there is a noticeable effect of performance appraisal on the organization as well as on the individual.

Khushbu S. Dave (2014) conducted a Research Paper on the Performance Appraisal of Nurses in Hospitals. This analysis clearly states that there is a need for improvement in the performance Appraisal system of nurses to get a better outcome. The involvement of nurses in their appraisal will make the appraisal systems more effective, accessible, and meaningful because it will help the hospitals to get the expected results in minimum time.

## **Chapter Three**

### **Research Methodology**

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

Human resource is an essential asset in every organization without which the other resources cannot function (Bartol & Martin, 1998). The success of an organization largely depends on how human resource is developed, managed, and maintained in the organization. Most organizations use performance appraisal (P.A.) to assess and evaluate human resources (Murphy & Cleveland, 1995). Performance appraisal is critical for every kind of organization. According to Murphy and Cleveland, it justifies an individual employee. (Ahmed A. et al., 2010) also posited that P.A. is a structured formal interaction between a subordinate and supervisor, where the work performance of the subordinate is to be taken into consideration to identify weaknesses and strengths and opportunities for improvement and skills development.

Employees are seen as the primary resource of any organization since the survival of an organization depends largely on its employees or human resource (Boswell & Boudreau, 2000). Therefore, the development and assessment of employees become organizations' overriding concerns (Boland & Fowler, 2000). Due to the paramount importance of the people in the CBE, it is essential to understand how well these personnel is performing in their roles and if they are fulfilling the responsibilities for which they were hired (Boxall & Purcell, 2003).

#### **3.2 Research Approach**

This research takes a deductive approach. The reason for selecting this approach is that the researcher assumes sufficient studies are done in performance appraisal. Performance Appraisal has been one of the most heavily researched areas of Human Resource Management since the 1960s. Therefore, these plausible theories and empirical findings accurately present the basis of the explanation. Deductive reasoning forms a view about the likely nature of a thing and then tests whether the view is correct. It often reports findings regarding the relationship between one variable and another.

The study will be conducted to analyze how effective performance appraisal is in commercial banks in Ethiopia. For this reason, quantitative analysis will be used to describe the research problem. In this respect, quantitative analysis and data collection tools describe quantitative analysis between performance appraisal and its effectiveness. The quantitative research has provided empirical investigation about the research purpose regarding the effectiveness of performance appraisal implemented in the commercial bank of Ethiopia.

#### **3.3 Research Design**

A survey design was adopted in conducting this study. The survey design entails selecting samples to analyze and discover occurrences, qualitatively and quantitatively assess information and make conclusions. The respondents will ask the questions and require answers by choosing between alternatives. The main advantage is that they are easy to complete and accessible to questionnaire names used to collect data from eligible employees. Part I of the survey will require the participants to provide demographic information, while Part II will include factors that influence the effectiveness of PAS as conceptualized in this study. The components included per factor/variables are considered to be indicators of the influence on the effectiveness of PAS. Validity is the most important criterion that indicates the extent to which an instrument looks at what it is supposed to measure. It can also be thought of as utility. In other words, validity is how differences found with a measuring instrument reflect actual differences among those tested. The questionnaire in the study was the only data-gathering tool adapted from (Walsh, 2003, p. 59).

The questionnaire or instrument was consistently used to measure the effectiveness of performance appraisal practices with the independent variables. Responses of the respondent were measured on a five-point Likert scale or values with 1= strongly disagree, 2= disagree, 3= no option, 4= agree, and 5 = strongly agree. Response category is: strongly disagree (1.50 or less), disagree (1.51 – 2.50), no neutral (2.51 – 3.49), agree (3.50 – 4.49), and strongly agree (4.5 or greater).

The test of reliability was another critical test of sound measurement. A measuring instrument is reliable if it provides consistent results. The degree of stability is positively correlated with the degree of reliability; a higher degree of stability results in a higher degree of reliability. The results are repeatable Charles (1995), as cited by Oumer Mohammed (2012, p. 42) in the University of Gondar. Cronbach's alpha scores were used to check the reliability of the subscales for an instrument in the study.

### 3.4 Population and Sample

#### 3.4.1 population

Bryman et al. (2003) describe a study population as the whole group that the research focuses on. The population for this study consists of a staff of all the selected branches of the commercial bank of Ethiopia under the domain of Addis Ababa districts, except employees who have less than two-year experience because the probation period of the bank for a new employee is one year. However, they become permanent employees within 45 days. They need more experience with formal performance appraisal systems. As indicated in Table 3.1 below, the total population for the total number of employees will be 4,125.

#### 3.4.2 Sampling technique and Sample Size

CBE's Addis Ababa districts have 7,200 total employees as of January 2016 (CBEManagement Information Systems). Among the total population of respondents, 2525 of them are junior officers. They need to complete their probation period or enter a formal performance appraisal. CBE's probation period is one year for new employees. Moreover, 1,201 of them have yet to take a full-year performance appraisal because they have an experience of fewer than two years (source: districts' H.R. & CBE- MIS).

According to the categorical and contentious data sampling table presented by Bartlett, Kotrlík, & Higgins (2001) in **Annex 2**, the study sampling size in the range of 4,000 and 6,000 respondents for continuous data was 120. The below table 3.1 illustrate how many samples were taken from each type of employment category.

Using the mentioned sampling table, considering a 3% margin of error, 95% level of precision, and a proportion of 97 percent for the maximum possible degree of variability, the sample size taken from the population is 120 respondents. The sample size orders to include respondents in the sample, and a proportionate stratified sampling method will be used. The reason behind using this method was that the respondents were heterogeneous among groups and homogenous within groups. Hence, the number of respondents to be included from each stratum was decided based on their proportion. Lastly, to get the decided number of customers from the list of each stratum, simple random sampling was used because every element in the population has a probability equal chance of being chosen, thus keeping away from biases.

Table 3.1: - Number of Respondents

RESPONDENTS	POPULATION	SAMPLE SIZE
Branch manager/ immediate supervisor(CSM)	540	20
Senior Customer Service Officers	690	20
Customer service officers (more than two years experience)	2895	80
<b>Total</b>	<b>4125</b>	<b>120</b>

Source: - Districts' Human Resource

above table, the sample taken from each stratum and respondents classification is obtained by dividing the number of respondents in that particular stratum by 4,125 and multiplying it by the sample size, 120, and taking the approximate even number.

### 3.5 Data Sources and Types

Both primary and secondary sources of data will be used for the study. The primary data will collect through the use of questionnaires that the researcher will administer to the staff of the commercial bank of Ethiopia who works in a branch under the domain of Addis Ababa districts. The secondary data sources were obtained from the district human resource department, the published annual report magazine of the bank, and the bank's website.

The questionnaire will design to collect survey data from employees to be selected randomly from branches found in the Addis Ababa area that satisfy the requirements. The questionnaire, there will have only close-ended Likert scale-type questions. Saunders et al. (2007) hypothesize that the Likert scale is today's most widely used scale in the social sciences. This may be because they are much easier to construct and more reliable than other scales with the same number of items.

The study used a questionnaire to obtain the necessary information for the research. The questionnaire was made up of closed-ended items. The survey was measured by a 5-point Likert scale ranging from strongly disagree (1) to agree (5) strongly.

The researcher personally distributed the questionnaires to each respondent during working hours.

### 3.6 Data Collection Instrument

The study used a questionnaire to collect employee data to be selected randomly from chosen branches that satisfy the requirements. To collect quantitative data structured self-administered questionnaire was used from the respondents. This method helped to give independent opinions without fear since the respondents did not need to specify their names. The questionnaires were also used because they enabled the researcher to code the information quickly for subsequent analysis, reducing the error gap (Sekaran, 2003).

The questionnaire contains closed-ended questions in a 5-point Likert scale type. The questions used to assess the appraisal system were developed based on the guideline suggested by the United States Office of Personnel Management (USOPM) (1997). In the guideline, various points are forwarded to assess the effectiveness of an employee performance appraisal system. The variables raised relate to the problem statement areas to be addressed by the survey. That was the main reason for choosing the guideline.

### **3.7 Method of Data Analysis**

After the primary and secondary data gathering procedures were complete, the collected data were checked through different phases (editing, coding, data entry, and data analysis); data were analyzed using SPSS (Statistical Packages for the Social Scientist) statistical package set at the 0.05 significance level. The level of effectiveness of the existing PAS will be determined using the results of questionnaires in terms of the Perceptions of employees.

## **Chapter Four**

### **Analysis of Results**

#### **4.1 General Information of Respondents**

The analysis tried to provide information related to gender, age, educational background, current position at CBE, length of employment (experiences), and staff groups of the academic status of respondents. The following demographic characteristics of the respondents are presented along the sample frame to get representative data from 120 questionnaires that were prepared and distributed to branch employees, including branch managers and customer service managers/supervisors/. Out of these, 120 questionnaires were collected back, and all were filled correctly to evaluate the effectiveness of the employees' performance appraisal system implemented in CBE.

As Figure 4.1 below indicates, among the 120 respondents, 76, or 63.33%, selected Male, and 44, or 36.67%, selected Female. Most survey participants were aged between 25-34 years, totaling 82 or 68.33% of the respondents. The next most age group was under 25 years, with 20 employees or 16.67%. 15 or 12.50% of the respondents were between 35-44 years, and 3, or 2.5%, were 45 and above years category.

According to the data from Table 4.1, the majority, 80(66.7%) of respondents, were Customer Service Officers, and 20(16.7%) of participants were Senior Customer Service Officers. The rest respondents were administrative staff which were Branch Managers and Customer Service Managers, 12(10%) and 8(6.70%), respectively.

Among the 120 participants, 46, or 38.33%, had a service of 2-4 years, 2 were Senior Customer Service Officers, and 44 were Customer Service Officers. 47 or 39.17% of them had a service between 5-9 years, of which 30 were Customer Service Officers, and 12 were senior customer service officers. 24 or 20% of them had service between 10-19 years; from these, 7 of them were Branch Managers, 5 of them were Customer Service Managers/Supervisors, 6 of them were Senior Customer Service Officers, and 6 of them were Customer Service Officers. Finally, 3 or 2.5% of the respondents had 20 or above years of work experience in the bank, of which 2 were Branch Managers, and the rest were Customer Service Managers.

Table 4.1 Respondent's Demographic Information

Gender				
	Frequency	Percent	Valid Percent	Cumulative Percent
Male	76	63.3	63.3	63.3
Female	44	36.7	36.7	100.0
Total	120	100.0	100.0	
Age				
	Frequency	Percent	Valid Percent	Cumulative Percent
Under 25	20	16.7	16.7	16.7
25-34	82	68.3	68.3	85.0
35- 44	15	12.5	12.5	97.5
45 and above	3	2.5	2.5	100.0
Total	120	100.0	100.0	
Current Position				
	Frequency	Percent	Valid Percent	Cumulative Percent
Branch Manager	12	10.0	10.0	10.0
Customer Service Manager/ Supervisor	8	6.7	6.7	16.7
Senior Customer Service Officer	20	16.7	16.7	33.3
Customer Service Officer	80	66.7	66.7	100.0
Total	120	100.0	100.0	
Length of Employment				
	Frequency	Percent	Valid Percent	Cumulative Percent
2-4 Years	46	38.3	38.3	38.3
5-9 Years	47	39.2	39.2	77.5
10-19 Years	24	20.0	20.0	97.5
20 and above Years	3	2.5	2.5	100.0
Total	120	100.0	100.0	
Academic Qualification				
	Frequency	Percent	Valid Percent	Cumulative Percent
Diploma	1	.8	.8	.8
BA Degree	99	82.5	82.5	83.3
MA	20	16.7	16.7	100.0
Total	120	100.0	100.0	

Source: Developed for this study

From the above **table 4.1**, the educational level of respondents from the sample taken, the majority, 99 (82.50%), are in the category of B.A. degree holders. Additionally, the second majority, 20 (16.67%) of respondents, are in the category of M.A. degree holders, and the rest 1(0.83%) of the respondent is diploma holder. Therefore, they would be able to fill out the questionnaire in English and know-how about the effectiveness of the employee performance appraisal system implemented in CBE.

#### 4.2 The responses to the employees' questionnaire survey

This section will present and discuss the responses to employees' questionnaires, and some of the collectively analyzed responses (of both Managers and employees) were connected with the questions related to measuring the effectiveness of employees' performance appraisal system in CBE. There are 33 statements, and the respondents are requested to tick the level of agreement or disagreement based on their attitude on Perception of performance appraisal, an improvement on the performance of employees, feedback richness, purposes of performance appraisal system, motivate employees, and reliability of performance appraisal. The following tables present all statements and the answers of the respondents.

**Survey scale:** 1=strongly disagree, 2= disagree, 3= neutral, 4 = agree and 5=strongly agree. **Response Category:** strongly disagree (1.50 or less), disagree (1.51-2.50), neutral or no opinion (2.51-3.49), agree (3.50-4.49), and strongly agree (4.5 or greater)

ANDA mean score of 3.80 is considered high, 3.40-3.79 is moderate, and below 3.39 is low. Therefore, the above thresholds consider the performance appraisal practices system in the study.

#### 4.3 Multiple regression analysis and findings

In this subsection, multiple regression analysis was used to determine whether independent variables ( $X_1$ ,  $X_2$ ,  $X_3$ ,

X<sub>4</sub>, X<sub>5</sub>, and X<sub>6</sub>) simultaneously impact the dependent variable (Y). As a result, the subsection examines whether the multiple regression equation can be used to explain the causal theory of the various factors in performance appraisal systems. To investigate the influence of Perception of P.A. (X<sub>1</sub>), improve performance(X<sub>2</sub>), feedback richness(X<sub>3</sub>), the purpose of P.A. (X<sub>4</sub>), motivate employees(X<sub>5</sub>), and reliability of the system(X<sub>6</sub>) on the effectiveness of performance appraisal system, the model used for the regression analysis was expressed in the general form as given below:

$$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + \epsilon$$

Where b<sub>0</sub>, b<sub>1</sub>, b<sub>2</sub>, b<sub>3</sub>, b<sub>4</sub>, b<sub>5</sub> and b<sub>6</sub> are constants;  $\epsilon$  is the error term.

For this model, PAS was used as the dependent variable (Y), and independent variables included X<sub>1</sub>, X<sub>2</sub>, X<sub>3</sub>, X<sub>4</sub>, X<sub>5</sub>, and X<sub>6</sub>. The relationships between the dependent variable and independent variables and the results of testing the significance of the model have been respectively interpreted.

In interpreting the results of multiple regression analysis, the three significant elements considered were: the coefficient of multiple determinations, the standard error of estimate, and the regression coefficients. These elements and the results of multiple regression analysis were presented and interpreted accordingly. Table 4.19 below presents the result on the effectiveness of the performance appraisal model.

Table 4.20: The effectiveness PAS Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. The error in the Estimate
1	.742	.551	.552	.479251

Source: Developed for this study

Table 4.24 reports the model of the effectiveness of the performance appraisal system with the coefficient of determination R<sup>2</sup> = 0.552 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 120 could be explained by the Perception of P.A. (X<sub>1</sub>), improved performance(X<sub>2</sub>), feedback richness(X<sub>3</sub>), the purpose of P.A. (X<sub>4</sub>), motivate employees (X<sub>5</sub>), and reliability of the system (X<sub>6</sub>) while 44.8 % remains unexplained.

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

Table 4.21: Summary ANOVA

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	25.234	6	4.206	18.311	.000
	Residual	25.954	113	.230		
	Total	51.188	119			

Source: Developed for this study

Table 4.25 reports the summary ANOVA and F statistic, which reveals the value of F (18.311) being significant at a 0.05 confidence level. The value of F is large enough to conclude that the set of independent variables is.

The results of the PAS regression model using the six independent variables were presented and interpreted in the following table below:

Table 4.22 Performance appraisal system regression model

	Coefficients			
	Instandardized Coefficients		Standardized Coefficients	
	B	Std. Error	Beta	Sig.
(Constant)	.260	.296		.382
Improve Performance of Employees (X1)	.089	.100	.072	.377
Perception on Performance Appraisal (X2)	.261	.082	.268	.002
Feedback Richness (X3)	.123	.084	.113	.145
Purpose of Performance Appraisal (X4)	.158	.086	.161	.068
Motivate Employees (X5)	.212	.097	.202	.032
Reliability of Performance Appraisal System (X6)	.174	.065	.193	.009

a. Dependent Variable: Effectiveness of Performance Appraisal

Source: Developed for this study

Below Table 4.26 evaluates and interprets the standardized coefficients of correlation (beta). In estimating the contribution of each independent variable in the study, it was established that all independent variables significantly contributed to the variance of the PAS at a significance level of 0.05. However, the relative importance of each independent variable was different. Also, since the significance values are less than 0.200 except for the first variable( $X_1$ ), the coefficients are significant, and therefore the regression equation would be:

$$Y = 0.260 + 0.89X_1 + 0.261X_2 + 0.123X_3 + 0.158X_4 + 0.212X_5 + 0.174X_6$$

Improve Performance of Employees was positively related to the effectiveness of performance appraisal systems with  $\beta=0.072$  ( $\alpha<.05$ ). Therefore, Support was found to indicate that improving the Performance of Employees influences the effectiveness of performance appraisal systems. It, therefore, implied that the better Improve Performance of Employees, the more influential the PAS.

Perception of Performance Appraisal was positively related to the effectiveness of performance appraisal systems with  $\beta = 0.268$  ( $\alpha<.05$ ). This evidence indicates that Perception on

Performance Appraisal influences the effectiveness of performance appraisal systems. It, therefore, implied that the better the Perception of Performance Appraisal by the rater and the rate, the more influential the PAS.

The effectiveness of the Performance appraisal system was positively related to Feedback Richness with  $\beta = 0.113$  ( $\alpha<.05$ ). Support was also found to show a relationship between the effectiveness of performance appraisal systems and Feedback Richness.

The purpose of Performance Appraisal was positively related to the effectiveness of performance appraisal systems with  $\beta = 0.161$  ( $\alpha<.05$ ). Like the previous variables, the evidence was found to indicate that the Purpose of Performance Appraisal influences the effectiveness of performance appraisal systems. Motivate Employees were also positively related to the effectiveness of PAS with  $\beta = 0.202$  ( $\alpha<.05$ ). Support was therefore found to indicate that Motivate Employees influence the effectiveness of performance appraisal systems.

Reliability of the Performance Appraisal System was positively related to the effectiveness of performance appraisal systems with  $\beta=0.193$  ( $\alpha<.05$ ). Support was found to indicate that the Reliability of Performance Appraisal Systems influences the effectiveness of performance appraisal systems. It, therefore, implied that the better Reliability of the Performance Appraisal System, the more influential the PAS. Therefore, all five factors ( $X_1, X_2, X_3, X_4, X_5$ , and  $X_6$ ) influence the PAS, explaining 55.2 % of the variation in the PAS.

## Chapter Five

### Summary of Findings, Conclusions, and Recommendations

This chapter summarizes the data findings on the effectiveness of employee performance appraisal in the Commercial Bank of Ethiopia. It also gives conclusions and recommendations drawn from the findings. The chapter is therefore structured into a summary of findings, conclusions, recommendations, and areas for further research.

#### 5.1 Summary of Findings

The study showed that at CBE, the following variables/factors affect the effectiveness of the implementation of performance appraisals;

##### Perception of raters/rate towards performance appraisal

Employees' and supervisors' Perception of performance appraisal plays a significant role in the system's effectiveness. When employees do not perceive the system as effective, they have no sense of belongingness to the organization, have no future hope of getting better benefits, and so on. This affects the overall performance of the bank. The study revealed that CBE's P.A. system was ineffective in the Perception of employees and did not fulfill the requirement, whereas managers assumed that the system was effective.

##### Objective/purposes of performance appraisal

Every individual in the organization should know why his/her performance is measured. Organizations use the appraisal result for different purposes, such as making a decision based on evidence for developmental, motivational, or administrative purposes. In this context, the study revealed that CBE's employees needed to know how the bank measured their performance. They said they had never seen any decision based on appraisal results. Contrary to this, managers and supervisors had the opposite attitude from employees; they know for what purpose the bank measures the performance.

##### Feedback richness

Continuous feedback is an integral part of the appraisal process. A practical evaluation system should give constructive feedback provides to employees in order to improve the performance of each individual for the coming period. However, feedback is not a one-time task. It is a process for the evaluation period. In this regard, CBE's appraisal process could have been more effective. The study revealed that all respondents except managers said continuous feedback did not provide by managers and immediate supervisors about the performance of employees. Managers and supervisors revealed that the system is effective because responsible personnel provided feedback whenever possible.

### **Motivate employees**

An effective appraisal system must produce the correct result for each performer and be appreciated, rewarded, and promoted when the performer scores high without discrimination and biases. When the performer who scores more than anyone does not get anything, he/she assumes that whenever he to perform higher than anyone, you are treated as equal to the one who performed lesser. It affects the overall performance of the organization. For this context, employees of CBE assumed that the system was ineffective in motivating employees. Nothing happens when you have to score 5(exceptional) or 1(unsatisfactory). The assumption of managers to this end was opposite to employees.

### **Reliability of the system**

An effective appraisal system should be reliable and, as much as possible free from personal biases and subjectivity, even though it is difficult to avoid. If it is reliable, the result was acceptable by raters and rates without grievance. This creates a conducive work environment in the organization. Due to this variable, both employees and managers agreed that the system was reliable and free from personal bias, according to the study analysis.

### **Improve the performance of employees.**

Performance appraisal should have to encourage performance improvement. In this regard, performance appraisals communicate how they do to employees and suggest needed behavior, attitude, skills, or knowledge changes. For this consideration, the Commercial Bank of Ethiopia's performance appraisal system could be more effective based on the response of both appraisers and appraisees.

## **5.2 Conclusions**

The general aim of the dissertation was to assess the effectiveness of the employees' performance appraisal system at the Commercial bank of Ethiopia. To complete this aim, the researcher reviewed the literature on performance appraisal and related areas comprehensively and then surveyed employees of CBE.

The study revealed that CBE's performance appraisal system lost the acceptance of employees, which is helpful for the bank and them. In the same way, employees perceived that nothing performance improvement comes because of measurement in the performance of employees. The appraisal system did not play any role in the improvement of performance. The managers and supervisors also think the same. Even if feedback played a vital role in the appraisal system, managers and supervisors should have provided constructive feedback to enhance employees' performance and correct the wrong way they followed. The appraisal system implemented in CBE is also fragile to motivate employees based on their scores. No one was rewarded and promoted whenever he/she scored exceptional results during the appraisal period. In the same way, no training had to provide when an employee scored unsatisfactory result.

In FACY, employees assumed that the performance appraisal system implemented in CBE needed to be more assertive in providing constructive feedback, more vital in linking the result with motivational and developmental policies, and lacking its strength to improve employees' performance.

Employees accept only the system's reliability among the variables that measure the system's effectiveness. They assumed that the system was free from personal bias. From this perspective, the system was effective. For the rest variables, such as feedback richness, motivation, the purpose of P.A., improved performance, and Perception towards P.A., employees did not accept P.A. system implemented in CBE was sound and necessary and did not perceive that it was the practical system.

The study also revealed that the manager's and supervisors' Perception of the P.A. system in CBE was different from employees. They assumed that the system was adequate for all variables the study picked up except improve performance of employees. This indicated a massive gap between them in their Perception of the system's effectiveness.

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