

**ADDIS ABABA UNIVERSITY**  
**COLLEGE OF BUSINESS AND ECONOMICS**  
**SCHOOL OF COMMERCE**



**THE EFFECT OF HIGH-PERFORMANCE WORK SYSTEM  
ON ORGANIZATIONAL PERFORMANCE IN CASE OF  
SELECTED MICROFINANCE INDUSTRY (VISION FUND,  
PEACE, HARBU AND NISIR)**

**A THESIS SUBMITTED TO ADDIS ABABA UNIVERSITY, SCHOOL  
OF COMMERCE IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS FOR THE DEGREE OF MASTERS IN HUMAN  
RESOURCE MANAGEMENT**

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**DECLARATION**

I, Tekalign Daba, hereby declare that this thesis is the outcome of my independent research on the topic titled "The Effects of High-Performance Work Systems on Organizational Performance in the Case of the Selective Microfinance Industry (Vision Fund, PEACE, Harbu, and Nisir)" in partial fulfillment of the requirements for a Master's Degree in Human Resource Management at Addis Ababa University College of Business and Economics. This work is original and has not been submitted by any other individual for the award of a Master's Degree at any other University or Institution, and all references are properly acknowledged.

The undersigned certifies that they have reviewed and hereby recommend that Addis Ababa University College of Business and Economics accept the thesis submitted by Tekalign Daba entitled "The Effects of High-Performance Work Systems on Organizational Performance in the Case of the Selective Microfinance Industry (Vision Fund, PEACE, Harbu, and Nisir)" in partial fulfillment of the requirements for the award of a Master's Degree in Human Resource Management.

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## List of Acronyms

**MFI's:** Micro Finance Institutions

**HPWS:** High-Performance Work Systems

## Abstract

*The study takes a comprehensive approach to examining the relationship between High-Performance Work Systems (HPWS) and organizational performance within the context of microfinance institutions (MFIs). A quantitative research design was utilized, and structured questionnaires were administered to a sample of 213 employees from four notable MFIs: Vision Fund, PEACE, Harbu, and Nisir. A descriptive analysis of the 213 respondents reveals significant demographic characteristics, including educational levels, age distribution, and organizational tenure, which enhance the contextual understanding of the data. Correlation analysis shows strong positive relationships among key HR practices, including recruitment and selection, training and development, compensation and benefits, performance appraisal, and employee engagement, with correlation coefficients ranging from 0.43 to 0.78 ( $p < 0.01$ ). Regression analysis identifies employee engagement as the strongest predictor of organizational performance (Beta = 0.425,  $p < 0.001$ ), followed by performance appraisal (Beta = 0.262,  $p = 0.003$ ) and recruitment decisions (Beta = 0.193,  $p = 0.013$ ). The model accounts for 51.8% of the variance in organizational performance, indicating strong predictive capability. Hypothesis testing conducted with the Kruskal-Wallis test confirms that effective recruitment, comprehensive training, objective performance appraisals, competitive compensation, and high employee engagement significantly impact organizational performance (all  $p < 0.05$ ). These findings underscore the importance of integrated HR practices in enhancing organizational outcomes. They suggest that organizations should prioritize employee engagement and performance appraisal strategies to improve overall performance. The results offer actionable insights for HR practitioners and organizational leaders looking to cultivate a productive work environment in the competitive microfinance sector.*

**Keywords:** High-Performance Work Systems, Organizational Performance, Employee Engagement

# CHAPTER ONE: INTRODUCTION

## **1.1. Background of the Study**

Human Resource Management plays a critical role in enhancing organizational performance by upgrading individual performance within the organization. Effective practices aimed at improving organizational performance increasingly focus on High-Performance Work Systems (HPWS), which are designed to foster excellent organizational performance. HPWS posits that employees can create a competitive advantage that is difficult for competitors to replicate and are capable of continuous improvement (Pfeffer, 1998a). These systems are characterized by a human resource management approach that promotes employee commitment and involvement, enabling organizations to achieve their performance goals without relying on sanctions or pressures (Walton, 1985; Wood & Albanese, 1995).

HPWS have been defined as “a group of separate but interconnected human resource (HR) practices designed to enhance employees’ skills and effort” (Takeuchi et al., 2007). Research indicates that organizational performance is significantly enhanced by HR systems that effectively leverage human capital, focusing on acquiring, developing, and motivating the best talent. Such systems, which enhance employee competencies, commitment, and productivity, are commonly referred to as HPWS (Appelbaum et al., 2000; Datta et al., 2005). Numerous studies have demonstrated that HPWS creates tangible benefits and serves as a strategic approach to maximize employee contributions toward competitive advantage (Becker & Huselid, 1998; Huselid, 1995).

HPWS practices can improve the knowledge, skills, and abilities (KSAs) of both current and potential employees, increase motivation, reduce shirking, and enhance retention while encouraging non-performers to leave the organization (Huselid, 1995). Furthermore, Evans and Davis (2005) supported the notion that HPWS practices enhance the KSAs of employees and contribute to building a commitment-based organizational culture.

Various researchers have identified specific components of HPWS, including staffing, selfmanaged teams, decentralized decision-making, training, flexible job assignments, open communication, and compensation (Becker & Huselid, 1998; Guthrie, 2001; Pfeffer, 1998a). According to Boselie and

Dietz (2003), practices such as employee development and training, participation and empowerment, information sharing, and effective compensation systems are frequently cited as components of HPWS. Although the effects of HPWS may vary across organizations, the benefits for both individual and organizational performance are evident. HPWS typically includes flexible job assignments, rigorous staffing processes, training and development, empowerment, effective communication, career opportunities, performance appraisal, job security, and competitive compensation (Becker & Huselid, 1998; Guthrie, 2001; Jensen et al., 2011).

Sels et al. (2006) noted that HPWS encompasses a set of HR practices that leverage employees' KSAs for organizational benefit, playing a key role in enhancing a firm's competitive advantage through effective employee contributions. Takeuchi et al. (2009) found a positive association between HPWS and employee job satisfaction and commitment. Similarly, Macky and Boxall (2007) examined the relationship between HPWS and employee job satisfaction in New Zealand, confirming a significant correlation. Other studies have linked HPWS to improved employee retention, commitment, and overall organizational performance.

The present study focuses on specific HPWS components training, performance appraisal, and communication to create job satisfaction and enhance organizational performance. It is anticipated that the implementation of HPWS was positively contribute to organizational performance through increased job satisfaction. When HPWS are aligned with employee needs, they can lead to optimal performance outcomes (Messersmith et al., 2011). This alignment is expected to foster greater job satisfaction among employees, thereby enhancing overall organizational performance.

Employee engagement is a multi-dimensional construct that is linked to the cognitive, emotional, and behavior of the individual concerning their work role (Schaufeli, 2013). According to Albrecht (2010), the term employee engagement refers to an individual who is physically, cognitively, and emotionally involved in his or her work; it can be defined as the psychological link between employees and their work and or their organization. In simple words, employee engagement can be defined as a state of mind or psychological investment in one situation where employees feel they are empowered to contribute and add value feels fulfilling is just some other version that might seem appropriate individually and, in an organization, which ultimately ends up leading to improved productivity.

## **1.2. Statement of the Problem**

The research gap regarding the effects of High-Performance Work Systems (HPWS) on organizational performance within the microfinance industry—specifically at Vision Fund, PEACE, Harbu, and Nisir—stems from the absence of a standardized and comprehensive approach. This deficiency hampers these organizations' ability to attract and retain top talent effectively. Several key issues contribute to this gap, including poorly defined recruitment and selection processes characterized by unclear hiring criteria (Breugh, 2008) and a lack of well documented, impactful compensation and rewards systems (Kaufman, 2008). Additionally, there are insufficient measurement tools to evaluate the outcomes of training and development initiatives, coupled with an underutilization of technology to enhance staff development (Noe, 2017). The absence of a comprehensive career development framework that aligns employee growth with organizational goals (Rothwell & Kazanas, 2008) further exacerbates the situation. Furthermore, the reliance on traditional training methods and inadequate evaluations to assess training effectiveness (Kunche et al., 2011) complicate these challenges. Unreliable performance appraisals, resulting from a misalignment between performance standards and employee motivation, also contribute to employee dissatisfaction (Pulakos, 2015; Manaye, 2017; Lawler, 2003). These identified gaps highlight the urgent need for research to evaluate the effectiveness of current HPWS practices and their impact on organizational performance and employee satisfaction within the selected microfinance institutions. In response to these challenges, this study aims to assess the effectiveness of HPWS in enhancing organizational performance and employee satisfaction at Vision Fund, PEACE, Harbu, and Nisir. By addressing these gaps, the research seeks to provide actionable insights that can improve various areas, such as recruitment and selection, compensation and rewards, training and development, performance standards, employee motivation, engagement, and overall organizational effectiveness. Notably, a study by Gallup (2017) emphasizes the economic importance of fostering employee engagement, indicating that organizations with highly engaged employees can experience profit increases of up to 21%.

## **1.3. Research Questions**

1. How do the recruitment and selection processes at Vision Fund, PEACE, Harbu, and Nisir affect the attraction and retention of talent?

2. What tools and methods are used to evaluate the effectiveness of training and development programs in the microfinance sector?
3. In what ways do the current compensation and rewards systems influence employee motivation and satisfaction within these microfinance institutions?
4. How does the misalignment between performance standards and employee motivation impact job satisfaction and performance in these organizations?
5. What role does employee engagement play in influencing performance within these organizations?

## **1.4. General Objective**

To evaluate the impact of High-Performance Work Systems on organizational performance in selected microfinance institutions (Vision Fund, PEACE, Harbu, and Nisir).

### **1.4.1. Specific Objectives**

1. To analyze the impact of recruitment and selection processes on talent attraction and retention in the selected microfinance institutions.
2. To identify the tools and methods utilized to assess the effectiveness of training and development programs in the microfinance sector.
3. To evaluate how compensation and rewards systems affect employee motivation and satisfaction within these organizations.
4. To investigate the relationship between performance standards and employee motivation, and how this relationship affects job satisfaction and overall performance.
5. To examine the connection between employee engagement and organizational performance within these institutions.

## **1.5. Significance of the Study**

The significance of this study lies in its exploration of how improved recruitment and selection strategies can boost organizational performance. According to Saikumar et al. (2023), effective recruitment and selection processes are crucial for achieving better outcomes. Likewise, Ekwoaba et al. (2015) highlight that using objective criteria in recruitment and selection significantly enhances

organizational performance by ensuring a better fit for candidates and reducing biases in the selection process.

Additionally, the role of training and development (T&D) is recognized for its direct impact on organizational effectiveness. Ismael et al. (2021) emphasize the necessity of ongoing T&D initiatives to elevate overall performance levels. Similarly, Sung et al. (2013) found that organizations that invest in internal training experience increases in innovative performance, with strong interpersonal and organizational learning practices acting as essential mediators. Moreover, a literature review by Raja Abdul et al. (2011) concludes that various forms of training, including on-the-job training and tailored training programs, have a significant positive effect on overall organizational performance.

Research by Gerhart et al. (1990) on the link between managerial compensation and financial performance indicates that performance-based pay is notably associated with improved financial outcomes, unlike base pays, which does not exhibit the same correlation. Furthermore, Imron et al. (2020) reveal that both compensation and organizational climate foster organizational commitment, which correlates positively with organizational performance, suggesting that a supportive environment enhances the effects of compensation.

Ayers (2015) stresses the importance of aligning employee performance with organizational goals, concluding that this alignment within performance appraisal programs can significantly enhance organizational performance. Bula et al. (2023) further support this by demonstrating that goalsetting within performance appraisals can greatly influence performance, highlighting the necessity for targeted evaluations.

Moreover, Schaufeli and Bakker (2004) identify key elements of employee engagement, including vigor, commitment, and absorption, which contribute to a productive workforce. Schaufeli et al. (2002) further confirm that an engaged workforce enhances organizational performance. A study by Gallup (2017) underscores the economic significance of fostering employee engagement, revealing that companies with highly engaged employees can experience profit increases of up to 21%.

Overall, this research contributes valuable insights into the factors that drive organizational performance, making it particularly relevant for institutions looking to enhance their operational effectiveness through improved HPWS practices.

## 1.6. Scope of the Study

The research was focus on evaluating the impact of High-Performance Work Systems (HPWS) on organizational performance within four selected microfinance institutions: Vision Fund, PEACE, Harbu, and Nisir. The research was specifically analyzing the recruitment and selection processes, compensation and rewards systems, training and development effectiveness, performance standards, and the interrelationships among these HR practices and the relationship between employee engagement and organizational performance. The study aims to provide insights into how these factors collectively contribute to employee motivation, retention, job satisfaction, and overall organizational performance in the microfinance sector.

## 1.7. Limitation of the Study

This study may face several limitations, including challenges related to data availability, particularly regarding the willingness of organizations to share performance metrics and HRM practices. Additionally, the generalizability of findings may be constrained due to the focus on specific sectors and geographical areas. There may also be potential biases in self-reported measures of HRM practices and performance outcomes, which can affect the reliability of the data.

- ✓ The focus on only four microfinance institutions may limit the generalizability of the findings to the broader microfinance sector.
- ✓ The perceptions and responses of employees regarding HPWS practices may be subjective and influenced by individual experiences, potentially affecting the reliability of the data.
- ✓ Access to relevant organizational data, such as performance metrics and employee satisfaction surveys, may be limited or inconsistent across the institutions studied.
- ✓ The study may be constrained by time limitations for data collection and analysis, impacting the depth of the research.

## 1.8. Definition of Terms

- ✓ **High-Performance Work Systems (HPWS):** A set of interconnected human resource practices designed to enhance employee skills, commitment, and performance, ultimately leading to improved organizational outcomes.

- ✓ **Organizational Performance:** The effectiveness with which an organization meets its goals and objectives, often measured through productivity, employee satisfaction, and financial metrics.
- ✓ **Talent Attraction and Retention:** The processes and practices organizations use to attract potential employees and retain existing talent within the workforce.
- ✓ **Compensation and Rewards Systems:** The structure of financial and non-financial benefits provided to employees to motivate and enhance their performance.
- ✓ **Training and Development Programs:** Initiatives aimed at improving employees' skills and knowledge to enhance their performance and career growth.

## 1.9. Organization of the Study

The study is organized into five chapters:

1. **Chapter One: Introduction** - Provides the background, problem statement, research questions, objectives, significance, scope, limitations, definitions, and organization of the study.
2. **Chapter Two: Literature Review** - Reviews existing literature related to HRM practices and their impact on organizational performance.
3. **Chapter Three: Research Methodology** - Outlines the research design, approach, data collection methods, and analysis techniques.
4. **Chapter Four: Data Analysis and Findings** - Presents the results of the data analysis and discusses the findings about the research questions.
5. **Chapter Five: Conclusion and Recommendations** - Summarizes the study's conclusions and offers recommendations for practice and future research.

## CHAPTER TWO

### LITERATURE REVIEW

#### **2.1. Introduction**

High-Performance Work Systems (HPWS) encompass a collection of management practices aimed at enhancing organizational performance through increased employee involvement, skill development, and commitment. Recent years have seen a heightened interest in examining the effects of HPWS on organizational performance, particularly in developing countries. This literature review synthesizes existing research on the relationship between HPWS and organizational performance while highlighting the specific challenges and opportunities faced by organizations in these regions.

#### **2.2. Theoretical Literature Review**

The concept of HPWS was first articulated by Huselid (2006) as a set of human resource practices that serve as potential sources of competitive advantage for organizations (Appelbaum, 2000; Pfeffer, 2006; Wright et al., 2005; Zacharatos et al., 2005). The theoretical foundation for this review is based on the HPWS framework, which posits that specific management practices—such as selective staffing, comprehensive training, and employee involvement mechanisms—can foster a culture of high performance, leading to improved organizational outcomes (Becker & Huselid, 1998). The HPWS approach aligns with several theoretical models:

##### **2.2.1. High Involvement Management (HIM)**

High Involvement Management emphasizes the significance of employee participation, skill development, and empowerment in enhancing organizational performance (Kochan et al., 1986).

##### **2.2.2. Contingency Theory**

Contingency Theory posits that the effectiveness of organizational strategies is contingent upon internal factors (such as employee attitudes and skills) and external factors (such as market conditions) (Fiedler, 1967). HPWS can be viewed as a mechanism for adapting organizational practices to these contingencies.

### **2.2.3. Resource-Based View (RBV)**

The Resource-Based View suggests that organizations can achieve competitive advantage by leveraging unique resources and capabilities (Barney, 1991). HPWS can thus be seen as a source of sustained competitive advantage, enabling organizations to differentiate themselves in the marketplace.

### **2.2.4. Social Exchange Theory**

Social Exchange Theory indicates that the quality of the relationship between employees and organizations impacts performance outcomes. HPWS cultivates a positive organizational climate that fosters high-quality exchanges, leading to enhanced commitment and performance (Cropanzano & Mitchell, 2005).

### **2.2.5. Institutional Theory**

Institutional Theory highlights the importance of organizational practices that align with societal norms and expectations. In developing countries, microfinance institutions (MFIs) adopting HPWS practices may enhance their legitimacy and acceptance among stakeholders and clients, thereby improving overall performance (DiMaggio & Powell, 1983).

## **2.3. Empirical Literature Review**

Numerous empirical studies have explored the impact of HPWS on organizational performance across various contexts, particularly in developing countries. Research consistently demonstrates a positive correlation between HPWS and organizational performance, especially within the microfinance sector. Key findings from this body of literature include:

### **2.2.1. The Effects of Recruitment and Selection Strategies on Organizational Performance**

Research indicates that improved recruitment and selection strategies significantly enhance organizational performance. Saikumar et al. (2023) emphasize that effective recruitment processes are pivotal for achieving better outcomes. Ekwoaba et al. (2015) highlight that objective recruitment and selection criteria lead to superior results, ensuring better candidate fit and reducing biases in the selection process. Supporting this, Santos et al. (2020) discuss how well-programmed recruitment

practices improve performance through the mediation of selection quality, suggesting that alignment with organizational culture enhances overall effectiveness.

Butali et al. (2020) found that selective hiring practices significantly impact organizational performance, with affective and normative commitments playing a moderating role, underscoring the importance of not only selecting suitable candidates but also fostering their commitment to the organization. Nanor et al. (2022) indicate a significant link between recruitment and selection practices and organizational performance, although they note no direct link to the employment of competent staff, suggesting that the execution of these strategies is crucial for achieving desired outcomes. Girsang et al. (2023) report a 71.4% impact of recruitment and selection processes on organizational performance metrics, highlighting their importance in driving success. Sai Sharan A et al. (2023) provide a literature review showing that effective recruitment and selection influence workforce quality, retention, and overall organizational outcomes in the public sector, underscoring their critical role across various sectors.

Surya Bakti et al. (2023) analyze the effects of recruitment and selection criteria on organizational productivity, finding a positive impact, although it does not directly translate to improvements in employee performance. Abebe et al. (2021) demonstrate that offering small monetary incentives for job applications in Ethiopia can attract more talented applicants, while Hamza et al. (2021) investigate recruitment and selection methods in telecommunications companies in ErbilKurdistan, finding them significant determinants of performance, independent of candidate demographics such as race or gender. Wassie et al. (2019) assess performance in Ethiopian MFIs, identifying key factors such as asset holding and loan officer productivity that contribute positively to financial performance. Dato et al. (2018) explore how governance structures, through board committees, enhance financial and social outcomes for Ethiopian MFIs.

Additionally, Animaw Semegn et al. (2020) find that demographic characteristics of owners and managers, such as gender and age, positively correlate with sales and employment performance in micro and small enterprises. In conclusion, the literature consistently demonstrates that effective recruitment and selection strategies are integral to improving organizational performance. Objective criteria, alignment with organizational culture, and selective hiring practices significantly contribute

to employee performance and overall success. Future research should continue to explore these relationships and the contextual factors influencing recruitment and selection processes.

### **2.2.2. The effect of training and development on organizational performance**

Research highlights the significant impact of training and development (T&D) programs on organizational effectiveness across various contexts, particularly within the Ethiopian microfinance sector. Ismael et al. (2021) emphasize that ongoing T&D is essential for enhancing overall organizational performance, while Sung et al. (2013) illustrate that resource allocation for employee training correlates with improved innovative performance, mediated by enhanced interpersonal and organizational learning practices. Raja Abdul et al. (2011) and Mohd Said et al. (2022) further support this notion, showing that diverse training approaches, including on-the-job and off-the-job training, positively affect performance metrics.

Vanitha et al. (2024) explore the influence of T&D programs on employee skills, knowledge, motivation, and job satisfaction, asserting that these factors ultimately enhance productivity and employee retention. However, Garavan et al. (2019) call for greater methodological rigor in evaluating T&D's impact, noting that existing measures often lack construct validity and reliability. Diwedi et al. (2023) provide empirical evidence that effective T&D strategies promote organizational performance, while Garba et al. (2019) reveal a strong positive relationship between staff training and service delivery in specific contexts, such as Usmanu DanFodiyo University Sokoto, Nigeria. Handayani et al. (2021) highlight the mediating role of employee performance in linking T&D strategies to organizational outcomes.

Cernătescu et al. (2021) note that training and personal development programs lead to increased efficiency and labor productivity. Neelima et al. (2024) analyze the positive impacts of T&D on employee productivity and personal growth. Additionally, Butali et al. (2017) examine the moderating effect of organizational commitment on the T&D-performance relationship, while Hasyim et al. (2023) review long-term benefits of organizational development initiatives, including T&D, for employee engagement and overall business performance. Tripathi (2024) asserts that effective T&D enhances employee skills and performance, contributing to improved organizational performance. Meanwhile, studies by Panda (2016) and Kim et al. (2015) reveal significant positive

impacts of various training programs and the influence of employee attitudes towards training performance.

Bakhtiar et al. (2021) demonstrate that business training for women-owned microenterprises results in substantial profit and sales increases, while Araar et al. (2019) note combined effects of credit and training on micro and small enterprises in urban Ethiopia, with variations in benefits based on gender. Zhang et al. (2022) explore factors affecting small enterprise performance, finding positive correlations with government support and training. Tesfaye (2020) reveals that differing levels of entrepreneurship training correlate variably with performance metrics. Gulima (2016) underscores the role of training in improving work quality and job satisfaction among micro and small enterprise operators in Ethiopia.

Moreover, Afriyie et al. (2023) illustrate how job satisfaction enhances T&D effectiveness in microfinance institutions. Lastly, Animaw Semegn et al. (2020, 2021) highlight the positive influence of demographic factors and financial interventions on enterprise performance. Collectively, this literature underscores the critical role of targeted T&D initiatives in enhancing organizational performance within the Ethiopian microfinance sector, while also noting the importance of considering factors such as gender and training program structures. Future research should explore the causal relationships between specific training components, employee demographics, and performance outcomes, aiming to integrate these principles effectively across various sectors of the Ethiopian economy.

### **2.2.3. The effect of compensations on organizational performance**

Gerhart et al. (1990) explore the relationship between managerial compensation and financial performance, finding that contingency pay is significantly associated with improved financial outcomes, whereas base pay does not demonstrate the same correlation. Similarly, Imron et al. (2020) reveal that both compensation and organizational climate positively influence organizational commitment, which in turn correlates significantly with organizational performance, suggesting that a supportive workplace environment enhances the effectiveness of compensation.

Lomyatiet al. (2023) analyze the interconnectedness of compensation, motivation, employee performance, and organizational performance, concluding that both compensation and motivation

significantly impact employee performance, ultimately affecting overall organizational results. Reddy (2020) emphasizes that diverse forms of compensation—such as bonuses, profit sharing, and nonmonetary benefits—serve to motivate employees and enhance organizational effectiveness, indicating that a varied compensation strategy may lead to better performance outcomes. Anisa et al. (2022) further investigate the combined effects of compensation, workload, and leadership on employee performance, concluding that compensation positively and significantly affects performance, thereby improving organizational performance. Hudori et al. (2019) argue that compensation enhances employee performance, recognizing good organizational climate and work commitment as crucial facilitators of this relationship. In contrast, Eze (2018) identifies the detrimental effects of insufficient remuneration and job insecurity on employee job satisfaction, highlighting the necessity for effective compensation management policies to boost satisfaction and performance.

Overall, the literature consistently demonstrates that compensation plays a multifaceted role in influencing employee performance and organizational effectiveness. While various forms of compensation, including both monetary and non-monetary rewards, contribute to performance, contextual factors such as organizational climate and culture are also significant. Future research should continue to explore these relationships and the dynamics of compensation strategies across different organizational settings.

#### **2.2.4. The impact of performance appraisal on organizational performance**

Ayers (2015) highlights the critical importance of aligning employee performance with organizational goals, concluding that such alignment in performance appraisal programs enhances overall organizational performance, despite the lack of substantial effects from broader plan alignment. Bula et al. (2023) further investigate the influence of goal-setting within performance appraisals in water and sanitation companies in Kenya, revealing that targeted goal-setting significantly boosts organizational performance.

Butali et al. (2018) emphasize the significant impact of performance appraisals on organizational outcomes, noting that affective, continuance, and normative commitment act as moderating factors in this relationship, which suggests that employee commitment is essential for realizing the benefits of such appraisals. Similarly, Sabiu et al. (2018) examine the mediating role of an ethical climate,

finding that a positive ethical environment enhances the effectiveness of performance appraisals. Indradevi (2012) asserts that effective appraisal processes facilitate goal achievement and optimal resource utilization, thereby directly influencing organizational performance. Farin et al. (2023) explore the relationship between performance appraisals and employee service quality, commitment, and output, indicating that well-structured appraisal systems lead to enhanced organizational performance.

Yadav (2024) investigates how employee perceptions of performance appraisals affect performance outcomes, revealing that addressing these perceptions fosters a culture of trust, engagement, and continuous improvement. Deepa et al. (2014) support this, stating that performance appraisal systems create a motivated workforce, which subsequently increases organizational commitment and productivity. Obisi (2012) argues that ongoing evaluation of individual performance can lead to greater organizational efficiency and effectiveness, providing a competitive advantage. Zheng et al. (2012) show that performance appraisal processes positively influence organizational citizenship behavior, mainly through mediating effects of affective commitment and perceived rating-reward linkages. Shim et al. (2024) highlight that a wellstructured performance appraisal system correlates positively with organizational citizenship behavior among government employees, while leniency in appraisals can negatively impact this relationship.

Zammuto et al. (1982) address the influence of organizational and rater differences on performance appraisals, suggesting that these variations can limit the applicability of appraisal processes across different contexts. Swidan et al. (2023) find that appreciation for feedback in performance appraisals significantly affects organizational commitment, while Salleh et al. (2013) emphasize that perceived fairness in appraisals positively influences commitment, mediated by job satisfaction levels among public servants. Xu (2013) notes that different performance appraisal systems can either positively or negatively affect organizational citizenship behavior, highlighting the importance of thoughtfully designed appraisal systems. In Ethiopia, there is an urgent need for improvements in performance appraisal systems, particularly within the public sector, to enhance employee recruitment and retention, as emphasized by Balaraman et al. (2018). Mekonen (2017) studied the performance appraisal system at the Commercial Bank of Ethiopia, finding that factors like feedback richness and employee perceptions significantly impact its effectiveness, revealing a notable disparity between the perceptions of raters and ratees. Agyare et al. (2016) evaluated the impacts of performance

appraisal in Ghana's microfinance institutions, discovering that fair appraisals positively influence job satisfaction and organizational commitment, especially when linked to promotions and characterized by clear feedback mechanisms.

Refera (2020) developed a balanced scorecard approach for assessing the performance of microfinance institutions in Ethiopia using 20 performance indicators, aiming for a comprehensive view of organizational effectiveness. Butali et al. (2018) reiterated that performance appraisal significantly enhances organizational performance, with organizational commitment moderating the relationship between appraisal practices and performance. Shiferaw (2022) analyzed the impact of human resource management practices, including training and performance appraisal, on employee performance at Bule Hora University, underscoring the need to address skill and knowledge gaps through effective training and appraisal systems.

### **2.2.5. The influence of employee engagement on an organization's performance**

Schaufeli and Bakker (2004) explain that key elements of employee engagement are vigor that indicates enthusiasm, commitment, and absorption. In turn, Schaufeli et al. (2002) confirmed that an engaged workforce is highly productive, hence contributing to the performance of an organization. A more recent study by Gallup in 2017 indicated that companies with highly engaged workforces can realize a profit increase as high as 21%, stressing thereby the economic importance of fostering employee engagement in the interest of performance enhancement.

While the literature may often indicate a positive relationship between employee engagement and performance, on the other hand, certain studies have viewed engagement, per se, does not promising enhanced levels of performance. Supporting this latter argument is the study of Albdour and Altarawneh (2019) which shows that even though employees who are more engaged are indeed more motivated, contextual factors such as the culture of the company can mask any direct performance outcomes. On the other hand, a meta-analysis conducted by Harter et al. (2002) confirms employee engagement as a predictor of performance.

In conclusion, the literature indicates that performance appraisal systems in Ethiopia, particularly in the public sector, face significant challenges that necessitate improvement. Effective performance appraisal practices are linked to enhanced employee productivity, job satisfaction, and organizational performance. Future research should focus on developing more robust appraisal systems that

incorporate feedback, fairness, and comprehensive performance indicators to foster a more effective workforce.

## **2.4. Conceptual Framework**

Recruitment and selection strategies play a crucial role in assessing how effective hiring processes impact the overall quality of the workforce. Training and development focus on enhancing employee capabilities, which subsequently affects organizational outcomes. Compensation encompasses both monetary and non-monetary elements and their influence on employee motivation and productivity. Performance appraisal evaluates how assessment processes contribute to ongoing employee development and organizational success. Additionally, employee engagement is a critical factor that influences overall effectiveness, while organizational performance is measured through various indicators, including financial, operational, and human resource metrics. Together, these components provide a comprehensive understanding of how human resource practices affect an organization's performance.

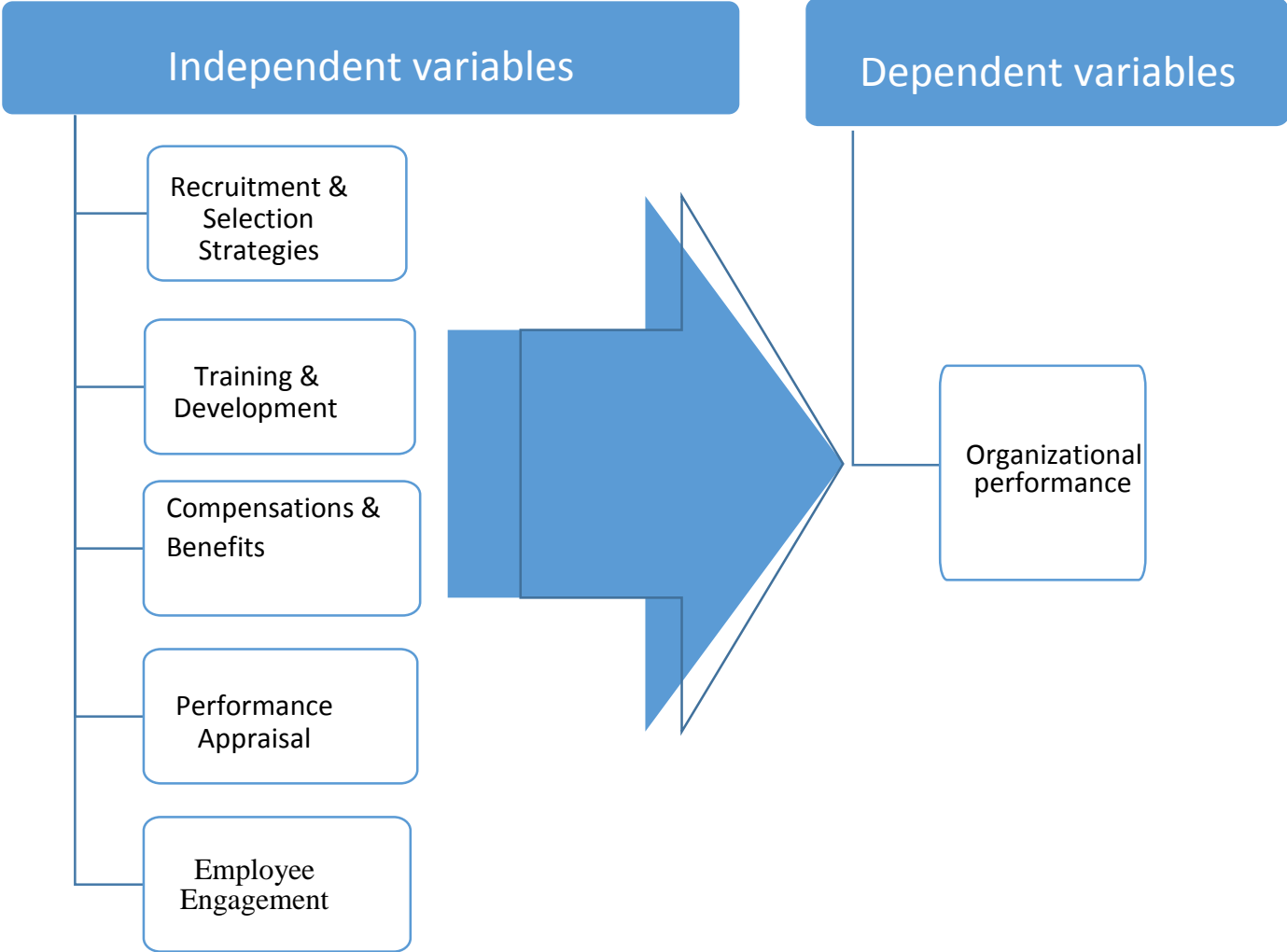


Figure 1:1: Conceptual Framework,  
Source, Developed by Researcher 2025

## CHAPTER THREE

### RESEARCH METHODOLOGY

This chapter outlines the research methodology employed to investigate the impact of High-Performance Work Systems (HPWS) on organizational performance in selected microfinance institutions: Vision Fund, PEACE, Harbu, and Nisir. The topics covered include the research design, population, sample size, sampling techniques, sources of data, data collection procedures, and analysis, and ethical considerations.

#### **3.1. Description of the Study Area**

The study is conducted within four microfinance institutions located in Addis Ababa. These organizations were selected due to their significant role in the microfinance sector and their commitment to implementing HPWS practices. By focusing on these institutions, the research aims to explore how various HR practices influence organizational performance.

#### **3.2. Research Approach**

A research design is the specification of methods and procedures for acquiring the information needed to structure or solve problems to achieve the research objective. It is the overall plan of how you will go about answering your research questions (Saunders, Lewis, and Thornhill, 2009).

In investigating the relationships between independent variables, recruitment and selection, training and development, performance appraisal, compensation and benefits, and employee engagement, and the dependent variable of organizational performance, a quantitative research approach is recommended. Quantitative research is most appropriate as it facilitates the systematic measurement and analysis of variables, enabling the establishment of statistical relationships and causal inferences. This approach supports the validation of hypotheses through numerical data collected via structured instruments such as surveys and performance records, thereby ensuring objectivity, reliability, and generalizability of the findings. Furthermore, the quantitative approach permits the employment of advanced statistical techniques for data analysis, reinforcing the rigor of the study within the field of organizational management.

### 3.3. Research Design

This study is a descriptive type of research. According Creswell (2003), a descriptive study gives the best result than other methods. The descriptive design was help in outlining the current state of HPWS practices in the selected institutions and was enable a describe of the relationships among recruitment, training, compensation, performance appraisal and Employee engagement in driving organizational performance.

### 3.4. Population and Sample

The total population for this study comprises 6,318 employees from the four microfinance institutions. In this study, head office employees of the case MFIs are considered as population of the study. Evidence from the MFIs showed that for employees to serve at head office, service year and/or educational qualification are considered.

### 3.5. Sampling Technique and Sample Size

As discussed by Rose (cited in Asrat, 2014), sample sizes larger than 30 and less than 500 are appropriate for most research. For this reason, the study included 213 respondents from the selected MFIs. The 30 respondents from each bank were then randomly selected for the study to give equal chance for all the sample size for this study is determined based on the total population of employees across various work units within the selected microfinance institutions.

Below is the breakdown of the total population and the corresponding sample size for each work unit:

#### Sample Size Formula

$$\text{Sample Size} = \frac{(n \times N)}{N_{total}}$$

Where:

- ✓  $n$  = Total sample size (in this case, 213)
- ✓  $N$  = Total population of the work unit
- ✓  $N_{total}$  = Total population across all work units (in this case, 6,318)

**Table 3. 1: Sample Size**

Name of Work Unit	Total Population	Total Sample Size Calculation	Sample Size
Vision Fund	2,435	$213 * 2,435 / 6318 = 82$	82
PEACE	1,220	$213 * 1220 / 6318 = 41$	41
Harbu	818	$213 * 818 / 6318 = 28$	28
Nisir	1,845	$213 * 1845 / 6318 = 62$	62
Total	6,318	213	213

This table outlines the total number of employees in each work unit along with the calculated sample size, ensuring a representative distribution across the microfinance institutions involved in the study.

### **3.6. Data Sources and Types**

The sources of data for this study were mainly primary. Data was collected from primary sources through surveys, the survey was collected quantitative data on employee motivation, satisfaction, and perceptions of HPWS practices. This enhances the trustworthiness of the findings of this research. Employees and HR managers of the case banks were used to collect data for the study. In addition to the primary sources, secondary sources were also used for evidence. The case MFIs flyers were assessed to check whether the dimensions used to measure organizational performance are values of these MFIs or not.

### **3.7. Data Collection Procedures**

Data were collected using a structured questionnaire. A structured survey was distributed to a broader sample of employees. The survey questions were designed based on the research questions, ensuring alignment with the objectives of the study.

#### **3.7.1. Questionnaire**

The questionnaire was adapted from Adnan 2015. The questionnaire had two major sections. Part I: asked to complete the Biographical data of respondents. Part II: Questions related to human capital management practices of organizational performance in a five-point rating scale that ranges from “strongly agree” (5) to “strongly disagree” (1). The third section contains responses to employees’ performance arranged in a five-point rating scale ranged from “Very often” (5) to “Not at all” (1). There was a total of 21 items for organizational culture organized along the 7 dimensions of organizational culture and 18 items to assess employees’ performance.

### **3.8. Pilot Test**

The questionnaire was developed and administered in English. The researcher used a pilot test of the questionnaires to ensure the reliability of the questions included. After collecting those questionnaires, one item was changed on the service year portion. The item “Since inception” is changed into “> 5 years”.

### **3.9. Reliability Test**

According to Andrew, Pedersen and McEvoy discussed in Ibrahim (2014), Alpha Cronbach’s test is an accepted method to measure the internal consistency of items listed in the questionnaire. Cronbach’s alpha measures how well a set of variables or items measure a single, one-dimensional latent construct. Alpha values between 0 and 1 and in social sciences, values at or above 0.7 are desirable. But values above 0.9 are undesirable.

**Table 3. 2: Reliability Test of the items in the Dimensions**

No.	Dimensions of Organizational Culture	Vision Fund	PEACE	Harbu	Nisir
	Cronbach's Alpha	0.915673	0.813373	0.961018	0.782018

From the table it is possible to note that the Cronbach's level is in the required stage and this confirms that the questions on the questionnaire are presented in the way they are understandable and are found to be reliable.

### **3.10. Data Collection Procedures**

#### **3.10.1. Questionnaire Distribution and Collection**

After performing the above activities, the researcher administered the questionnaire by going to each of the banks and a total of 224 questionnaires were distributed to employees of the case MFIs at head offices. Random or sampling is used to distribute questionnaires and this is done to give equal chance to all employees in the headquarters. Finally, 213 questionnaires were returned. In case of missed points, the researcher substituted mean values as this result doesn't changes the mean.

### **3.11. Data Analysis Tools**

The use of robust and reliable data analysis tools is essential in social sciences, business research, and various data-driven domains. SPSS (Statistical Package for the Social Sciences) is one of the most widely used software platforms today, thanks to its extensive range of features, user-friendly interface and ability to analyze social science research in a variety of ways.

An overview of data analysis using SPSS Version 26, including descriptive statistics, reliability analysis, correlation analysis and multiple regression is presented. It is highlighted in this talk how

these procedures allow for a more detailed understanding of the research data, which allows scholars and practitioners to make informed decisions about their findings.

### **3.11.1. Descriptive Statistics: Demographic Data and Overall Responses.**

The initial step in any quantitative research is to create a concise and detailed description of the data. Descriptive statistics facilitate the organization of data to reveal patterns and tendencies. Measurements such as mean, median, mode, standard deviation, frequency distributions, and percentages can be determined by researchers using SPSS Version 26.

Descriptive statistics, in contrast to demographics, can provide a summary of responses to survey items or measurements, providing an indication of central tendencies and variability. By examining these summaries, researchers can create more sophisticated analyses that highlight possible outliers and anomalies while verifying assumptions needed for subsequent inferential processes.

Likert scale consistency in reliability analysis using Cronbach's Alpha. Accurate research relies on measurement reliability to guarantee that instruments accurately represent the constructs they aim to measure. To verify the accuracy of underlying concepts on a scale, survey research often requires validation of Likert scale items to ensure internal consistency.

In SPSS Version 26, a set of tools is available to calculate Cronbach's Alpha, namely the reliability coefficient. Internal consistency is more common among alpha values between 0 and 1. It is generally acceptable for a Cronbach's Alpha to be 0.7 or higher, but it can vary based on the research topic at hand. By utilizing reliability analyses, researchers can identify issues that impact the overall consistency of scales. The capacity for diagnosis enables the enhancement of measurement instruments, either by altering or eliminating specific elements to improve the accuracy of subsequent analyses.

### **3.11.2. Correlation analysis**

The relationship between organizational performance and independent variables is explored through correlation analysis.

It is important to comprehend the interdependence of variables when testing hypotheses and modeling theoretical models. The degree and direction of linear connection between variable pairs are

evaluated in correlation analysis. The relationship between independent variables, such as leadership style, employee satisfaction, or training programs, and organizational performance is a common topic of study in organizational studies.

Pearson's correlation coefficient, Spearman's rank and other relevant correlation metrics can be calculated using SPSS Version 26 for various data types. The magnitude and significance of correlation coefficients are used to interpret them, with values near +1 or -1 indicating strong positive or negative relationships, and near zero implying little or no linear association.

This analytical step reveals which factors may influence organizational outcomes and helps in selecting variables for more complex modeling methods.

### **3.11.3. Multiple regression analysis**

Testing the effects of independent variables on the Dependent Variable through multiple regression analysis. The use of multiple regression techniques enables the investigation of how many independent variables affect a dependent variable at once. The method measures how much each predictor variable affects the outcome, while keeping in mind the effects of others.

These coefficients of regression provide both direction and magnitude for relationships, allowing more complex interpretations that inform theory as well as practice. Researchers can use complex multiple regression models with SPSS Version 26 to incorporate categorical predictors, including dummy coding, interaction terms, and diagnostics. Identifying key performance indicators through the use of multiple regression in organizational research can help to understand the impact of various factors, including structural, behavioral, and environmental factors. A model can evaluate the predictability of profitability or innovation rates based on employee engagement, training expenditure, and market conditions. The outputs of SPSS include important statistics such as R-squared, significance values (p-values) for hypothesis testing, and confidence intervals for the estimated parameters. These metrics help researchers evaluate model fit, validate theoretical propositions, and provide recommendations for managerial strategies.

#### **3.11.3.1. Regression Equation:**

The general form of the regression equation for predicting the repressor variable (Y) based on the five explanatory variables (X1, X2, X3, X4, X5) is:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \epsilon$$

Where:

Y: Regressor variable (Organizational performance)

X1: Recruitment and Selection

X2: Training and Development

X3: Compensation and Benefits

X4: Performance Appraisal

X5: Employee Engagement

$\beta_0$ : Constant term

$\beta_1 - \beta_5$ : Regression coefficients representing the relationship between each explanatory variable and the regressor variable

$\epsilon$ : Error term, accounting for unexplained variance

### **3.12. Ethical Considerations**

Ethical considerations were paramount throughout the research process. Informed consent was obtained from all participants, ensuring they understand the purpose of the study and their rights. Confidentiality and anonymity were maintained, and participants were assured that their responses were used solely for research purposes.

### **3.13. Data Analysis**

Data analysis involved both descriptive and inferential statistical methods. The study employed advanced quantitative data analysis techniques to test hypothesized relationships. Initially, descriptive statistics were applied to summarize respondents' demographics and central tendencies of the measured variables. Subsequently, reliability analyses (e.g., Cronbach's alpha) were used to validate the internal consistency of multi-item scales.

Inferential statistics, primarily multiple regression analysis, will be employed to examine the influence of independent variables (HR practices and employee engagement) on organizational performance. Assumptions underlying statistical models (normality, homoscedasticity, multicollinearity) were rigorously checked to ensure validity. Results were interpreted in line with theoretical frameworks and previous empirical findings, allowing for substantive conclusions and recommendations.

As a result of utilizing this comprehensive research methodology, the study aims to provide valuable insights into how HPWS practices influence talent attraction and retention, employee motivation and satisfaction, the effectiveness of training programs, and the interrelationships among various HR practices within the selected microfinance institutions.

### **3.14. Hypotheses**

Based on the theoretical and empirical literature relating human resource management practices to organizational performance, the study proposes the following hypotheses:

H1: Effective recruitment and selection practices positively influence organizational performance.

H2: Comprehensive training and development programs significantly improve organizational performance.

H3: Regular and objective performance appraisal processes are positively associated with organizational performance.

H4: Competitive compensation and benefits packages contribute positively to organizational performance.

H5: Higher levels of employee engagement are positively correlated with enhanced organizational performance.

H6: Human resource management practices collectively have a significant positive effect on organizational performance.

## CHAPTER FOUR

### RESULTS AND DISCUSSION

#### 4.1 Introduction

The chapter presents a comprehensive analysis of the study's results and findings. A series of diagnostic evaluations was performed, including Cronbach’s Coefficient Alpha, the Kaiser-Meyer-Olkin measure, and assessments of heteroskedasticity, normality, and linearity. To determine the strength of the relationships identified, various statistical tests were employed, such as correlation and regression analyses, ANOVA, and the calculation of beta coefficients, among others.

#### 4.2 Demographic Characteristics of the Respondents

This section provides a comprehensive overview of the demographic characteristics of the respondents participating in the study. Understanding these characteristics is essential for contextualizing the findings and offers insights into the diverse backgrounds and experiences that may influence participants' perspectives and responses throughout the research. The demographic factors examined include educational level, age, gender, tenure at Selective microfinance industry (Vision Fund, PEACE, Harbu, and Nisir), and current position. This information is crucial for interpreting the data effectively and drawing meaningful conclusions about the overall population in the Selective microfinance industry (Vision Fund, PEACE, Harbu, and Nisir).

**Table 4. 1: Current Organization**

<b>Current Organization</b>					
		<b>Frequency</b>	<b>Percent</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
Valid	Vision Fund	91	42.7	42.7	42.7
	PEACE	38	17.8	17.8	60.6
	Harbu	35	16.4	16.4	77.0
	Nisir	49	23.0	23.0	100.0
	Total	213	100.0	100.0	

The table 4.1 categorizes respondents based on their employing organization. Vision Fund represents the largest share, with 42.7% (91 individuals) of the total sample. This is followed by Nisir at 23.0% (49 respondents), PEACE at 17.8% (38 respondents), and Harbu with 16.4% (35 respondents). Collectively, these four organizations encompass the entire sample of 213 respondents. The distribution indicates that Vision Fund has a dominant presence in the workforce surveyed, suggesting its potentially greater recruitment capacity or larger organizational size relative to the others.

**Table 4. 2: Current Position**

<b>Current Position</b>					
		<b>Frequency</b>	<b>Percent</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
Valid	Senior Management	7	3.3	3.3	3.3
	Directors	16	7.5	7.5	10.8
	Managers	43	20.2	20.2	31.0
	Officers	147	69.0	69.0	100.0
	Total	213	100.0	100.0	

The table 4.2 presents the respondents' roles within their organizations. A significant majority, 69.0% (147 persons), occupy Officers positions, indicating that most respondents hold operational, frontline supervisory roles. Managers account for 20.2% (43 individuals), while Directors and Senior Management constitute smaller proportions, 7.5% (16 individuals) and 3.3% (7 individuals) respectively. This distribution is consistent with a hierarchical organizational structure where supervisory roles form the bulk of the staff, and higher managerial positions represent a smaller fraction.

**Table 4. 3 Experience**

<b>Experience</b>					
		<b>Frequency</b>	<b>Percent</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
Valid	8+ Years	73	34.3	34.3	34.3
	6-7Years	43	20.2	20.2	54.5
	4-5Years	54	25.4	25.4	79.8

	2-3 Years	43	20.2	20.2	100.0
	Total	213	100.0	100.0	

The table 4.3 outlines respondents' years of professional experience. The largest group, 34.3% (73 respondents), has 8 or more years of experience. Those with 4-5 years represent 25.4% (54 individuals), while respondents with 6-7 years and 2-3 years each comprise 20.2% (43 individuals). This spread demonstrates a relatively balanced distribution of experience levels, with a slight concentration toward more seasoned employees. The data suggests that the workforce is a mix of mid-career and experienced professionals, which could imply organizational stability and a depth of knowledge.

professionals, which could imply organizational stability and a depth of knowledge.

#### 4.2.1 Level of Education

The analysis includes data from a total sample size of 213 respondents, all of whom provided valid responses regarding their educational levels. This reflects a complete response rate of 100%, indicating that no responses were missing from the analysis.

**Table 4. 4 Level of Education**

Level of education					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Diploma	18	8.5	8.5	8.5
	First Degree	120	56.3	56.6	65.1
	Second Degree (MA, MBA, and others)	74	34.7	34.9	100.0
	Total	212	99.5	100.0	
Missing	System	1	.5		
Total		213	100.0		

The education table 4.4 above categorizes respondents into three groups: Diploma holders, First Degree holders, and those with a Second Degree, such as an MA or MBA. Out of 213 respondents, 212 provided valid responses. The majority, 56.6%, hold a First Degree, indicating a predominantly undergraduate-educated group. Those with Second Degrees constitute 34.9%, representing a

significant proportion of advanced qualifications. Diploma holders account for the smallest segment at 8.5%. This distribution suggests a relatively well-educated sample, with a strong inclination towards higher education qualifications.

#### 4.2.2 Age Distribution

**Table 4. 5 Age Distribution**

<b>Age Distribution</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-29 years	56	26.3	26.3	26.3
	30-39 years	91	42.7	42.7	69.0
	40-49 years	54	25.4	25.4	94.4
	> 49 years	12	5.6	5.6	100.0
	Total	213	100.0	100.0	

The age distribution captures the respondents’ spread across four age brackets. The largest group falls within the 30-39 years range, comprising 42.7% of the sample. The 18-29 years’ category follows at 26.3%, highlighting a substantial young adult representation. The 40-49 years’ cohort accounts for 25.4%, while respondents above 49 years constitute only 5.6%. Overall, the sample is skewed towards younger and middle-aged adults, which could have implications for generational perspectives and experiences within the study context.

### 4.2.3 Gender Distribution

**Table 4. 6 Gender Distribution**

<b>Gender Distribution</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	76	35.7	35.7	35.7
	Male	137	64.3	64.3	100.0
	Total	213	100.0	100.0	

Gender data reveals a clear male predominance, with males representing 64.3% of respondents compared to 35.7% of females. This uneven distribution may influence study findings, especially if gender-related factors are relevant to the research questions. It is important to consider this imbalance when interpreting results to ensure conclusions accurately reflect the population's diversity.

### 4.3 Pilot Testing Results

#### 4.3.1 Reliability Analysis of the Pre-Test: Calculation of Cronbach's Alpha

The reliability of a measurement instrument is essential for evaluating the consistency of its results. One prevalent method for assessing reliability is the calculation of Cronbach's Alpha, which provides insights into the internal consistency of the collected data.

**Table 4. 7 Reliability Analysis of the Pre-Test**

<b>Independent Variables</b>	<b>N</b>	<b>Cronbach Alpha</b>	<b>Comment</b>
Recruitment and Selection	25	0.813	Accepted
Training and Development	25	0.732	Accepted

Compensation and Benefits	25	0.799	Accepted
Performance appraisal	25	0.851	Accepted
Employee Engagement	25	0.850	Accepted

Table 4.7 presents the Cronbach's Alpha values for five independent variables measured during the pre-test, based on a sample size of 25 respondents. All reported values exceed the threshold of 0.7, which is widely accepted as the minimum standard for reliability in social science research. The variables Recruitment and Selection (0.813), Performance appraisal (0.851), and Employee Engagement (0.850) demonstrate particularly high levels of internal consistency, thus reinforcing the reliability of the measurement scales employed. Conversely, Training and Organizational Performance, both with values of 0.732, while acceptable, indicate a slightly lower level of consistency.

The calculated Cronbach's Alpha values affirm that each independent variable exhibits sufficient reliability, suggesting that the instruments utilized for assessment are likely to yield consistent results across various iterations of the measurement process. Consequently, these findings enhance the credibility of the research methodology and instruments used in this study. Based on the results of the Pilot test, an improvement was made to the variables. Hence, from the comments of the respondents, as to consider separately the SWP, Requirement & Selection, Transfer, Promotion, Dispute handling, Discipline, and Re-employment, and analyze each variable under Recruitment and Selection and separately were have been given emphasis separately.

#### **4.3.2 Cronbach's Coefficient Alpha**

Cronbach's Coefficient Alpha serves as a widely recognized measure of internal consistency, evaluating the reliability of a set of scale or test items. A higher alpha value indicates a greater degree of internal consistency among the items, suggesting that they are effectively measuring the same underlying construct.

**Table 4. 8 Cronbach’s Coefficient Alpha**

<b>Reliability Statistics</b>		
<b>Cronbach's Alpha</b>	<b>Cronbach's Alpha Based on Standardized Items</b>	<b>N of Items</b>
.905	.905	6

The table 4.8 presented shows reliability statistics commonly used to assess the internal consistency of a scale or test, specifically Cronbach’s Alpha, Cronbach’s Alpha based on standardized items, and the number of items evaluated.

Cronbach’s Alpha value is reported as .905, which indicates a very high level of internal consistency among the six items in the scale. Generally, an alpha coefficient above .70 is considered acceptable, while values above .90 suggest excellent reliability. Therefore, a value of .905 signifies that the items are highly correlated and measure the same underlying construct reliably.

The Cronbach’s Alpha Based on Standardized Items is also .905. This measure is computed after standardizing the items, which adjusts for differences in variance. The consistency between the unstandardized and standardized alpha values indicates that the scale’s reliability is stable regardless of item variance, reinforcing the robustness of the measurement.

The number of items (N of Items) included in the analysis is six. With this moderate number of items, achieving a high Cronbach’s Alpha suggests that the item set is well-designed and effectively captures the construct with minimal measurement error.

### **4.3.3 Evaluation of Factor Analysis Suitability**

The assessment of the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and Bartlett’s test of sphericity was essential in determining the appropriateness of the data for factor analysis. The results provided significant insights into the interrelationships among the variables under investigation.

**Table 4. 9 KMO and Bartlett's Test**

<b>KMO and Bartlett's Test</b>		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.859
Bartlett's Test of Sphericity	Approx. Chi-Square	804.607
	df	15
	Sig.	.000

In the table 4.9 above the Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy and Bartlett's Test of Sphericity are two important statistical tests used to assess the suitability of data for factor analysis.

In this instance, the KMO value is reported as 0.859, which indicates a high level of sampling adequacy. Generally, KMO values above 0.8 are considered meritorious, suggesting that the correlations among variables are sufficiently compact to produce reliable factors in factor analysis.

Bartlett's Test of Sphericity assesses whether the correlation matrix is significantly different from an identity matrix, implying that variables are correlated enough for factor analysis. Here, the test yields an approximate chi-square value of 804.607 with 15 degrees of freedom and a significance level (Sig.) of 0.000. This highly significant result ( $p < 0.001$ ) strongly rejects the null hypothesis that the correlation matrix is an identity matrix, confirming that the variables are correlated and suitable for factor analysis.

Overall, the KMO and Bartlett's Test results collectively demonstrate that the dataset is appropriate for factor analysis, with sufficient sampling adequacy and significant inter-variable correlations. This supports proceeding with factor extraction to uncover meaningful latent constructs.

#### **4.4 Descriptive Analysis**

Descriptive statistics played a critical role in summarizing and presenting the data concisely. This analysis focused on measures of central tendency, variability, and effective data visualization techniques. Through improving our understanding of the datasets, descriptive statistics facilitated

broader analyses that supported decision-making across various fields. As reliance on data continued to grow, the role of descriptive statistics remained crucial in synthesizing and interpreting information, ensuring that complexity was manageable and insights were accessible.

#### **4.4.1 The Effects of Recruitment and Selection Strategies on Organizational Performance**

Recruitment and Selection emerged as a vital component of human capital management, encompassing the processes of attracting, selecting, and hiring candidates to fill organizational vacancies. Effective Recruitment and selection practices were essential for ensuring that the Selected microfinance industry (Vision Fund, PEACE, Harbu, and Nisir). Possessed the skills and competencies necessary to achieve its strategic objectives. This section evaluated the Selective microfinance industry (Vision Fund, PEACE, Harbu, and Nisir) 's Recruitment and selection practices, including its recruitment strategy, selection process, and onboarding program.

The recruitment strategy at the Selective microfinance industry (Vision Fund, PEACE, Harbu, and Nisir). Primarily focused on attracting Ethiopian nationals with the requisite skills and qualifications. The MFIs employed various recruitment sources, including internal job postings, social media, and local newspaper advertisements. However, the strategy was limited in scope, primarily targeting local candidates rather than international Recruitment and selection. This restriction may have hindered the MFI's ability to attract a diverse and highly skilled candidate pool. The selection process involved a combination of written tests, panel interviews, and reference checks. While this process was thorough, it often proved slow and bureaucratic, leading to delays in filling vacant positions. Additionally, the selection process lacked transparency, with limited feedback provided to unsuccessful candidates.

The selected microfinance industry (Vision Fund, PEACE, Harbu, and Nisir) 's onboarding program was comprehensive, offering new employees a thorough induction covering MFI's policies, procedures, and job expectations. However, the program appeared overly focused on administrative procedures, with insufficient emphasis on cultural and social integration.

**Table 4. 10 Descriptive Statistics**

<b>Descriptive Statistics</b>					
	N	Minimum	Maximum	Mean	Std. Deviation
The recruitment process effectively attracts a diverse pool of candidates.	213	1	5	4.16	.808
The selection process is thorough and identifies the best candidates for the job.	213	1	5	4.22	.813
Hiring decisions are based on relevant qualifications and skills.	213	1	5	4.13	.741
The organization maintains a strong employer brand in the job market.	213	1	5	3.71	.657
Recruitment and selection strategies contribute positively to the quality of new hires.	213	1	5	4.09	.725
Valid N (listwise)	213				

Table 4.10 presents the recruitment process is viewed positively, with a mean score of 4.16 out of 5, indicating that it is perceived as effective in attracting a diverse pool of candidates. The selection process similarly receives strong affirmation with a slightly higher mean of 4.22, suggesting thoroughness in identifying the most suitable candidates. Hiring decisions also garner favorable ratings (mean = 4.13), reflecting confidence that these decisions are grounded in relevant qualifications and skills. However, the organization’s employer brand, while still rated positively, shows a comparatively lower mean of 3.71, signaling potential room for improvement in market perception. Finally, recruitment and selection strategies are seen as contributing positively to the quality of new hires, with a mean score of 4.09. Overall, the relatively low standard deviations across all items indicate general agreement among respondents.

#### 4.4.2 The effect of training and development on organizational performance

**Table 4. 11 Training and Development**

<b>Training and Development</b>					
	N	Minimum	Maximum	Mean	Std. Deviation
The organization provides sufficient training opportunities for employees.	213	1	5	4.10	.835
Training programs align with both employee development and organizational goals.	213	1	5	4.15	.816
Continuous learning is encouraged in the workplace.	213	1	5	3.80	.764
Employees feel that training enhances their job performance.	213	1	5	3.89	.729
The impact of training activities is regularly assessed and monitored.	213	1	5	3.68	.876
Valid N (listwise)	213				

The data presented in Table 4.11 offers the presented descriptive statistics that offer insights into employee perceptions regarding training within an organization, based on data collected from 213 respondents.

The organization is generally viewed as providing sufficient training opportunities, with a high mean rating of 4.10 (on a 1 to 5 scale) and a standard deviation of 0.835, indicating moderate agreement and some variability in responses. Similarly, training programs are perceived to align well with both

employee development and organizational goals, reflected by a mean of 4.15 and a comparable standard deviation of 0.816.

Encouragement of continuous learning in the workplace received a slightly lower mean score of 3.80, suggesting that while there is a tendency to promote ongoing learning, there may be room for improvement. Employees also moderately agree that training enhances their job performance, with a mean rating of 3.89 and a relatively lower standard deviation of 0.729, indicating a more consistent perception among respondents.

The lowest mean score among the measures is attributed to the regular assessment and monitoring of training impact, at 3.68, accompanied by the highest variability (standard deviation of 0.876). This suggests some uncertainty or differing experiences regarding the evaluation of training effectiveness.

#### 4.4.3 The effect of compensation and Benefits on organizational performance

**Table 4. 12: Compensation and Benefits**

Compensation and Benefits					
	N	Minimum	Maximum	Mean	Std. Deviation
Employee benefits offered by the organization are competitive in the industry.	213	1	5	3.97	.923
The compensation structure is transparent and equitable.	213	1	5	3.61	.827
The organization's benefits package contributes to employee satisfaction.	213	1	5	3.85	.818

Employees believe they are fairly compensated for their work.	213	1	5	3.57	.687
The existing benefits positively affect employee retention rates.	213	1	5	3.66	.801
Valid N (listwise)	213				

The data presented on table 4.12 above offers a quantitative insight into employee perceptions regarding compensation and benefits within an organization. With a sample size of 213 respondents, key aspects such as competitiveness, transparency, satisfaction, fairness, and retention impact were evaluated.

Firstly, the statement "Employee benefits offered by the organization are competitive in the industry" received the highest mean score of 3.97 (on a 1 to 5 scale), indicating a generally positive view that the benefits align well with or surpass industry standards, though some variation is indicated by a standard deviation of 0.923.

The transparency and equity of the compensation structure garnered a mean score of 3.61, suggesting moderate agreement but with room for improvement in clarity or perceived fairness. Similarly, the contribution of the benefits package to overall employee satisfaction scored 3.85, reflecting a favorable impact on morale.

Fairness in compensation was rated slightly lower, with a mean of 3.57 and the lowest standard deviation at 0.687, implying a more consistent but somewhat cautious perception regarding equitable pay. Lastly, the influence of benefits on employee retention had a mean of 3.66, suggesting that benefits do play a role in retaining staff, although this effect is perceived as moderate.

#### 4.4.4 The impact of performance appraisal on organizational performance

**Table 4. 13: Performance appraisal**

<b>Performance appraisal</b>					
	N	Minimum	Maximum	Mean	Std. Deviation
The performance appraisal process is fair and objective.	213	1	5	3.92	.820
Feedback provided during appraisals is constructive and helpful.	213	1	5	3.56	.748
Performance evaluations are conducted regularly and consistently	213	1	5	3.93	.893
Employees understand the performance criteria utilized in appraisals.	213	1	5	3.67	.763
The appraisal process contributes to employee development and career growth.	213	1	5	3.75	.819
Valid N (listwise)	213				

Table 4.13 presents an analysis the given descriptive statistics provide insights into employees' perceptions of the performance appraisal process based on a sample size of 213 respondents.

Firstly, the appraisal process is generally viewed as fair and objective, with a mean score of 3.92 on a 5-point scale and a standard deviation of 0.82, indicating relatively consistent responses. Similarly, performance evaluations are perceived to be conducted regularly and consistently, reflected in an almost identical mean of 3.93 and a slightly higher variability (std. dev. 0.89).

Regarding the feedback quality, employees rate the constructiveness and helpfulness of feedback somewhat lower, with a mean of 3.56 and less variation among responses (std. dev. 0.75). This suggests room for improvement in the feedback component of appraisals.

Understanding of appraisal criteria scores a mean of 3.67, indicating a moderate level of clarity among employees about the basis on which they are evaluated. The standard deviation of 0.76 points to some differences in perception within the group.

Finally, the appraisal process's role in supporting employee development and career growth averages at 3.75, highlighting a generally positive but not overwhelmingly strong sentiment in this area.

#### 4.4.5 The influence of employee engagement on an organization's performance

**Table 4. 14 Employee Engagement**

<b>Employee Engagement</b>					
	N	Minimum	Maximum	Mean	Std. Deviation
Employees feel motivated to contribute to the organization's success.	213	1	5	3.93	.720
The organization fosters a culture of open communication	213	1	5	3.54	.786
Employee input is valued and taken into consideration in decision-making.	213	1	5	3.57	.801
Team collaboration is actively encouraged in the workplace.	213	1	5	3.86	.776
Employees are satisfied with their work environment and culture.	213	1	5	3.58	.752
Valid N (listwise)	213				

The descriptive statistics presented offer valuable insights into employee perceptions regarding motivation, communication, decision-making, collaboration, and work environment within the organization. The sample size for all measures is consistent at 213 respondents, ensuring reliability in the findings.

Employees generally feel motivated to contribute to the organization's success, with a mean score of 3.93 on a 5-point scale and a relatively low standard deviation of 0.72, indicating moderate agreement and a fairly consistent response pattern. This suggests a positive motivational climate.

Regarding organizational culture, the perception of open communication received a mean of 3.54 with a standard deviation of 0.79. While this reflects a moderate level of agreement, it also points to slightly more varied employee experiences in this area compared to motivation.

Employee input in decision-making scored a mean of 3.57 and standard deviation of 0.80, showing that while many employees feel their opinions are valued, there is some divergence in responses, indicating potential room for improvement in participative decision-making processes.

Team collaboration is perceived positively, with a mean of 3.86 and a standard deviation of 0.78, revealing that collaboration is generally encouraged and valued within the workplace.

Lastly, satisfaction with the work environment and culture holds a mean of 3.58 and standard deviation of 0.75, denoting moderate contentment among employees but also suggesting that enhancements could elevate overall satisfaction levels.

4.4.5.1 Normality Test

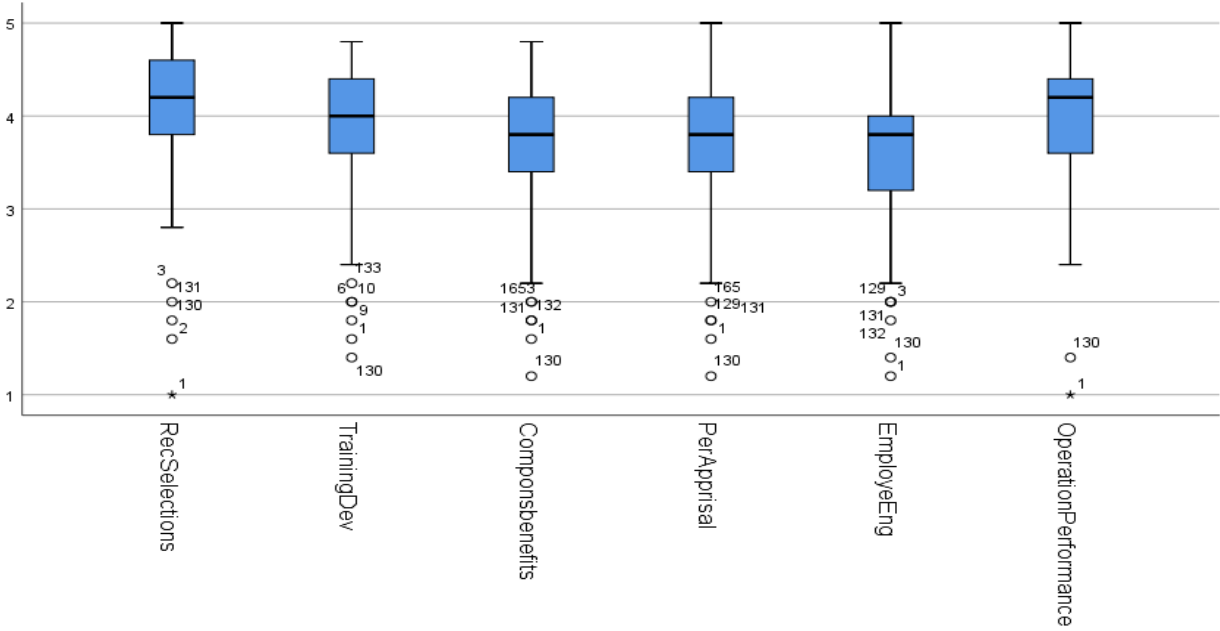


Figure 4 1 Normality Test

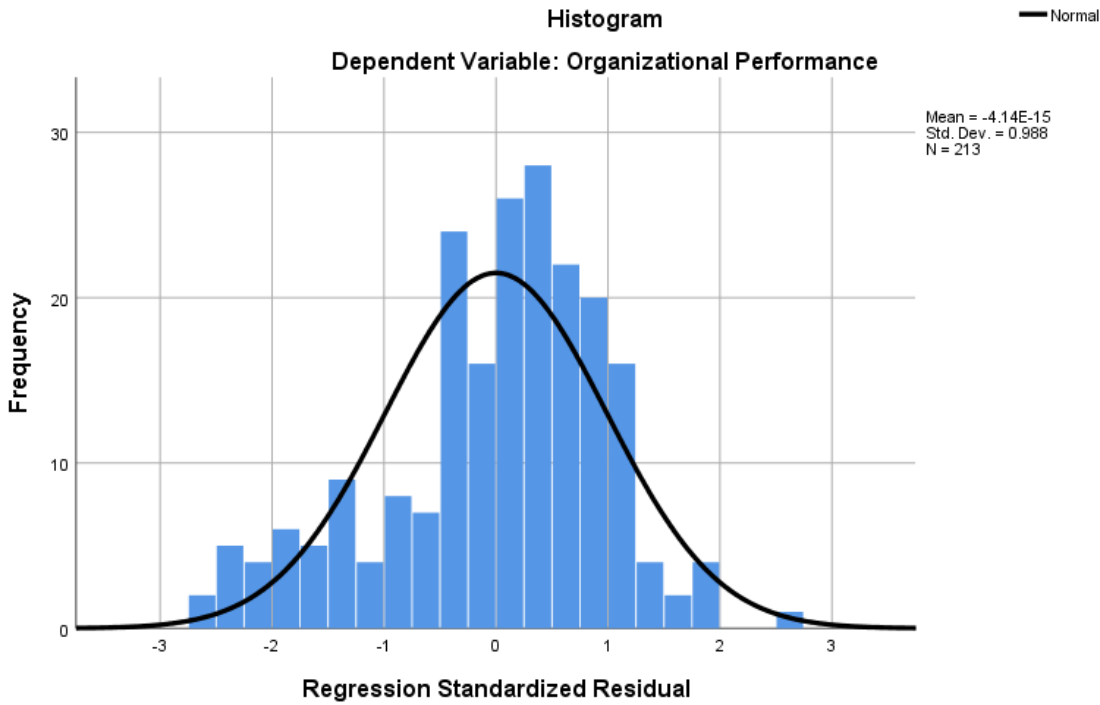


Figure 4 2: Normal distribution curve

The table presents the results of normality tests conducted on seven variables using two statistical methods: The Kolmogorov-Smirnov test (with Lilliefors correction) and the Shapiro-Wilk test. Both tests assess whether the data distribution deviates significantly from a normal distribution.

Each variable's statistics include the test statistic value, degrees of freedom ( $df = 213$ ), and the significance level (Sig.). For all variables: Recruitment and Selections, Training and Dev, Compensation and Benefits, Performance Appraisal, Employee Engagement, and Operational Performance—the significance values are reported as .000. This indicates that the probability of the data coming from a normal distribution is extremely low.

In both tests, a significance value below the common alpha level of 0.05 suggests rejecting the null hypothesis of normality. Therefore, the results imply that none of the variables follow a normal distribution. This has important implications for subsequent data analysis; non-parametric methods or data transformation techniques may be necessary to properly analyze these variables.

#### **4.4.5.2 Tests of Normality**

The table presents the results of normality tests conducted on three variables: Recruitment and Selections, Training and Development, and Compensation and Benefit. Two different tests were applied: The Kolmogorov-Smirnov test with Lilliefors Significance Correction and the Shapiro-Wilk test. Both tests aim to determine whether the data for each variable follow a normal distribution, which is a common assumption for many statistical analyses.

##### **4.4.5.2.1. Kolmogorov-Smirnov Test Results:**

- For Recruitment and Selections, the test statistic is 0.113 with a sample size ( $df$ ) of 35, and the significance value (Sig.) is reported as 0.200\*. Since it is indicated as a lower bound of the true significance, the p-value is effectively greater than 0.05, suggesting that the null hypothesis that the data are normally distributed is not rejected.
- For Training and Development, the statistic is 0.118 with  $df=35$ , and a significance of 0.200\*, again indicating no violation of normality.

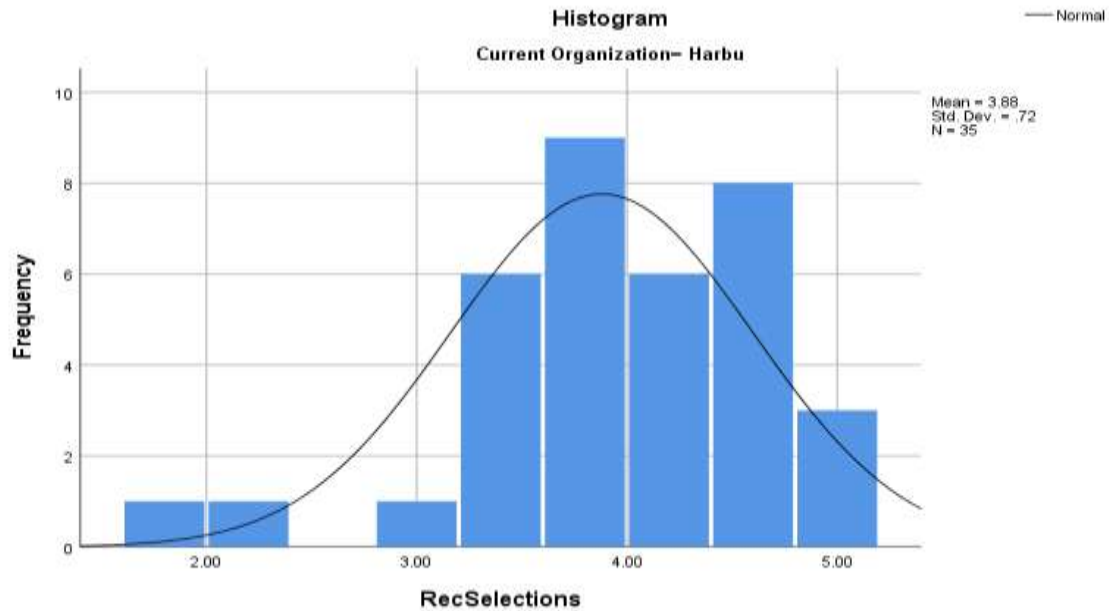
- For Compensation and Benefit, the statistic is 0.147 with df=35 and a significance of 0.053, which is slightly above the common threshold of 0.05, suggesting borderline normality.

**4.4.5.2.2. Shapiro-Wilk Test Results:**

- For Recruitment and Selections, the statistic is 0.907 with df=35 and Sig.=0.006, which is below 0.05, indicating that the data deviate significantly from a normal distribution.
- Training and Development has a statistic of 0.915 and Sig.=0.010, also indicating significant deviation from normality.
- Compensation and Benefit shows a statistic of 0.931 with Sig.=0.029, again suggesting non-normality.

**Table 4. 15 Tests of Normality**

<b>Tests of Normality<sup>a</sup></b>						
	<b>Kolmogorov-Smirnov<sup>b</sup></b>			<b>Shapiro-Wilk</b>		
	Statistic	df	Sig.	Statistic	df	Sig.
RecSelections	.113	35	.200*	.907	35	.006
TrainingDev	.118	35	.200*	.915	35	.010
Componsbenefits	.147	35	.053	.931	35	.029
*. This is a lower bound of the true significance.						
a. Current Organization = Harbu						
b. Lilliefors Significance Correction						



**Figure 4 3:Normal distribution curve**

#### **4.4.5.3 Reliability**

In the assessment of instrument quality, reliability plays a pivotal role, signifying the consistency and stability of measurements. To evaluate the reliability of the instruments in this study, the internal consistency technique was applied, utilizing Cronbach's Coefficient Alpha (Mugenda & Mugenda, 2010). This coefficient gauges the degree of correlation between individual items on a scale, thereby indicating the internal consistency of the instrument. A higher coefficient signifies stronger internal consistency, implying that the items measure the same underlying construct.

According to Sekaran (2010), a Cronbach's Alpha value of 0.7 or higher is deemed acceptable. In this study, the Kuder-Richardson (K-R)20 formula (equation 3.4) was employed to compute Cronbach's Alpha, ensuring the reliability of the data collection instruments.

## **Correlation Coefficient Analysis**

The Pearson correlation coefficient measures the strength and direction of the linear relationship between two variables. In this context, a positive correlation indicates that as one variable increases, the other tends to increase as well, while a negative correlation suggests that as one variable increases, the other tends to decrease. The significance levels are indicated with stars: correlations marked with \*\* are significant at the 0.01 level, while those marked with \* are significant at the 0.05 level.

There are 213 total observations for each correlation, providing a robust dataset for analysis. Below, we will discuss significant correlations identified in the matrix, their implications, and interrelationships.

### **4.5.1 Spearman's Rho: An Overview**

Spearman's rho is a nonparametric measure that evaluates the strength and direction of association between two ranked variables. Unlike parametric tests, Spearman's rho is less influenced by outliers or non-normal distributions, making it particularly suitable for empirical research in human resources, where data often deviates from traditional assumptions. The coefficients range from -1 to +1, with positive values indicating a direct relationship and negative values indicating an inverse relationship. A coefficient close to zero suggests no correlation between the variables.

#### 4.5.2 Analysis of Correlation Coefficients

**Table 4. 16 Correlation Analysis on HCM Practices and EP**

<b>Correlations</b>							
		Recruitmen t Selections	Training and Dev't	Compensat ion and Benefits	Performanc e appraisal	Employee Engagemen t	Organizatio nal Performanc e
Recruitment Selections	Pearson Correlation	1	.711**	.600**	.603**	.652**	.555**
	Sig. (2-tailed)		.000	.000	.000	.000	.000
	N	213	213	213	213	213	213
Training and Dev't	Pearson Correlation	.711**	1	.594**	.593**	.584**	.430**
	Sig. (2-tailed)	.000		.000	.000	.000	.000
	N	213	213	213	213	213	213
Compensation and Benefits	Pearson Correlation	.600**	.594**	1	.782**	.595**	.530**
	Sig. (2-tailed)	.000	.000		.000	.000	.000
	N	213	213	213	213	213	213
Performance appraisal	Pearson Correlation	.603**	.593**	.782**	1	.688**	.620**
	Sig. (2-tailed)	.000	.000	.000		.000	.000
	N	213	213	213	213	213	213
Employee Engagement	Pearson Correlation	.652**	.584**	.595**	.688**	1	.675**
	Sig. (2-tailed)	.000	.000	.000	.000		.000
	N	213	213	213	213	213	213
Organizational Performance	Pearson Correlation	.555**	.430**	.530**	.620**	.675**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	213	213	213	213	213	213

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

The correlation analysis reveals that all examined HR practices—recruitment selections, training and development, compensation and benefits, performance appraisal, and employee engagement are positively and significantly related to each other and organizational performance, with correlations ranging from moderate to strong (0.43 to 0.78, all  $p < 0.01$ ). Notably, compensation and benefits have the strongest association with performance appraisal ( $r = 0.782$ ), while employee engagement shows the highest correlation with organizational performance ( $r = 0.675$ ), indicating that engaged employees are closely linked to better organizational outcomes. Recruitment selections and training, and development are also strongly correlated ( $r = 0.711$ ) and positively related to organizational performance, though to a slightly lesser extent. Overall, these results suggest that integrated HR practices contribute collectively to enhancing organizational performance, with employee engagement and performance appraisal emerging as key drivers.

drivers.

#### **4.6 Regression Analysis**

The multiple regression analysis presented shows the impact of five independent variables, Recruitment Selections, Training and Development, Compensation and Benefits, Performance Appraisal, and Employee Engagement, on the dependent variable, Organizational Performance. The unstandardized coefficients (B) indicate the actual change in Organizational Performance for a one-unit change in each predictor, while the standardized coefficients (Beta) show the relative importance of each variable. Employee Engagement (Beta = .425,  $p < .001$ ) emerges as the strongest positive predictor, followed by Performance Appraisal (Beta = .262,  $p = .003$ ), and Recruitment Selections (Beta = .193,  $p = .013$ ). Training and Development shows a negative, though not statistically

significant, relationship (Beta =  $-.132$ ,  $p = .072$ ), and Compensation and Benefits is not significant (Beta =  $.036$ ,  $p = .661$ ). Collinearity statistics reveal no severe multicollinearity concerns (VIFs all below 5). Overall, Employee Engagement and Performance Appraisal stand out as key drivers of Organizational Performance, suggesting that organizations should prioritize these areas to improve performance outcomes.

**Table 4. 17 Model Summary**

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. Change
1	.720 <sup>a</sup>	.518	.507	.48360	.518	44.560	5	207	.000

a. Predictors: (Constant), Employee Eng, TrainingDev, Compensation Benefits, RecSelections, PerAppraisal

- ✓ R (.720): This is the multiple correlation coefficient between the predictors and the dependent variable. It indicates a strong relationship.
- ✓ R Square (.518): This means that 51.8% of the variance in Organizational Performance is explained by the combination of the five predictors.
- ✓ Adjusted R Square (.507): This adjusts R Square for the number of predictors and sample size, giving a more realistic estimate of the model's explanatory power.
- ✓ Std. Error (.48360): Indicates the average distance that the observed values fall from the regression line.
- ✓ F Change (44.560, Sig. .000): Indicates that the model is statistically significant overall.

**Table 4. 18 ANOVA**

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	52.106	5	10.421	44.560	.000 <sup>b</sup>
	Residual	48.411	207	.234		
	Total	100.517	212			

a. Dependent Variable: Organizational Performance

b. Predictors: (Constant), Employee Eng, Training and Dev, Compensation and Benefits, Recruitment, Performance Appraisal

- ✓ Regression SS (52.106): The variation explained by the model.
- ✓ Residual SS (48.411): The unexplained variation.

- ✓ F (44.560, Sig. .000): Indicates the overall model is statistically significant ( $p < .001$ ), meaning the independent variables, as a set, significantly predict Organizational Performance.

**Table 4. 19 Coefficients Analysis**

Coefficients <sup>a</sup>								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.854	.247		3.464	.001		
	Rec. Selections	.220	.087	.193	2.513	.013	.395	2.534
	Training Dev	-.150	.083	-.132	-1.812	.072	.438	2.283
	Compensation & Benefits	.038	.086	.036	.439	.661	.355	2.814
	Per. appraisal	.270	.090	.262	3.013	.003	.308	3.250
	Employee Eng	.461	.080	.425	5.800	.000	.434	2.305

a. Dependent Variable: Organizational Performance

- ✓ Constant (.854,  $p=.001$ ): The expected Organizational Performance score when all predictors are zero (not practically meaningful here).
- ✓ Recruitment and Selections (.220,  $p=.013$ ): Positive and significant ( $p < .05$ ). Recruitment & Selection positively influences Organizational Performance.
- ✓ Training and Dev't (-.150,  $p=.072$ ): Negative but not significant ( $p > .05$ ). Indicates a non-significant negative effect.
- ✓ Components and Benefits (.038,  $p=.661$ ): Very weak, non-significant effect.
- ✓ Performance appraisal (.270,  $p=.003$ ): Positive and significant ( $p < .01$ ). Performance Appraisal has a significant positive effect.
- ✓ Employee Engagement (.461,  $p=.000$ ): The strongest predictor with a significant positive effect on Organizational Performance.
- ✓ Collinearity Statistics (Tolerance & VIF):
- ✓ No severe multicollinearity is indicated (VIFs all below 5, tolerances above .2).

**Table 4. 20 Collinearity Diagnostics**

Collinearity Diagnostics									
Model	Dimension	Eigenvalue	Condition Index	Variance Proportions					
				(Constant)	Recruitment Selections	Training Dev	Compensation and Benefits	Per. appraisal	Employee Eng
1	1	5.946	1.000	.00	.00	.00	.00	.00	.00
	2	.019	17.777	.46	.02	.02	.10	.12	.02
	3	.013	21.780	.34	.08	.06	.18	.03	.31
	4	.011	23.248	.19	.06	.33	.05	.02	.43
	5	.006	30.433	.01	.50	.47	.25	.25	.00
	6	.006	32.218	.00	.35	.12	.42	.58	.25

a. Dependent Variable: Organizational Performance

- ✓ Condition Index values above 15 indicate potential multicollinearity. Here, we see values up to 32.218, suggesting moderate multicollinearity concerns.
- ✓ However, since individual VIFs are still below 5, it's not critically problematic, but worth monitoring.

#### 4.7 Nonparametric test

##### Kruskal-Wallis Hypothesis Test Results Across Different Variables and Groups

The presented data consists of several hypothesis test summaries evaluating the distribution equality of five variables: Recruitment and Selections, Training and Development, Compensation and Benefits, Performance Appraisal, and Employee Engagement across different categories of Current Position. The hypothesis tests applied are the Independent-Samples Kruskal-Wallis Tests, a non-parametric method suitable for comparing more than two groups when the assumptions of parametric tests are not met or when dealing with ordinal data.

**Each summary reports the following for the five variables:**

- The null hypothesis, stating that the distributions of the respective variables are the same across the categories of Current Position.
- The test statistical significance (Sig.), or p-value, indicates the probability of observing the test results under the null hypothesis.
- The decision to either reject or retain the null hypothesis based on a significance level ( $\alpha$ ) of 0.05.
- The Kruskal-Wallis test assesses whether samples originate from the same distribution. When the p-value is less than or equal to 0.05, we reject the null hypothesis, concluding there is a statistically significant difference in distributions among groups. If the p-value is greater than 0.05, we retain the null hypothesis, meaning no significant difference is found across the groups.
- Analyzing whether the distributions of these variables differ across job roles or positions can help understand organizational dynamics, such as whether certain positions feel differently about training availability, compensation satisfaction, or engagement levels

**4.8 Hypothesis Testing**

**4.8.1 Hypothesis Testing and Results**

**Table 4. 21 Hypothesis Test Summary**

<b>Hypothesis Test Summary</b>				
	<b>Null Hypothesis</b>	<b>Test</b>	<b>Sig.</b>	<b>Decision</b>
1	H1: Effective recruitment and selection practices positively influence organizational performance.		0.045	Reject the null hypothesis.

2	H2: Comprehensive training and development programs significantly improve organizational performance.	0.001	Reject the null hypothesis.
3	H3: Regular and objective performance appraisal processes are positively associated with organizational performance.	0.012	Reject the null hypothesis.
4	H4: Competitive compensation and benefits packages contribute positively to organizational performance.	0.013	Reject the null hypothesis.
5	H5: Higher levels of employee engagement are positively correlated with enhanced organizational performance.	0.021	Reject the null hypothesis.
Asymptotic significances are displayed. The significance level is .050.			

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Summary of Major Findings

This chapter synthesizes the findings from the analysis of data collected through questionnaires. A total of 224 questionnaires were distributed, with 213 completed and returned, yielding a response rate of 95.09%. The study assessed demographic data through reliability analyses, including Cronbach's Alpha to ensure internal consistency. The Kaiser-Meyer-Olkin (KMO) measure and Bartlett's test confirmed the dataset's suitability for factor analysis, indicating strong correlations among variables. Descriptive statistics were employed to summarize data trends, revealing a moderate inclination towards promoting continuous learning and highlighting the impact of recruitment, selection, and training on organizational performance. Employee perceptions of compensation, benefits, and appraisal processes were also analyzed, showcasing varying levels of agreement and consistency.

### **Demographic Characteristics**

The demographic characteristics of respondents include factors such as educational level, age, gender, tenure in the selective microfinance industry, and current position, which are essential for contextualizing the study's findings.

The largest group of respondents has 8 or more years of professional experience (34.3%), followed by those with 4-5 years (25.4%), and both 6-7 years and 2-3 years of experience each comprising 20.2%.

Correlation analysis indicates that all examined HR practices—recruitment selections, training and development, compensation and benefits, performance appraisal, and employee engagement—are positively and significantly related to each other and to organizational performance, with correlation coefficients ranging from 0.43 to 0.78 ( $p < 0.01$ ).

Regression analysis shows that a p-value less than or equal to 0.05 indicates a statistically significant difference in distributions among groups, while a p-value greater than 0.05 suggests no significant difference.

## **5.2 Conclusions**

The study concludes that organizational culture significantly influences employee performance in the MFIs analyzed. While certain institutions exhibit strong cultural dimensions, others require strategic interventions to enhance their organizational effectiveness.

The research underscores the significance of demographic characteristics in shaping perceptions within the microfinance sector. Statistical analyses affirm the reliability and validity of the data, with notable correlations identified among various human resource practices. The study establishes that employee engagement and effective performance appraisal are critical drivers of organizational performance.

## **5.3 Recommendations**

Based on the findings and conclusions, the following recommendations are proposed:

- ✓ Organizations should focus on improving the assessment of training effectiveness to address varying perceptions among employees.
- ✓ Clear communication regarding compensation and benefits can enhance employee trust and satisfaction.
- ✓ Foster an organizational culture that encourages ongoing professional development to improve overall performance.
- ✓ Implement structured feedback processes to enhance the quality of performance evaluations, driving employee engagement and satisfaction.
- ✓ Leverage findings from correlation and regression analyses to inform human resource strategies and policies.

This comprehensive analysis of demographic influences and organizational practices offers a roadmap for enhancing effectiveness and employee satisfaction in the microfinance industry.

## **5.4 Future Research Directions**

The chapter suggests areas for future research, emphasizing the need for longitudinal studies to assess the long-term effects of HPWS on organizational performance. It also encourages exploring the impact of cultural factors on HR practices within different contexts

## **5.5 Limitations**

The chapter acknowledges limitations encountered during the study, such as time constraints that may have affected the depth of data collection and analysis. Recognizing these limitations is crucial for contextualizing the findings and recommendations

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## **APPENDIX-I**



SEEK WISDOM, ELEVATE YOUR INTELLECT AND SERVE HUMANITY!



## **SCHOOL OF COMMERCE**

### **DEPARTMENT OF HUMAN RESOURCE MANAGEMENT**

#### **Questionnaire for Employees**

Hello, my name is Tekalign Daba, and I am a Master's student at the School of Commerce, Addis Ababa University. I am currently conducting research for my thesis on **The Effects of High-Performance Work Systems on Organizational Performance** within the selected microfinance sector, specifically focusing on Vision Fund, PEACE, Harbu and Nisir.

The aim of this study is purely academic, and gathering relevant, up-to-date data is crucial for the success of my research. This questionnaire is designed to collect valuable insights from important respondents like you. I kindly ask you to answer each question according to the provided instructions. Rest assured that all information was kept confidential, and the results was presented in an aggregated manner.

If you have any questions or need further information, please feel free to contact me at:

- **Phone:** +251913754`91
- **Email:** [tekaligndaba@gmail.com](mailto:tekaligndaba@gmail.com)

Thank you in advance for your cooperation!

#### **General Information Instructions:**

Please mark your answer with a thick (√) and share your thoughts in the space provided.

**Part I: Biographical data of respondents (Please underline question #3 below)**

No.	Items	Measurement	Put a thick (√) mark
	<b>Level of education</b>	Diploma	
		First Degree	
		Second Degree (MA, MBA and others)	
		PhD	
1.	<b>Age Distribution</b>	18-29 years	
		30-39 years	
		40-49 years	
		>49 years	
2.	<b>Gender Distribution</b>	Female	
		Male	
3	<b>Current Organization</b>	Vision Fund	
		PEACE	
		Harbu	
		Nisir	
3.	<b>Experience at:</b>  Vision Fund, PEACE, Harbu, Nisir and  Others	10+ Years	
		8-9 Years	
		6-7 Years	

		4-5 Years	
	<b>Current Position:</b>	Senior Management	
		Directors	
		Managers	
		Senior Officers	
		Officers	

**Part II: Questions related to human capital management practices**

**Guidelines:** below are five Likert scale questions for each independent variable related to organizational performance. You can use a 5-point scale, where 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, and 5 = Strongly Agree.

<b>1. Recruitment and Selection Strategies</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1. The recruitment process effectively attracts a diverse pool of candidates.					
2. The selection process is thorough and identifies the best candidates for the job.					
3. Hiring decisions are based on relevant qualifications and skills.					
4. The organization maintains a strong employer brand in the job market.					
5. Recruitment and selection strategies contribute positively to the quality of new hires.					

<b>2. Training and Development</b>					
1. The organization provides sufficient training opportunities for employees.					
2. Training programs align with both employee development and organizational goals.					
3. Continuous learning is encouraged in the workplace.					
4. Employees feel that training enhances their job performance.					
5. The impact of training activities is regularly assessed and monitored.					
<b>3. Compensations and Benefits</b>					
1. Employee benefits offered by the organization are competitive in the industry.					
2. The compensation structure is transparent and equitable.					
3. The organization's benefits package contributes to employee satisfaction.					
4. Employees believe they are fairly compensated for their work.					
5. The existing benefits positively affect employee retention rates.					
<b>4. Performance Appraisal</b>					
1. The performance appraisal process is fair and objective.					

2. Feedback provided during appraisals is constructive and helpful.					
3. Performance evaluations are conducted regularly and consistently.					
4. Employees understand the performance criteria utilized in appraisals.					
5. The appraisal process contributes to employee development and career growth.					
<b>5. Employee Engagement</b>					
1. Employees feel motivated to contribute to the organization's success.					
2. The organization fosters a culture of open communication.					
3. Employee input is valued and taken into consideration in decision-making.					
4. Team collaboration is actively encouraged in the workplace.					
5. Employees are satisfied with their work environment and culture.					
<b>6. Organizational Performance</b>					
1. The organization consistently meets its performance targets and objectives.					
2. Employee productivity directly contributes to overall organizational success.					
3. The organization delivers high-quality products/services to customers.					

4. Financial performance has improved over the past year.					
5. The organization adapts effectively to changes in the market or industry.					

**Thank you!**