

**THE EFFECT OF PERFORMANCE APPRAISAL  
SYSTEM ON EMPLOYEE MOTIVATION: THE CASE OF NIB  
INTERNATIONAL BANK**



**A THESIS SUBMITTED TO ADDIS ABABA UNIVERSITY,  
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## **DECLARATION**

I, the undersigned, declare that this study entitled “The effect of performance appraisal system on employee motivation: the case of Nib International Bank” is my original work and has not been presented for a degree in any other university, and that all sources of materials used for the study have been duly acknowledged.

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## **APPROVAL**

This is to certify that Shewanesh Kebede has carried out her research work on the topic entitled, “The effect of performance appraisal system on employee motivation: the case of Nib International Bank” for the partial fulfillment of the Requirements for the Degree of Master of Arts in Human Resource Management at Addis Ababa University College of Business and Economics School of Commerce, is an original work and not submitted earlier for any degree either at this University or any other University. Thus, the work is suitable for submission for the award of the Degree of Master of Arts in Human Resource Management at Addis Ababa University.

Research Advisor Adane Atara (PhD)

Signature \_\_\_\_\_

Date \_\_\_\_\_



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## **ACRONYM**

NIB: Nib International Bank

FAO: Food Aid Organization

PAS: Performance Appraisal System

STATA: Statistical Software Package for Data Analysis

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## ABSTRACT

*Performance appraisal is very crucial since it's important to determine a codified and consistent process to live quantitative and qualitative performance of employees and, vital tool to live the frameworks set by any organization to its employees. The primary aim of this study was to assess performance appraisal system of NIB International Bank on employee motivation; specifically, the study focused on the effect of 360 degree performance appraisal system on employee motivation, to investigate the effect of rating scale performance appraisal system on motivation of employees and to examine the effect of management by objective performance appraisal system on employee motivation. It employed both descriptive and explanatory study design. Both qualitative and quantitative approach has been followed. Target population of the study was 3944. Both probability and non-probability sampling technique has been implemented. The total sample size of employee 363 employees were selected for the study but data were collected from 358 employees due to unfilled 5 questioners returned back to researcher and discarded from sample. Primary data was obtained from Addis Ababa district randomly selected branches of employee and using questionnaire. Data was collected through email, telegram, in person and through correspondence. This study employed ordered logistic regression model to examine the effect of the performance appraisal system on motivation of employee. As a result, the rating scale and management by objective of appraisal system found to have a positive and significant relationship with the dependent variable of employee motivation. Therefore, the Bank should give due emphasis for management by objective method of performance appraisal system since this study found out that MBO highly boosts Nib Bank's employee motivation.*

**Key words:** *ordered logistic regression, PAS, 360 degree feedback, rating scale and management by objective*

## **CHAPTER ONE**

### **INTRODUCTION**

This chapter deals about background of the study; statement of the problem; objectives of the study; significance of the study; scope of the study; limitations of the study; operational definition of key terms, and organization of the study.

#### **1.1.BACKGROUND OF THE STUDY**

Performance appraisal is very crucial since it's important to determine a codified and consistent process to live quantitative and qualitative performance of employees and, vital tool to live the frameworks set by any organization to its employees. It's utilized to trace individual contribution and performance against organizational goals and to identify individual strengths and opportunities for future improvements and assessed whether organizational goals are achieved or is basis for the company's future planning and development. Kumar, N Shirley, GD Singh, (2017). Performance Appraisal is that the systematic evaluation of the performance of employees and to understand the talents of a private for further growth and development. FAO (2013) stated that Performance appraisal (PA) is one among a strong management tool for motivating people, increasing productivity and attainment of organizational also as employees' objectives. Even though performance appraisals can be quite effective in motivating employees and resolving performance problems, in reality, only a small number of organizations use the performance appraisal process to its full potential. Performance appraisal systems are key levers that can be used to motivate and drive employee performance. Sysoieva, I. (2020).

Performance Appraisals is that the assessment of individual's performance during a scientific way. It's a developmental tool used for all round development of the worker and thus the organization. The performance is measured against such factors as job knowledge, quality and quantity of output, initiative, leadership abilities, supervision, dependability, co-operation, judgment, versatility and health (A. Decenzo, 1999).

The ultimate objectives of performance appraisal is to spot the strengths and weaknesses of employees to assign the proper person for the proper job; to supply a feedback to employees regarding their performance and related status for further growth and development and to take care of records so as to work out compensation packages, wage structure, salaries raises, etc.

On the other hand, According to Stephen P. Robbins, Employee motivation is defined as the willingness to exert extra effort for the achievement of organizational goals. It is conditions by the efforts ability to satisfy some individual needs. Motivation is also defined as the psychological process that cause the arousal, direction and persistence of voluntary action that is goal oriented. (Armstrong, M. 2006)

Therefore, this research presents the performance appraisal system and its effect on employee motivation in the case of NIB International Bank.

Banks, among other service giving organizations play an important role in the economy. Among private banks, Nib International Bank S.C is one of the prominent banks in the country. It provides different banking services throughout the country.

The Bank established on 26<sup>th</sup> May 1999 under License No. LBB/007/99 in accordance with the Commercial Code of Ethiopia and the proclamation for licensing and supervision of Banking Business No. 84/1994 with an authorized capital of Birr 150 million by 717 shareholders. The Bank commenced operation on 28<sup>th</sup> October 1999 at its first branch, Sholla, which served also as temporary Head Office. Currently, Nib International Bank has more than 323 Branches which are controlled by 5 district offices and around 4,972 total numbers of employees.

The General Assembly of Shareholders is the highest body of the Bank. The Board of Directors, consisting of 12 directors elected by the general assembly, is empowered to oversee and give leadership on policy and governance matters. The board appoints the President who is responsible to run the entire activities of the bank. Currently, the bank is organized into five major functional areas: Strategy & Transformation, Customer & Channels, and Banking Operations, Information System as well as Resource & Facilities; each led by vice president.

Usually, the daily operation of the Bank is executed through 20 Departments. NIB's vision is to become an icon of excellence and the leading commercial bank in Ethiopia. Its mission is to provide customer focused, efficient and effective full-fledged commercial banking services by deploying qualified, honest and motivated staff and utilizing state-of-the-art technology and thereby optimize stakeholders' interest. The Bank also upholds values of Loyalty; Transparency; Accountability; Social responsiveness; Honesty and integrity; Organizational excellence; Equal employment opportunity; Prudent and professional banking practice; Competitive services and sustainable growth.

## **1.2.STATEMENT OF THE PROBLEM**

Performance appraisal is one of powerful management tools for motivating people, increasing productivity and attainment of organizational as well as employees' objectives. Effective performance appraisal system encourages employees who work energetically and creatively towards the accomplishment of organizational goals become the significant assets and powerful tools for the organizational success. Employee performance has been primary focus area by human resource managers. As a result, a number of performance appraisal techniques have over time been devised to help establish employee's performance. In the contemporary times, the use of performance appraisals has been extended beyond rating of the employee's performance to aspects such as motivation (Idowu, 2017).

Nib International Bank S.C just like any organizations and banks, has been applying performance appraisal practices so as to attain the ultimate goal of the organization, increase productivity and create motivation among its employees. Performance appraisal in Nib International Bank is exercised periodically more as a usual practice than a tool of motivation on the basis of which various administrative and developmental decisions are taken. Several studies were previously conducted in different countries in several organizations on effectiveness of appraisal and employee motivation. For instance Idowu and Ayomikun (2017) conducted study on Effectiveness of Performance Appraisal System and its Effect on Employee Motivation.

Accordingly, their study sought to investigate effectiveness of performance appraisal systems and its effect on employee motivation. The prior study findings show the presence of significant positive outcomes when the organization uses performance appraisal as a motivation tool and the study finds that the use of more than one appraisal techniques helps yield greater satisfaction and consequently higher motivational levels.

According to informal interview conducted with some ex-employees of the Bank, which was carried out as part of groundwork for this research, indicated that one of their resentments on the Bank was poor performance appraisal practices. Most employees who were willing for the informal interview said the Bank's performance appraisal system, starting from performance appraisal form content, most appraisal measures are not work related which are not aligned with specific job. Management style by itself, also gives lesser weight for PA to consider for

promotion and salary increment purpose that is why employees are not given attention for their performance appraisal.

Most of supervisors practiced PAS like behaviorally anchored and unrewarded rather than it is a management tool for motivating employees and productivity of the Bank.

Employees, with whom preliminary interview is held said that as per the above facts, PA system of the Bank has an impact on employee motivation, since end result of performance appraisal almost brings nothing on such motivational practices like promotion, better salary and other related issues as a result most employees were dissatisfied since it is not as per their expectations. They further said performance appraisal system of the Bank should be adjusted to merit basis rather than merely experience and personal familiarity with the evaluator.

Moreover, competition in the banking industry is becoming more and stiffer than ever before. New entrants are also challenging the survival of the existing ones. Thus, with the absence of motivated employees who are willing to exert extra effort for the success of the bank, it is almost impossible

Therefore, Seeing this as a big opportunity to conduct research and the researcher wants to study in detail under the title of "*The Effect of Performance Appraisal System on Employee Motivation*" in the Case of NIB International Bank SC' to closely scrutinize what performance appraisal practices currently applied by the Bank and notice any gaps.

Therefore, this intended to examine the Effect of performance appraisal on employees motivation in the case of NIB International Bank SC' using ordered logistic regression model to examine effect of performance appraisal system on employee motivation and three indicator variables of performance appraisal system were included in the study to address the following research questions.

### **1.3.RESEARCH QUESTION**

This study was conducted to address the following research questions

- What is the effect of 360 degree feedback performance appraisal system on employee motivation?
- What is the effect of rating scale performance appraisal system on motivation of employees?

- What is the effect of management by objective performance appraisal system on employee motivation?

## **1.4.OBJECTIVE OF THE STUDY**

### **1.4.1. General Objective**

The main objective of the study is to assess effect of performance appraisal system of NIB International Bank on employee motivation.

### **1.4.2. Specific Objective**

The specific objectives are;

- To examine the existing practice of performance appraisal system of NIB International Bank.
- To identify the extent of employee motivation in NIB International Bank.
- To investigate the relationship between performance appraisal system and employee motivation of NIB International Bank.
- To examine the effect of performance appraisal system on employee motivation in NIB International Bank.

## **1.5.SIGNIFICANCE OF THE STUDY**

The research results help NIB International Bank S.C. to understand and assess its practice of performance appraisal and its effect on employee motivation. It will inform the Bank any gaps in its practice of performance appraisal and help to make the necessary adjustment. It helps employees of the Bank to know about how they are evaluated and to identify purposes of the performance appraisal of the Bank. The finding of this research work will help the Bank to enhance its performance appraisal system in a way which will in turn lift the motivation of its employees to highest level.

Therefore, it is hoped that the Bank will take all the necessary measures to overcome the problem of performance appraisal system and its effect on motivating employees if any by considering forthcoming summary of findings and recommendations of this research.

Moreover, the study findings will help the researcher to have a broader knowledge in the area of performance appraisal and employee motivation.

In addition, it would enable researchers to gain a good knowledge about performance appraisal system and the effect towards employee motivation and things correspond to it. It is also important for detail studies by other researchers in the future.

### **1.6.SCOPE OF THE STUDY**

There are seventeen private banks in Ethiopian banking industry. Out of these Banks, this study is delimited to focuses on NIB which is one of them.

The Bank has 5 districts in addition to the Head Office organs. Due to the stressful working environment of the researcher, geographically, the study is delimited to branches under central Addis Ababa district, head office organs and some other branches.

Performance appraisal is one of burning issues in human resource management these days. Thematically, the study focused on performance appraisal and employee motivation excluding other factors.

In consideration of time, this study is cross-sectional study, since the data is collected one point in a time. Methodologically, the study is delimited to analyzing the effect of performance appraisal system on employee motivation; keeping other things constant.

### **1.7.LIMITATION OF THE STUDY**

The main limitation of the study is exclusion of districts out of central Addis Ababa NIB international bank due to limited time and resource.

### **1.8.OPERATIONAL DEFINITIONS**

**Performance Management** – is the general set of activities which are carried by which are carried out by organization to improve employee performance

**Performance Appraisal** – is the systematic evaluation of the performance of employees.

**Motivation** – is the psychological force that determines a person’s engagement.

**360 degree feedback** – is type of performance appraisal system in which an employee will be assessed by self, subordinate, supervisor, colleagues and customer.

**Rating scale** – is type of performance appraisal system in which a list of job related items will be used to assess an employee

**Management by Objective** - is type of performance appraisal system in which goal will be set in advance in consent by both the employee and the supervisor and the appraisal

## **1.9.ORGANIZATION OF THE PAPER**

This paper has five main parts presented in chapters. The first chapter comprises introduction, background of the study, statement of the problem, objective, scope and limitation of the study. The second chapter deals with the review related literature, both the theoretical and empirical. The third part deals with the research design, study area, population and sample and analysis and general about the method to address the study objective. The fourth chapter presents discussion of results that deals with the implication figures analyzed in different dimensions. The final chapter forwards recommendations based on summary of findings and conclusions made.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

This chapter deals with the available relevant literature that has been reviewed for the study. The chapter is categorized in to three parts. The first part deals with the different theoretical concepts of performance appraisal and employee motivation. Next, empirical studies conducted in previous times will be presented. Finally, conceptual framework of the study derived from literatures reviewed is presented.

#### **2.1.THEORETICAL CONCEPTS**

##### **2.1.1. Concept of Appraisal System**

While a number of organizations continue to use informal and subjective performance evaluation practices to make reward decisions, there is evidence that objective performance evaluation practices an increasingly prevalent in the current times (Gardner, 2008; Sheilds, 2007). Gardner (2008) describes performance appraisal as the evaluation of an individual's work with the main aim of arriving at objective personnel decisions. It is also considered as the process of obtaining, analyzing as well as recording information that revolves about the relative worth of the employee to the organization (Armstrong, 2009). This takes place through the planned interaction between an organization's supervisors and employees in which the former assess the performance of the latter. One of the main goals in this case is the identification of strengths and weaknesses that form the basis of recommending actions for improved employee performance (Gardner, 2008).

##### **2.1.2. Types of Performance Appraisal Method**

Many appraisal methods can be used to evaluate employee's performance. Because of many existing appraisal methods, some different categorizations of them were made by researchers (e.g., Decenzo & Robbins, 1998). For instance in this study review eleven type of performance appraisal method were reviewed as follows:

###### **i. Comparison (Sorting)**

In this method, the rater ranks his/her subordinates on their working performance. Working performance of employees is compared and then sorted from the best to the worst. By putting a subordinate in a rank order, the relative position of each subordinate is tested in terms of his/her

numerical rank. Paired comparison of subordinates, that involves comparing the working performance of each subordinate with every other subordinate, is also a version of this method (HakanTurgut & Ibrahim SaniMert, 2014).

**ii. Forced Distribution**

This is an appraisal method that requires assignment of the subordinates to a limited number of categories. In this method; employees (subordinates) are inevitably evaluated according to the normal distribution. For example; 10 % of employees are at the very top of scale, 20 % of employees are at the top of scale, 40 % of employees are at the middle of scale, 20 % of employees are at the bottom of scale, 10 % of employees are at the very bottom of scale (HakanTurgut & Ibrahim SaniMert, 2014).

**iii. Graphic Rating Scales**

Managers evaluate the employee according to defined factors, as the attributes printed on an evaluation form. Form has performance levels regarding attributes. There are numbers or scales (very good, good or weak) across the attributes on the form. Manager chooses one of them. Being an oldest and most widely used method, the graphic rating scales are forms on which the evaluator simply checks off the subordinate's working performance (HakanTurgut& Ibrahim SaniMert, 2014).

**iv. Checklist**

In this method; a checklist that presented work related descriptive statements, is used for every work position. Manager chooses "Yes" or "No" option that represents the effective or ineffective behavior on job that rater familiar with these work related descriptive statements (HakanTurgut& Ibrahim SaniMert, 2014).

**v. Forced Choice**

Manager is given some pre-defined expressions (a series of statements) to evaluate the performance of worker for each item. Managers indicate which items are most descriptive of the employee. Manager does not know the score equivalent of the expressions (HakanTurgut& Ibrahim Sani Mert,2014).

#### **vi. Composition (Essay)**

Manager simply writes a narrative describing the performance of employee. This is a composition about the worker to define the worker and designates successful, unsuccessful, weaker or powerful sides of worker. This method is a non-quantitative method and rather than focusing day-to-day performance of employee it focuses on generally observed work behaviors of an employee to present a holistic view (HakanTurgut& Ibrahim Sani Mert,2014).

#### **vi. Critical Incidents**

Manager writes down the extreme performances both negative and positive. These performances are named as critical incidents/events. These critical events should affect directly the success or failure of worker. This method requires the written records to be kept as highly effective and highly ineffective work behaviors. The manager maintains the logs of each employee to record the critical incidents to use them to evaluate the employee's performance at the end of the rating period (HakanTurgut& Ibrahim Sani Mert,2014).

#### **vii. 360-Degree Feedback**

Data from all sides, from multiple levels within the organization and from external sources, is collected in this method. Employees are assessed by his superior, inferior, work friends, clients and by themselves. By the way, this method provides an enhanced self-awareness for an employee about his/her work performance (HakanTurgut& Ibrahim Sani Mert,2014).

#### **viii. Management by Objectives**

This is a method necessitating the attainment of the pre-defined objectives. According to this method, managers and employees determine collectively the objectives for employees to meet during a specific period. Attainment of an objective is more important than "how it was attained". Employees are then evaluated with a view to how they have achieved their determined goals (HakanTurgut& Ibrahim SaniMert, 2014).

#### **ix. Assessment Centers**

Evaluation process is performed objectively by specialists or Human Resources (HR) professionals in the center. In this center the job of worker is simulated and worker is observed. Additionally, some tests, social and unofficial events and exercises are used to support

assessment. This method is preferred by some organization due to difficulty faced with appraisal process and tends to use an assessment center as an adjunct to their appraisal system (HakanTurgut& Ibrahim SaniMert, 2014).

#### **x. Team Based Performance Appraisal**

As today's work life values the team work, rather than the individual performance, it is better to evaluate an individual performance as a team member. Then, employees are assessed not as individuals but as a team. There are many performance appraisal techniques/methods that have different features and evaluation procedures as presented above, it cannot be stated that only one method can be used in a definite situation, sector organization. We can easily see that even if some organizations that act in the same sector, have equal number of employees, similar structures, resembling visions and missions, these organizations may use different appraisal methods depending on their choice rather than the features they have. At this point, choosing the most effective appraisal method arises as a problem that (HR) practitioners' face. Though, whichever method is chosen, it is more important to reach a precise evaluation at the end of the performance appraisal process. One of the most important factors helping to realize this, is to decrease appraisal errors being made by evaluators or at least minimize it by applying the most appropriate method(s) that prevent(s) appraisal errors (HakanTurgut& Ibrahim SaniMert, 2014).

#### **2.1.3. Performance Appraisal System in Banking Institution**

As other public institutions, finance or banking institutions have their own system of performance appraisal (not all appraisal system applicable). Performance appraisal system is one of the important components of PMS (performance management system). Banking service is one sector where a great degree of attention is being paid to performance appraisal systems. Several of the nationalized banks have changed their performance appraisal system or are in the process of changing them (Chowdhury, 2008). Those banks that have already changed their appraisal systems have normally performance-related as well as trait-based appraisals.

Several of the banks also have self-appraisal as a part of performance appraisal, although mostly such appraisal is more of a communication of achievement (T. V. Rao, 2004). For comparative purposes, particularly when it is necessary to compare people who work for different supervisors, individual statements, ratings, or appraisal forms are not particularly useful. Instead,

it is necessary to recognize that comparisons involve an overall subjective judgment to which a host of additional facts and impressions must somehow be added. There is no single form or way to do this. The best approach appears to be a ranking technique involving pooled judgment. In this case special for banking performance management system for performance appraisal follow two ways (i.e. past oriented method and future oriented) by categorizing all appraisal system (RAIPUR, 2018.).

### **Past Oriented Methods**

**Rating Scales:** Rating scales consists of several numerical scales representing job related performance criterions such as dependability, initiative, output, attendance, attitude etc. Each scales ranges from excellent to poor. The total numerical scores are computed and final conclusions are derived. Advantages – Adaptability, easy to use, low cost, every type of job can be evaluated, large number of employees covered, no formal training required. Disadvantages – Rater’s biases (RAIPUR, 2018).

**Checklist:** Under this method, checklist of statements of traits of employee in the form of Yes or No based questions is prepared. Here the rater only does the reporting or checking and HR department does the actual evaluation. Advantages – economy, ease of administration, limited training required, standardization. Disadvantages – Raters biases, use of improper weighs by HR, does not allow rater to give relative ratings

**Forced Choice Method:** The series of statements arranged in the blocks of two or more are given and the rater indicates which statement is true or false. The rater is forced to make a choice. HR department does actual assessment. Advantages – Absence of personal biases because of forced choice. Disadvantages – Statements may be wrongly framed.

**Forced Distribution Method:** here employees are clustered around a high point on a rating scale. Rater is compelled to distribute the employees on all points on the scale. It is assumed that the performance is conformed to normal distribution. Advantages – Eliminates Disadvantages – Assumption of normal distribution, unrealistic, errors of central tendency.

**Critical Incidents Method:** The approach is focused on certain critical behaviors of employee that makes all the difference in the performance. Supervisors as and when they occur record such incidents. Advantages – Evaluations are based on actual job behaviors, ratings are supported by

descriptions, feedback is easy, reduces decency biases, chances of subordinate improvement are high. Disadvantages – Negative incidents can be prioritized, forgetting incidents, overly close supervision; feedback may be too much and may appear to be punishment.

**Behaviorally Anchored Rating Scales:** statements of effective and ineffective behaviors determine the points. They are said to be behaviorally anchored. The rater is supposed to say, which behavior describes the employee performance. Advantages – helps overcome rating errors. Disadvantages – Suffers from distortions inherent in most rating techniques.

**Field Review Method:** This is an appraisal done by someone outside employees' own department usually from corporate or HR department. Advantages – Useful for managerial level promotions, when comparable information is needed, Disadvantages – Outsider is generally not familiar with employees work environment, Observation of actual behaviors not possible.

**Performance Tests & Observations:** This is based on the test of knowledge or skills. The tests may be written or an actual presentation of skills. Tests must be reliable and validated to be useful. Advantage – Tests may be apt to measure potential more than actual performance. Disadvantages-Tests may suffer if costs of test development or administration are high.

**Confidential Records:** Mostly used by government departments, however its application in industry is not ruled out. Here the report is given in the form of Annual Confidentiality Report (ACR) and may record ratings with respect to following items; attendance, self-expression, team work, leadership, initiative, technical ability, reasoning ability, originality and resourcefulness etc. The system is highly secretive and confidential. Feedback to the assessee is given only in case of an adverse entry. Disadvantage is that it is highly subjective and ratings can be manipulated because the evaluations are linked to HR actions like promotions etc.

**Essay Method:** In this method the rater writes down the employee description in detail within a number of broad categories like, overall impression of performance, promote ability of employee, existing capabilities and qualifications of performing jobs, strengths and weaknesses and training needs of the employee. Advantage – It is extremely useful in filling information gaps about the employees that often occur in a better-structured checklist. Disadvantages – It is highly dependent upon the writing skills of rater and most of them are not good writers. They may get confused success depends on the memory power of raters.

**Cost Accounting Method:** Here performance is evaluated from the monetary returns yields to his or her organization. Cost to keep employee, and benefit the organization derives is ascertained. Hence it is more dependent upon cost and benefit analysis.

**Comparative Evaluation Method (Ranking & Paired Comparisons):** These are collection of different methods that compare performance with that of other co-workers. The usual techniques used may be ranking methods and paired comparison method.

- **Ranking Methods:** Superior ranks his worker based on merit, from best to worst. However how best and why best are not elaborated in this method. It is easy to administer and explanation.

- **Paired Comparison Methods:** In this method each employee is rated with another employee in the form of pairs. The number of comparisons may be calculated with the help of a formula as under.  $N \times (N-1) / 2$

## **Future Oriented Methods**

### **1. Management By Objectives**

It means management by objectives and the performance is rated against the achievement of objectives stated by the management. MBO process goes as under. Establish goals and desired outcomes for each subordinate Setting performance standards Comparison of actual goals with goals attained by the employee Establish new goals and new strategies for goals not achieved in previous year (*RAIPUR, 2018*).

**Alternation ranking:** Ranking of employees from best to worst on a trait or traits is another method for evaluating employees. Since it is usually easier to distinguish between the worst and the best employees than to rank them, an alternation ranking method is most popular. Here subordinates to be rated are listed and the names of those not well enough to rank are crossed. Then on a form the employee who is highest on the characteristic being measured and the one who is the lowest are indicated. Then chose the next highest and the next lowest, alternating between highest and lowest until all the employees to be rated have been ranked.

**Paired-comparison ranking:** This technique is probably just as accurate as alternation ranking and might be more so. But with large numbers of employees it becomes extremely time

consuming and cumbersome. Both ranking techniques, particularly when combined with multiple rankings (i.e., when two or more people are asked to make independent rankings of the same work group and their lists are averaged), are among the best available for generating valid order-of-merit rankings for salary administration purposes.

## **2. 360 Degree Feedback**

Many firms have expanded the idea of upward feedback into what they call 360-degree feedback. The feedback is generally used for training and development, rather than for pay increases. Most 360 Degree Feedback system contains several common features. Appropriate parties – peers, supervisors, subordinates and customers, for instance – complete survey, questionnaires on an individual. 360 degree feedback is also known as the multi-rater feedback, whereby ratings are not given just by the next manager up in the organizational hierarchy, but also by peers and subordinates. Appropriate customer ratings are also included, along with the element of self-appraisal. Once gathered in, the assessment from the various quarters are compared with one another and the results communicated to the manager concerned (RAIPUR, 2018).

### **2.1.4. Employee Motivation**

Employee motivation has on the other hand been approached from a number of different perspectives. Wolff and Gunkel (2007) for instance define employee motivation as —the willingness to exert high levels of effort toward organizational goals, conditioned by the effort’s ability to satisfy some individual needs (p.21). From a quite a simplistic way, Chiang and Jan (2008) defines employee motivation as —the process of an employee being moved to work (p.10). While further expounding on employee motivation, Wolff and Gunkel (2007) argue that motivation often results from the psychological need associated with the need to gratify desires that remain unsatisfied.

#### ***Intrinsic and Extrinsic Motivation***

From the review of literature on motivation individuals are motivated by an array of factors which can be broadly classified under intrinsic and extrinsic motivational factors (Miao, Evans and Shaoming., 2007). As Miao et al., (2007) further explains intrinsic motivation entails an internal state that is responsible for activating behavior as well as the influences that initiate change. From a human resource perspective, intrinsic motivation is considered as a form of

motivation that captures the aspects of doing work for its own sake (Osterloh & Frey, 2004). Further, intrinsic motivation is explained as one that provides the employees with psychological benefits of wellbeing, self-actualization, increasing responsibility and self-sustenance (Lee & Whitford, 2007).

Extrinsic motivation is on the contrary described in the field of human resource as the importance that employees place on external rewards, which could include promotions and salary increases (mark). It could also involve negative aspects such as the threat of dismissal or demotion (Van Herpen, Van Praag, and Cools, 2005). From a theoretical perspective, the agency theory suggests that incentives that are offered by organizations as a way of increasing employees' intrinsic motivation are usually indispensable. The rationale in this case is that employee actions are either rewarded or punished hence determining the employees' action and performance (Jensen & Murphy, 2004). Likewise, the expectancy theory postulates that associating incentives to an employee's performance hence motivate the employee to increase effort as well as performance (Cullen, 2005). While extrinsic motivation factors such as pay are generally considered to have a positive impact on employee motivation a number of researchers argue that they could to some extent undermine performance. Lee and Whitford (2007) for instance note that excessive focus on extrinsic motivating factors may distract the employee from concentrating on the task. The two authors consider this effect as the hidden costs of rewards.

## **2.2. EMPIRICAL REVIEW**

### **EFFECT OF APPRAISAL SYSTEM ON EMPLOYEE MOTIVATION**

According to review of performance appraisal system, all the appraisal system were categorized in to three main types (360 degree feedback, rating scale and Management by Objectives). In this section of review the empirical review of Effect of appraisal system on employee motivation will be presented as follows.

According to Tariku, (2015) conducted study on assessing employee performance appraisal practice of Dashen bank S.C. Recent research has moved away from studies of rater accuracy and rating instruments to themes of employee reactions towards performance appraisal as indicators of system satisfaction and efficiency. An assessment of performance appraisal system has been studied as a significant factor in employee acceptance and satisfaction. Accordingly, the performance appraisal system of Dashen bank S.C Data was obtained via questionnaire from 300

participants at the head office and 40 branches of the bank in Addis Ababa. An interview was also made with some key personnel of the bank particularly with employees working in administration and human resource department.

The findings of the study indicated that respondents perceived the performance appraisal system. Majority of employee (63.33%) agreed that they do not know the purpose of performance appraisal system, 6.66% of employee said that the purpose of performance appraisal system is for bonus & promotion, 20% of employees agreed that for salary increments and 3.33% of employee said that for training & development (Tariku, 2015).

And other study conducted by Idowu (2017) on Effectiveness of Performance Appraisal System and its Effect on Employee Motivation. The study findings show the presence of significant positive outcomes when the organization uses performance appraisal as a motivation tool. Further, the study finds that the use of more than one appraisal techniques helps yield greater satisfaction and consequently higher motivational levels (Idowu, 2017).

According to Fikregenet (2016) conducted study on assessment of performance appraisal practice in United Bank S.C., the bank's appraisal system lacks acceptability and sensitivity which is due to the subjective appraisal criteria and these criteria are not in line with the job description of employees. The Bank's appraisal system doesn't follow the six scientific steps; judgmental errors were also found in the system and the employee's perception towards the fairness of the appraisal system of the bank was negative. Therefore, United Bank S.C should revise its performance appraisal manual and criteria in order to make its appraisal system effective (Fikregenet, 2016).

According to Betelehem (2019) study conducted on Effects of Performance Appraisal on Employees Motivation in case of National Bank of Ethiopia, primary data was analyzed using Statistical Package for Social Science (SPSS) and presented as tables and for analysis, regression and correlation techniques were used and the reliability analysis Cronbach's Alpha was used to check the reliability of questionnaire. Result of the correlation shows that all independent variables are positively and significantly related to the dependent variable, employee motivation except subjective evaluation system. The finding shows that 34.4% of variation in employees' motivation can be explained by performance appraisal (Objective Setting, Performance

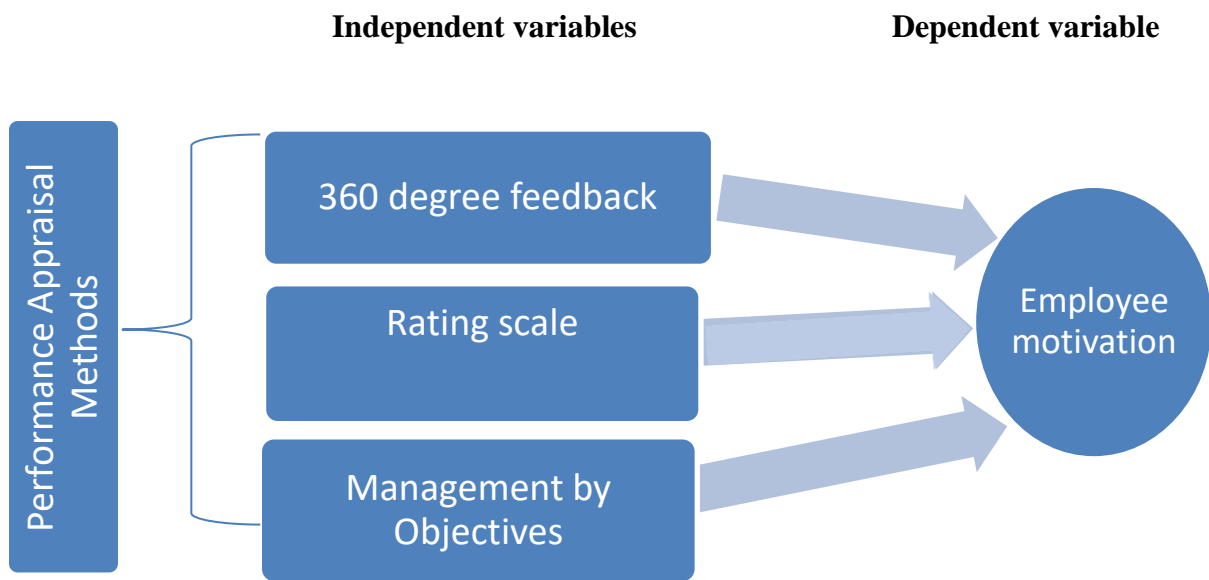
Evaluation Standards, Continuous Feedback and Subjective Evaluation and highly influenced by performance Evaluation Standards( Betelehem, 2019).

Other study also conducted by Megira, (2017) on the effect of performance appraisal system on employee's motivation: a case study of commercial bank of Ethiopia. In the study data analyzed with descriptive and inferential analysis, and the result presented with tables and charts. Among the main finding of the study was that from the six factors of effective PAS, which are ongoing feedback, rewarding performance, trained appraiser, continuous open communication, fairness of the PAS have significant positive effect on employees motivation, except employees participation in the PAS. The result shows that the relationship between employees participation in the PAS and employees motivation was insignificant. Again, it was conclude that the level of employee's motivation regarding to the current performance appraisal system was low (Megira, 2017).

### **2.3. CONCEPTUAL FRAMEWORK**

Conceptual framework is a diagrammatic presentation of the relationship between dependent and independent variables (Mugenda and Mugenda, 2003). In this study, the dependent variable will be employee motivation while independent variables are the system performance appraisal. These performance appraisal systems are categorized as 360 degree feedback, rating scale and Management by Objectives as shown in Figure 2.1 below

Figure2.1. Conceptual framework



Adopted from different literatures

Source: Own construction based on literature review, 2021

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

This chapter deals with the research technique used to conduct the proposed research. The chapter precedence is presented in a way of describing the study area, research design, Population, sample size determination and sampling method, data sources, data gathering technique and model specification.

#### **3.1 DESCRIPTION OF STUDY AREA**

This study was conducted in Nib International Bank S.C., located in Addis Ababa. Among the six District Offices of the Bank, the study focused on the central Addis Ababa district and its surrounding branches and Head Office work units.

#### **3.2. RESEARCH APPROACH**

In order to achieve the intended objectives, both quantitative and qualitative methods were employed. Quantitative data present findings in measurable quantitative form. It is based on measurement or amount whereas qualitative one presents findings which cannot be presented in numeric form, but in a way that express quality or implication of findings. Thus, this study has employed both methods.

#### **3.3. RESEARCH DESIGN**

The researcher employed both descriptive and explanatory research design. The descriptive statistics shows the existing facts and figures that present the research findings. The researcher employed explanatory design to examine the effect of performance appraisal system on employee motivation by selecting the more representative sample for the population of the study. This is because, Explanatory study is helpful when a researcher wants to look into a phenomenon or a process in its natural contexts in order to get its overall picture instead of taking one or some of its aspects and manipulating in an artificial setting. In addition, it was used to understand the condition or relationship that exists, opinion that held, process going on, and effects that are evident (Waktola and Tsegay, 2004).

### **3.4. POPULATION, SAMPLE SIZE AND SAMPLING METHOD**

#### **3.4.1. Target Population**

Currently Nib International Bank has more than 4,972 employees. The target population of the study is staff working in Central Addis Ababa District and the surrounding branches as well as Head Office staff in a capacity of managerial, professional, clerical and non-clerical positions; who have served the Bank more than a year. This is due to performance appraisal is held twice in a year, so that to get the right respondent, employees who have served below a year are excluded.

The researcher selected Central Addis Ababa district and Head Office organ of the Bank due to the researcher's familiarity with respect to the study area and the study area can show the problem explicitly. Moreover, due to financial and time constraints, the study is delimited to this area.

#### **3.4.2. Sample Size**

Currently, according to the information collected from the Bank, there are 55 branches in Central Addis Ababa district and in its surrounding branches. Out of 55 branches, 30 branches were selected as a stratum using convenience sampling, which is, non-probabilistic sampling method. From the strata, 189 employees have taken questionnaire from 30 branches. These branches were selected for their Vicinity to the researcher due to the researcher's heavy work load. In addition, from Head Office Department, a total of 174 employees have involved in the study.

#### **3.4.3. Sampling Method**

In order to draw representative sample for the study, researcher has used both probability and non-probability sampling techniques. Selection of Central Addis Ababa district and its surrounding branches and Head Office was done by non-probability sampling technique as stated above; while, the samples of the employee in the branch were chosen using the probability sampling method (i.e. specifically simple random sampling). Probability Sampling

is used because each member of the population has an equal likelihood of being selected to be part of the sample.

Sample size determination is not an easy task since it is affected by several factors. Sample size for instance, depends on the type of research design, the desired level of confidence, population characteristics, cost and time availability (Cohen et al., 2007). Due to the homogeneity of the population and to keep the representativeness of the sample of the population, the researcher has used the following formula. Where  $e$  is taken 0.05% error level, then the sample size “ $n$ ” can be determined by the equation of Yamane (1967).

$$n = \frac{N}{1+N(e)^2}, \text{ Where } N = \text{number of Total population}$$

$n$  = Sample size

$e$  = error limit

$$n = \frac{3944}{1 + 3944(0.05)^2} = 363.17 \approx 363$$

Therefore, the total sample size of employees is 363.

Accordingly, from 55 branches of central Addis Ababa District and its surrounding branches, sample of 30 branches as well as the whole Head Office Organs has been taken. The distribution table is presented below.

Table 3.1.Questionnaire distribution Table

S/N	Name of Branch/Department	No of Employee with in the Branch/Dep't	Sample taken
1	Megenagna	24	9
2	Shola	26	8
3	22 Mazonia	25	9
4	Wuha Lemat	16	7
5	Bole	26	7
6	Peacock	21	5
7	Main	49	21
8	A/Avenue	20	6
9	Olympia	16	4
10	Mexico	13	5
11	Senga Tera	14	7
12	B/Aba Nefso	26	6
13	D/Afriqu	22	6
14	Tikur Anbessa	18	5
15	Ras	25	8
16	Nib Premium	34	8
17	Tiret	36	7
18	Tana	45	8
19	Raguel	32	6
20	Abakoran	18	3
21	Gojam Berenda	19	3
22	Adarash	34	6
23	Military Tera	17	4
24	Asfaw Wossen	19	5
25	Tatari	24	4
26	Merkato Mirab	21	4
27	Mehal Merkato	12	3
28	Cinema Ras	17	6
29	T/Haymanot	23	5
30	T/Adebabay	21	4
<b>Sub Total</b>		<b>713</b>	<b>189</b>

31	Treasury Department	37	26
32	Finance & Accounts	40	23
33	Learning & Development	9	6
34	Credit Appraisal	31	15
35	Legal Service	13	8
36	IT Application Management	36	12
37	Electronic Channels	28	9
38	Retail & SME	21	7
39	Facilities & Maintenance	27	9
40	Supply Chain	22	7
41	HRM	20	9
42	Risk & Compliance	14	5
43	Internal Audit	41	13
44	Trade Finance	41	15
45	Marketing & Business Dev't	25	10
<b>Sub Total</b>		<b>405</b>	<b>174</b>
<b>GRAND TOTAL</b>		<b>1118</b>	<b>363</b>

### 3.5.DATA SOURCES

In this study, the researcher used both primary and secondary data sources. Primary data was obtained from branches under central Addis Ababa District and the surrounding branches as well as Head Office randomly selected employee. Secondary data has been gathered from different theoretical as well as empirical reviews. Sources of the secondary data were the Bank's annual report, different previous studies conducted on the relationship of performance appraisal systems and employee motivation; as well as different published journals have been used for reference.

### 3.6.DATA GATHERING TOOLS

The researcher used different data collection instruments in order to collect the relevant data for the purpose of this study. The data was collected through email, telegram, in person and through correspondence. The questionnaire was prepared for employee as the major tool, and interview was used for the management of branch and Head Office as key informant to triangulate the data found via questionnaire.

### **3.7.DATA ANALYSES**

In analyzing the data the researcher used statistical software program STATA version 14. Accordingly, the results of the study analyzed through descriptive and inferential statistics. These include demographic characteristics, presented with frequent percentage, ordered logistic regression, and odds ratio was used to examine effect of performance appraisal system on employee motivation. Ordered logistic regression analysis was applied to examine the predictive power of each of the independent variables for the overall employee motivation (dependent variable), thus it enabled the researcher to determine the priority of each performance appraisal system for employee motivation. In general, after gathering the relevant information via different tools, the researcher presented by using tables, text and figures for this study.

### **3.8.MODEL SPECIFICATION**

The results of the study were analyzed through inferential statistics; these includes ordered logistic regression model which was used to test the formulated hypothesis and to examine the predictive power of each of the independent variables (3performance appraisal systems) for the overall employee motivation (dependent variable). It is important to present the detailed model specification for the ordered outcome variable. The ordinal outcomes represent categorical outcomes where there is clear natural ranking or order from low to high among the outcomes but the distance between adjacent categories is unknown. When modeling these types of outcomes, numerical values are assigned to the outcomes, but the numerical values are ordinal and reflect only the ranking of the outcomes. As an example, we might assign a dependent variable  $y$  the values 1 for "strongly disagree", 2 for "disagree", 3 for "neutral", 4 for "agree" and 5 for "strongly agree".

$$y_i^* = \mathbf{x}_i\beta + \varepsilon_i$$

Thus it enabled the researcher to determine the priority of each performance appraisal system for employee motivation. Therefore, the econometric model employed for this study was ordered logistic model which is presented below in a generic form:

$$Y_i = \alpha + \beta iX_i + \varepsilon_i \quad (1)$$

Where  $Y_i$  represents employee motivation in NIB bank  $i$  of the system of performance appraisal;  $X_i$  is the performance appraisal system determining the motivation;  $\varepsilon_i$  is the model error term that could capture all unobserved factors;  $\beta_i$  is the model parameters for each dimensions and  $\alpha$  is the constant term. The details of how the log likelihood was maximized and coefficients are computed are similar to the ones discussed above.

### **3.9. STUDY VARIABLES**

#### **3.9.1. Dependent variable**

The dependent variable for this study was employee motivation. Employee motivation mainly depends on performance appraisal system in the Bank.

#### **3.9.2. Independent variables**

In this study, independent variables are the performance appraisal system variables that influence employee motivation. In this case the independent variables are 360 degree feedback, rating scale and Management by Objectives.

### **3.10. RELIABILITY AND VALIDITY**

Field (2009) explained reliability as a means that measure (in this case questionnaire) should constantly reflect the construct that it is measuring". "Reliability refers to the consistency and stability of findings that enables findings to be replicated" (Burns, 2008). Cronbach's Alpha is very useful in developing attitude scales and questionnaires as the alpha level (or reliability) indicates if the items are measuring the same construct. Items that are not measuring what the rest can be identified and deleted" (Burns, 2008). Cronbach's Alpha Should be over 0.70 to produce a reliable scale and any scale less than this alpha coefficient should be eliminated according to Burns (2008). Therefore the result of this study shows the survey instrument was reliable and valid based on the Cronbach's Alpha with 0.882 this greater than 0.70.

Table3.2. Reliability Statistics

Variable	Cronbach's Alpha	No of Items
Overall	0.882	24
360 degree feedback	0.8193	4
Rating scale	0.8969	4
MBO	0.8245	4

Source: own survey result 2021

### **3.11. ETHICAL CONSIDERATION**

Approval has been secured from Addis Ababa University, School of Commerce to conduct this study. Then, while filling the questionnaire, each respondent were asked their willingness to fill the questionnaire, by affirming them the strict confidentiality of their response. Moreover, respondents were briefed the purpose of the study and were told to fill the form anonymously. Finally, the data has been analyzed with due attention given to the authenticity.

## CHAPTER FOUR

### ANALYSIS, DISCUSSION AND INTERPRETATION

This chapter deals with data analysis and discussion part. It presents demographic data presentation, response rate, data analysis on each variable as well as interpretation of results and discussion of the research findings.

Based on pre plan of research design, methodologies, and tools applied the data was collected from 358 respondents out of 363. The data analysis was made using statistical package for social science (STATA). In order to make the collected data suitable for analysis, all distributed and collected questionnaire were screened for completeness. To up hold the quality of the finding, the researcher distributed each local language translated questionnaire to the selected employee of Bank. As a result few incomplete questionnaires were received back. The number of these incomplete questionnaires was 5 and removed from the survey data as error. Totally sample size of 358 questionnaires was completed. Data analysis, discussion and interpretation of the results were presented in the following subheadings: presentation of demographic data and frequency of respondents, analysis of mean and analysis of regression coefficient.

#### Response rate of respondents

**Table 4.1. Respondents' response rate**

<b>Questionnaires Distributed</b>	<b>Questionnaires Returned</b>	<b>Percentage</b>
363	358	98%

Source: Own survey, 2021

As shown in table 4.1 above, about response rate, 363 questionnaires were distributed to respondents and 358 were appropriately filled and returned with the rate of 98%. Based on this sample size (98%) the next analysis was carried out.

Table 4.2 Demographic profile of respondents

Item	Category	Frequency	Percent
Sex	Male	261	72.9
	Female	97	27.1
Age	21-30	212	59.2
	31-40	86	24.0
	41-50	25	7.0
	Above 51	35	9.8
Educational status	Diploma	42	11.7
	First Degree	236	65.9
	Master & above	80	22.4
Experience	Two year and less	177	49.4
	3-5 years	57	15.9
	6-10 years	65	18.2
	More than 10 years	59	16.5
Position	Clerical	90	25.1
	Professional	218	65.9
	Managerial	50	14.0

Source: own survey result 2021

The purpose of demographic analysis in this research is to describe the characteristics of the sample such as the number of respondents, range of age, proportion of males and females in the sample, educational status experience and their business type.

As shown in table 4.2 above, concerning gender distribution of respondents, 271 (72.9%) were females whereas 97.1 (27.1%) males. This shows that which implies that proportion of male was higher than female.

The age group 21-30 took the highest percent with 59.2% of the respondents and the age group of 31-40 respondents followed the previous group with 24.0%. These two groups

compose more than 80% of the respondents. It implies that majority of respondent who deals with bank employee are young and middle age.

About 7% of adult respondents constitute 41-50 and the remaining age group of respondent is old age of more than 50. This shows that the bank employee most of employees are at productive age stage, this might support for the reliable evidence about this study.

Regarding to educational status of employee the lowest proportion of employee were in diploma level with 11.7% and the highest proportion of employee were first Degree holder with 65.9% and 22.4% of respondent were master & above.

Regarding to current Position of employee 25.1% of respondent were at clerical position, 65.9% of respondent were at professionals and 14.0% of respondent were at managerial level. Including the three tiers of high level, middle level and bottom level of the employee position was good enough to get reliable evidence for the aim of employee motivation and performance appraisal system of the institution.

#### **4.1.THE PERFORMANCE APPRAISAL SYSTEM OF NIB INTERNATIONAL BANK**

##### **4.1.1. The Current Status of PMS in Nib International Bank**

As the interview conducted with different employees' of the Bank reveal, the Bank is using rating scale method of performance appraisal system, according to the interviewed employees this system has its own advantages and disadvantages. The advantages are, there are clear statements in which the subordinate will be measured; one can know his/her weak point among which the score given low; its ease of measuring the list of job related activities. Nevertheless, it has so many shortcomings which the employees get resented. These are; first, the list of items may not be compatible to all branches and work units. There are specific items which cannot be measured by this method of measuring employees' performance. Second, it is subject to bias. If the supervisor is not in a good term with his/her subordinate, the result of the appraisal will be biased. Third, it doesn't show the full picture of the employee's job performance. As compared to 360 degree performance appraisal system, rating scale is limited to only the supervisor's appraisal. Forth, one can fill the appraisal intentionally to benefit the other, which will have adverse effect on the others. Thus, since the current performance appraisal system that the Bank

is using has such shortcoming; the study has incorporated other performance appraisal methods for the respondents to see the result and recommend the suitable one.

#### 4.1.2. Descriptive Measure Of Performance Appraisal System

##### 4.1.2.1.360 Degree Feedback Performance Appraisal System

Table4.3. Descriptive summary of 360 degree feedback performance appraisal system

Statement		Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Sd.
There is a two way communication with both managers and employees for expressing their views.	Fr.	12	46	82	145	73	3.62	1.05
	Pr.	3.4	12.8	22.9	40.5	20.4		
I would prefer my performance to be evaluated by an instrument developed and design with help of employees.	Fr.	15	56	69	131	87	3.61	1.14
	Pr.	4.2	15.6	19.3	36.6	24.3		
The PAS is regularly carried by the responsible appraiser.	Fr.	5	95	69	101	88	3.48	1.17
	Pr.	1.4	26.5	19.3	28.2	24.6		
I receive regular and timely performance feedback beside the annual performance review.	Fr.	3	88	70	130	67	3.48	1.08
	Pr.	0.9	24.6	19.6	36.3	18.7		

Source: own survey result 2021

The above table 4.3 shows that from 360 degree feedback performance appraisal system as a result existence of two way communications with both managers and employees for expressing their views. 3.4%of respondent were strongly disagree, 12.8%of respondent were disagree, 22.9%of respondent were neither agree nor disagree, 40.5%of respondent were agree, 20.4%of respondent strongly agree on the statement with mean of 3.62 and standard deviation of 1.051. The finding reveals that performance appraisal system regarding to

existence of two way communication with both managers and employees for expressing their views, since the mean score on the statement based on the Likert was over the median of the scale. 360 degree feedback performance appraisal system regarding to performance to be evaluated by an instrument developed and design with help of employees 4.2% of respondent were strongly disagree, 15.6% of respondent were disagree, 19.3% of respondent were neither agree nor disagree, 36.6% of respondent were agree, 24.3% of respondent were strongly agree on the statement with mean of 3.61 and standard deviation of 1.136. The finding implies that 360 degree feedback performance appraisal system regarding to performance to be evaluated by an instrument developed and design with help of employees of the bank were enough standardized in the bank.

Regarding to the PAS it is regularly carried by the responsible appraiser 1.4% of respondent were strongly disagree, 26.5% of respondent were of respondent were disagree, 19.3% of respondent were neither agree nor disagree, 28.2% of respondent were agree and 24.6% of respondent were strongly agree on the statement with mean 3.48 and standard deviation of 1.166. The finding indicates that 360 degree feedback performance appraisal system regarding to the PAS is regularly carried by the responsible appraiser at enough standard since the mean score of the statement according to Likert scale was lies above the median scale. Employees receive regular and timely performance feedback beside the annual performance review. 0.9% of respondent were strongly disagree, 24.6% of respondent were disagree, 19.6% of respondent were neither agree nor disagree, 36.3% of respondent were agree and 18.7% of respondent were strongly agree on the statement with mean of 3.48 and standard deviation of 1.075.

#### 4.1.2.2. Rating scale performance appraisal system

Table 4.4. Analysis of Rating Scale Performance Appraisal System

Statement		Rating Scales					Mean	Sd.
		1	2	3	4	5		
The PAS provide an opportunity to communicate with the supervisors to facilitate my job performance.	Fr.	12	79	94	116	57	3.35	1.09
	Pr.	3.4	22.1	26.3	32.4	15.9		
I find difficult to discuss work issues with my managers.	Fr.	7	72	113	112	54	3.37	1.03
	Pr.	2	20.1	31.6	31.3	15.1		
I get fair feedback from my supervisor and proportion reward to my performance.	Fr.	3	63	108	120	64	3.5	1.01
	Pr.	0.8	17.6	30.2	33.5	17.9		
The information provided by my supervisor during my performance feedback is accurate.	Fr.	6	94	95	119	44	3.28	1.04
	Pr.	1.7	26.3	26.5	33.2	12.3		
Overall (aggregate) Mean							13.5	4.17

Key: 1 = strongly disagree; 2 = disagree, 3 = neutral; 4 = agree and 5 = strongly agree

Source: own survey result (2021)

The above table 4.4 shows that from the rating scale performance appraisal system, the PAS provide an opportunity to communicate with the supervisors to facilitate employee job performance. 3.4% of respondent strongly disagree on the statement, 22.1% of respondent disagree on the statement, 26.3% of respondent neither agree nor disagree on the statement, 32.4% of respondents agree on the statement and 15.9% of respondent strongly agree on the statement with mean and standard deviations of 3.35 and 1.092 respectively.

The finding indicates that the PAS provide an opportunity to communicate with the supervisors to facilitate employee job performance. Performance appraisal system regarding bank employee find difficult to discuss work issues with managers 2% of respondent strongly disagree, 20.1% of respondent disagree, 31.6% of respondent neither agree nor disagree, 31.3% of respondent agree, 15.1% of respondent strongly agree on the statement with mean and standard deviation of 3.37 and 1.029 respectively.

Performance appraisal system regarding to get fair feedback from supervisor and proportion reward to performance 0.8% of respondent strongly disagree on the statement, 17.6% of respondent disagree, 30.2% of respondent neither agree nor disagree, 33.5% of respondent agree and 17.9% of respondent strongly agree on the statement with mean and standard deviation of 3.50 and 1.006 respectively.

Performance appraisal system regarding to the information provided by supervisor during employee performance feedback is accurate. 1.7% of respondent strongly disagree, 26.3% of respondent disagree, 26.5% of respondent neither agree nor disagree, 33.2% of respondent agree and 12.3% of respondent strongly agree on the statement with mean and standard deviation 3.28 and 1.038.

#### 4.1.2.3. Management by Objectives Performance Appraisal System

Table 4.5. Management by Objectives Performance Appraisal System

Statement		Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Sd.
The PAS provide a scope for well communication the overall business and plans to the employees.	Frq.	2	65	95	121	75	3.56	1.03
	Per.	0.6	18.2	26.5	33.8	20.9		
I trust the PAS in my organization is rational and fair.	Frq.	3	80	96	130	49	3.4	1.01
	Per.	0.8	22.3	26.8	36.3	13.7		
I feel fairly treated in every way in the PAS.	Frq.	15	103	77	141	22	3.15	1.04
	Per.	4.2	28.8	21.5	39.4	6.1		
I evaluated fairly according to the setting standards without subjectively and biased.	Frq.	13	79	83	140	43	3.34	1.06
	Per.	3.6	22.1	23.2	39.1	12		

Source: own survey result 2021

The above table 4.5 shows that the Performance Appraisal System towards management by objectives performance appraisal system, The PAS provide a scope for well communication

the overall business and plans to the employees 0.6% of respondent strongly disagree on the statement, 18.2% of respondent disagree on the statement, 26.5% of respondent neither agree nor disagree on the statement, 33.8% of respondent agree on the statement, 20.9% of respondent strongly agree on the statement on the statements with mean and standard deviation of 3.56 and 1.032 respectively.

Employee trust the PAS in their organization is rational and fair 0.8% of respondent strongly disagree on the statement, 22.3% of respondent disagree on the statement, 26.8% of respondent neither agree nor disagree on the statement, 36.3% of respondent agree on the statement, 13.7% of respondent strongly agree on the statements with mean and standard deviation of 3.40 and 1.007 respectively.

The employee feel fairly treated in every way in the PAS 4.2% of respondent were strongly disagree on the statement, 28.8% of respondent were disagree on the statement, 21.5% of respondent were neither agree nor disagree on the statement, 39.4% of respondent were strongly agree on the statement, 6.1% of respondent were strongly agree, on the statements with mean and standard deviation of 3.34 and 1.061 respectively.

Employee evaluated fairly according to the setting standards without subjectively and biased 3.6% of respondent were strongly disagree on the statement, 19% of respondent were disagree on the statement, 25.7% of respondent were neither agree nor disagree on the statement, 35.2% of respondent were agree on the statement and 16.5% of respondent were strongly agree on the statement with mean and standard deviation of 3.15 and 1.038 respectively. And the finding indicate that The PAS provide a scope for well communication the overall business and plans to the employees, trust of employee on the PAS in organization is rational and fair, feeling of employee fairly treated in every way in the PAS and employees were evaluated fairly according to the setting standards without subjectively and biased.

## **4.2. EMPLOYEE MOTIVATION IN NIB**

### **4.2.1. The Current Status Of Employee Motivation In NIB**

According to the interview result, the employees' motivation in non-managerial position is really low. Given the existence of different reason for the lowering of employee motivation, job performance appraisal system is the one and prominent one. They also predicted that

employee turnover rate might also increase if the Bank will not take a measure to improve it. Thus, in order to boost employee motivation, the study sought to get suitable appraisal system that fits with the Bank's status.

#### 4.2.2. Descriptive Summary Of Employee Motivation

Here in this subsection the descriptive summary regarding to employee motivation was analyzed.

Table 4.6. Descriptive measure of Employee Motivation

Statement		Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Sd.
You are conscientious and take the initiative.	Fr.	0	12	141	176	29	3.63	.689
	Pr.	0.0	3.4	39.4	49.2	8.1		
You challenge management to make the organization better	Fr.	0	8	78	192	80	3.96	.728
	Pr.	0.0	2.2	21.8	53.6	22.3		
You support and help each other	Fr.	0	8	112	174	64	3.82	.742
	Pr.	0.0	2.2	31.3	48.6	17.9		
There is minimal absenteeism, conflict, or avoiding of responsibility.	Fr.	0	8	144	175	31	3.64	.671
	Pr.	0.0	2.2	40.2	48.9	8.7		
Your staff and you are volunteer for tough, challenging assignments.	Frq.	3.0	80.0	96.0	130.0	49.0	3.40	1.007
	Per.	0.8	22.3	26.8	36.3	13.7		
The organization is a learning organization, seeking feedback for self-improvement.	Frq.	13	79	83	140	43	3.34	1.061
	Per.	3.6	22.1	23.2	39.1	12		

Source: own survey result 2021

As a result employees are conscientious and take the initiative 3.4% of respondent were disagree on the statement, 39.4% of respondent were neither agree nor disagree on the

statement, 49.2% of respondent were agree on the statement, 8.1% of respondent were strongly agree on the statement with mean and standard deviation of 3.63 and 0.689 respectively. The finding of the study implies that employees are conscientious and take the initiative, since the mean value on the statement based on the Likert scale was over the median; this implies that Employee Motivation is high in the specific statement. Regarding to employee challenges management to make the organization better 2.2% of respondent were disagree on the statement, 21.8% of respondent were neither agree nor disagree on the statement, 53.6% of respondent were agree on the statement, 22.3% of respondent strongly agree on the statement with mean and standard deviation of 3.96 and 0.728 respectively.

The finding implies that employee challenges management to make the organization better, since the statistical value of mean score was lies above the medium scale and it approaches to the highest Likert scale level, this implies that employees motivation were on the specific stated motivation indicator of bank.

Regarding to employees support and help each other 2.2% of respondent were disagree on the statement, 31.3% of respondent were neither agree nor disagree on the statement, 48.6 of respondent were agree on the statement, 17.9% of respondent were strongly agree on the statement with mean and standard deviation of 3.82 and 0.742 respectively.

The finding implies that employees' motivation regarding to support and help each other is good since the mean score on the Likert measure was lies above median; this implies that employee's motivation well going on the stated specific motivation indicator. Existence of minimal absenteeism, conflict, or avoiding of responsibility 2.2% of respondent were disagree on the statement, 40.2% of respondent neither agree nor disagree on the statement, 48.9% of respondent were agree on the statement and 8.7% of respondent were strongly disagree on the statement with mean and standard deviation of 3.64 and 0.671 respectively.

Regarding to staff and employee are volunteer for tough, challenging assignments 0.8% of respondent were strongly disagree on the statement, 22.3% of respondent were disagree on the statement, 26.8% of respondent were neither agree nor disagree on the statement, 36.3% of respondent were agree on the statement and 13.7% of respondent were strongly agree on the statement with mean and standard deviation of 3.40 and 1.007 respectively. Regarding to the

organization is a learning organization, seeking feedback for self-improvement 3.6% of respondent were strongly disagree on the statement, 22.1% of respondent were disagree on the statement, 23.2% of respondent were neither agree nor disagree on the statement, 39.1% of respondent were agree on the statement and 12% of respondent were strongly agree on the statement with mean and standard deviation of 3.34 and 1.061 respectively.

### **CUMULATIVE MEAN SCORE OF PERFORMANCE APPRAISAL SYSTEM**

Table 4.7. Grand Mean Score Statistics

Variables	Mean	Std. Deviation
360 degree feedback	3.4990	.88399
Rating scale	3.4453	.79174
Management by objective	3.4444	.73703
Employee Motivation	3.3813	4.1566

Source: own survey result, 2021

As shown in the table above the grand mean score of Performance appraisal system indicators shows that the comparison of their mean, as a result mean score of the 360 degree feedback was found the mean score with about 3.50 and the rest of other found almost similar level. The finding indicates that the highest mean score implies that the Performance appraisal system regarding to 360 degree feedback it's potentially done to give sustainable appraisal system to employees and the least mean score tells that Performance appraisal system regarding to rating scale and management by objective needs to improve and the recent appraisal system at medium level.

### **4.3. THE RELATIONSHIP BETWEEN PERFORMANCE APPRAISAL SYSTEM AND EMPLOYEE MOTIVATION OF NIB INTERNATIONAL BANK**

Based on the purpose of the study as preplan of the study in this subsection study attempted to infer and identify the influential performance appraisal system on the motivation of employee. But before going to see the regression result study first needs to the model is appropriate for the study or not based on the assumption of the ordered logistic regression model.

#### **4.3.1. Assumption of Ordered Logistic Regression**

When choosing to analyze data using ordinal regression, part of the process involves checking to make sure that the data want to analyze can actually be analyzed using ordinal regression.

Therefore needs to do this because it is only appropriate to use ordinal regression if data passes three assumptions that are required for ordinal regression to give valid result. In practice, checking for these three assumptions just adds a little bit more time to analysis.

**Assumption #1:** dependent variable should be measured at the ordinal level. Therefore this study meets fits this assumption of the model since Likert scale was employed (i.e. 5-point scale from "strongly disagree" through to "strongly agree"),

**Assumption #2:** One or more independent variables can be continuous, ordinal or categorical (including dichotomous variables). However, ordinal independent variables must be treated as being either continuous or categorical. Therefore the model fits these assumptions since the study employed 3 independent categorical variables.

**Assumption #3:** There is no multicollinearity. Multicollinearity occurs when you have two or more independent variables that are highly correlated with each other. This leads to problems with understanding which variable contributes to the explanation of the dependent variable and technical issues in calculating an ordinal regression. Determining whether there is multicollinearity is an important step in ordinal regression multicollinearity exists when Tolerance is below 0.1 and VIF (variance inflation factors) is greater than 10 or an average much greater than 1. No serial correlation among the explanatory variables and this means the association within the independent variables should be small enough so that it was easy to see the effect on the dependent variables. As the survey result shows, in table4.7 below the highest VIF result was 3.126 and lowest tolerance level was 0.320 which implies that VIF below 10 and tolerance level greater than 0.1. The result indicates that there was no multicollinearity problem.

Table 4.8. Multicollinearity test statistics

Collinearity Statistics	
Tolerance	VIF
0.347	2.878
0.320	3.126
0.344	2.906

Source own survey result 2021

## The log likelihood of performance appraisal system on employee motivation

Table 4.9. Ordered logistic regression

Iteration0	Log likelihood	-255.75108	Number of observation	358	Pseudo R2	0.0345
Iteration1	Log likelihood	-247.13051	LR chi2(5)	17.63	Log likelihood	-246.93571
Iteration2	Log likelihood	-246.93596	Prob> chi2	0.0034		
	Coef.	Std. Err.	Z	P>z	95% Conf. Interval	
360 degree feedback	0.1111593	0.2008409	0.55	0.580	-0.2824817	0.5048003
Rating scale	0.4061656	0.2047539	1.98	0.047	0.0048553	0.807476
Management by objective	0.6158971	0.2165406	2.84	0.004	0.1914853	1.040309

Source: own survey result 2021

Before attempt to run regression to analyze effect of explanatory variable on the dependent variable, it's necessary to check assumption using diagnostic tests, as a result tests in the above subsection indicates that the model fits the assumption and doesn't violet the assumption.

In this subsection of the study to see the significant factors and the effect of each performance appraisal system on employee motivation the study used ordered logistic regression. As a result more specifically the significant factors were identified in table 4.8above. The output above, the first has shown the iteration log. At iteration 0, Software fits a null model, i.e. the intercept-only model. It then moves on to fit the full model and stops the iteration process once the difference in log likelihood between successive iterations become sufficiently small. The final log likelihood -246.93596 is displayed again. It can be used in comparisons of nested models. Also at the top of the output that all 358 observations in the data set were used in the analysis. The likelihood ratio chi-square of 17.63 with a p-value of 0.0034 tells that model as a whole is statistically significant, as compared to the null model with no predictors.

The pseudo-R-squared of 0.0345 is also given. In the table we see the coefficients, their standard errors, z-tests and their associated p-values, and the 95% confidence interval of the coefficients. Two of Rating scale and Management by objective are statistically significant;

360 degree feedback is not statistically significant at 5% significance level. So for rating scale, it indicates that;

- ✓ For a one unit increase in Rating scale of performance appraisal system, results a 0.406 increase in the log-odds of being in employee motivation, given all of the other variables in the model are held constant.
- ✓ For a one unit increase in management by objective of performance appraisal system, results a 0.616 increase in the log-odds of being in employee motivation, given that all of the other variables in the model are held constant.

#### **4.4.THE EFFECT OF PERFORMANCE APPRAISAL SYSTEM ON EMPLOYEE MOTIVATION INNIB INTERNATIONAL BANK**

In order to show more briefly the effect as the indicated in the result subsection the effect of performance appraisal system on employee motivation based on the study result was identified. Here in this sub-section, detailed discussions of findings implying to each performance appraisal system (indicators) presented.

##### **4.4.1. Effect of performance appraisal system**

**360 degree feedback:** - According to ordered logistic regression result shown above in table 4.8, the coefficient of 360 degree feedback was positive and insignificant at 5% significance level, as opposite of expected. This implying that there is no significant effect of 360 degree feedback performance appraisal system on employee motivation at 5% significance level. This is not to mean that 360 degree feedback performance appraisal system is not needed in the bank, rather it is important to build up 360 degree feedback performance appraisal system and to become effective in motivation of employee through applying it. However the finding contradicts the study conducted by Idowu and Ayomikun (2017). This implies that in the NIB International Bank the employee motivation is not that much explained by 360 degree feedback appraisal system.

**Rating scale:** - The results of ordered logistic regression estimation in table 4.8 showed that the Rating scale of appraisal system found to have a positive and significant relationship with the dependent variable of employee motivation. Moreover, rating scale of appraisal system variable had found significant influence on bank employee motivation, implying that the

expectation was true. The finding of this study constitutes the study conducted by Idowu and Ayomikun (2017). This implies that in the NIB International Bank the employee motivation is highly explained by rating scale performance appraisal system.

**Management by Objective:**-as stated in the empirical and theoretical review, Management by objective system of performance appraisal represented with employee motivation by appraisal system to improve motivation of staff. Moreover, the ordered logistic regression result as presented in table 4.8 showed in constitute with expectation that MBO system of performance appraisal found to have a higher significant positive effect on the employee motivation. The positive coefficient of Management by objective system of performance appraisal with p-value of 0.004 was significant to influence employee motivation at 1% level of significance. The finding is consistent with the study conducted by Idowu and Ayomikun (2017). This implies employee motivation is to the best explained by management by objective performance appraisal system.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATION**

The previous chapter presented the results and analysis of the study. This chapter provides the summary, conclusions and recommendations in line with the findings of the study. The chapter is structured in three sections. The first section presents the summary of findings; the second one deals with conclusions whereas the third section presents recommendations suggested as a solution to problems that have been identified in the study.

#### **5.1. SUMMARY OF FINDINGS**

The purpose of this study was to assess the effect of performance appraisal system on employee motivation of Nib Bank. To this effect, 358 responses were collected and analyzed to assess the effect of 360 degree performance appraisal system, rating scale as well as management by objective on employee motivation. Accordingly, it was found out that:

- ✓ There is no significant effect of 360 degree feedback system performance appraisal system on employee motivation
- ✓ There is a positive and significant relationship between rating scale method of performance appraisal system and employee motivation
- ✓ Management by objective system of performance appraisal is found to have a positive and highly significant effect on the employee motivation.

This study employed ordered logistic regression model to examine the effect of the performance appraisal system on motivation of employee. As a result;

- ✚ The finding reveals the existence of two way communication with both managers and employees for expressing their views, since the mean score on the statement based on the Likert was over the median of the scale and implies that 360 degree feedback performance appraisal system is implemented and evaluated by an instrument developed and design with help of employees of the bank were enough standardized in the bank.
- ✚ Regarding to rating scale appraisal system the finding indicates that the PAS provide an opportunity to communicate with the supervisors to facilitate employee job performance.

- ✚ Regarding to management by objective appraisal system the finding indicate that the PAS provide a scope for well communicating the overall business and plans to the employees, trust of employee on the PAS in organization is rational and fair, feeling of employee fairly treated in every way in the PAS and employees were evaluated fairly according to the setting standards without subjectively and biased.

According to ordered logistic regression the inferential statistics shows,

- ✓ The coefficient of 360 degree feedback was positive and insignificant at 5% significance level. This implies that there is no significant effect of 360 degree feedback performance appraisal system on employee motivation at 5% significance level. Even though the finding shows that 360 degree performance appraisal system has statistically insignificant effect on employee motivation, a 1% increase in 360 degree PAS is assumed to increase the employees' motivation by 11%.
- ✓ The results of ordered logistic regression estimates that the rating scale of appraisal system found to have a positive and significant relationship with the dependent variable of employee motivation. Moreover, rating scale of appraisal system variable had found significant influence on Bank employee motivation, implying that the expectation was true.
- ✓ Management by objective system of performance appraisal represented with employee motivation by appraisal system to improve motivation of staff. Moreover, the ordered logistic regression result implies that management by objective system of performance appraisal found to have a highly significant positive effect on the employee motivation. The positive coefficient of Management by objective system of performance appraisal with p-value of 0.004 was highly significant to influence employee motivation at 1% level of significance.

## **5.2. CONCLUSION**

The primary aim of this study was to assess the effect of performance appraisal system of NIB International Bank on employee motivation. Especially this study aims to assess the effect of 360 degree performance appraisal system on employee motivation, to investigate the effect of rating scale performance appraisal system on motivation of employees and to examine the

effect of management by objective performance appraisal system on employee motivation in NIB. To achieve those specific aims, the study employed both descriptive and explanatory study design and econometric model to assess' effect of performance appraisal system. Selection of Addis Ababa district NIB bank and its branches was done by non-probability sampling technique; while, the samples of the employee in the branch was chosen using the probability sampling method (i.e. specifically simple random sampling).

Out of 3944 population of NIB employees, the total sample size of employee 363 employees were selected for the study but data were collected from 358 employees due to unfilled 5 questioners returned back to researcher and discarded from sample. Primary data was obtained from Central Addis Ababa district randomly selected branches and Head Office employees and using questionnaire data collection instruments are was employed in order to collect the relevant data for the purpose of this study.

### **5.3.RECOMMENDATION**

Based on the findings of the study, the following recommendations were forwarded:

Since the study found out that the existing performance appraisal system i.e. rating scale that the Bank is using has so many shortcomings, management by objective appraisal system is recommended.

As the study found out, employee motivation is getting lowered due to poor performance appraisal method. Thus, it is again recommended for the Bank to take the necessary measure by using management by objective appraisal method so as to increase its' employees' motivation.

Management by objective appraisal system was found to be very important in affecting motivation of employee. So, the PAS applied regarding to management by objective should provide scope for well communicating the overall business and plans to the employees, so that to build trust of employees, the PAS in the Bank need to be rational and fair, which is believed to increase the employees' motivation at higher level.

Finally the Bank should have to work on the feeling of employees being fairly treated in every way in the PAS and employees were evaluated fairly according to the setting standards without subjectively and biased.

It is also recommended to conduct further research as to what kind of performance appraisal system would bring better employee motivation in the Banking industry.

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## Appendix I Questionnaire

### Dear Respondent:

The purpose of this questionnaire is to collect primary data for conducting a study on the topic: "Effects of Performance Appraisal on Employees Motivation: A Case of Nib International Bank for the partial fulfillment of Master's Degree in human resource management. In this regard I kindly request you to provide me reliable information that is to the best of your knowledge so that the findings from the study will meet the intended purpose. I strongly assure you that the information you provide will be used only for academic purpose and will be kept confidential. I would like to extend my deep appreciation in advance for being a volunteer to devote your valuable time in filling this form.

Sincerely,

ShewaneseshKebede

Email: [shewitk3@gmail.com](mailto:shewitk3@gmail.com)

Tel. 0911-34 18 15

Instructions:

- Writing your name is not needed and put your opinion by making a (✓) mark
- Rater refers to the evaluator of your performance in your respective branch

### Part I. Personal Profile:

1. Gender: Male \_\_\_\_\_ Female\_\_\_\_\_
2. Age: 21-30\_\_\_\_\_ 31-40\_\_\_\_\_ 41-50\_\_\_\_\_ Above 51\_\_\_\_\_
3. Educational Background: Diploma\_\_\_\_\_ First Degree \_\_\_\_\_ Master& above\_\_\_\_\_
4. Job experience: ≤ 2 year \_\_\_\_\_ 3-5 years\_\_\_\_\_ 6-10 years \_\_\_\_\_ ≥10 years \_\_\_\_\_
5. Position: Clerical\_\_\_\_\_, Professional\_\_\_\_\_ Managerial\_\_\_\_\_

## Part II. Level of Employee Motivation Regarding to Performance Appraisal Systems

Dear respondents, here are possible statements for the study; in this case I kindly request you to show the extent of your agreement on the statement by putting "√" mark using the following rating scale; 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, 5 = strongly agree

### 1. 360 degree feedback performance appraisal system

Statement	S. Disagree	Disagree	Neutral	Agree	Strongly Agree
There is a two way communication with both managers and employees for expressing their views.					
I would prefer my performance to be evaluated by an instrument developed and design with help of employees.					
The PAS is regularly carried by the responsible appraiser.					
I receive regular and timely performance feedback beside the annual performance review.					

### 2. Rating scale performance appraisal system

Statement	S. Disagree	Disagree	Neutra l	Agree	Strongly Agree
The PAS provide an opportunity to communicate with the supervisors to improve my job performance.					
I find difficult to discuss work issues with my managers.					

I get fair feedback from my supervisor and proportion reward to my performance.					
The information provided by my supervisor during my performance feedback is accurate.					

### 3. Management by Objectives performance appraisal system

Statement	S. Disagree	Disagree	Neutra l	Agree	Strongly Agree
The PAS provide a scope for well communication the overall business and plans to the employees.					
I trust the PAS in my organization is rational and fair.					
I feel fairly treated in every way in the PAS.					
I evaluated fairly according to the setting standards without subjectively and biased.					

### 4. Employee motivation

Statement	S. Disagree	Disagree	Neutral	Agree	Strongly Agree
You are conscientious and take the initiative.					
You challenge management to make the organization better					

You support and help each other					
There is minimal absenteeism, conflict, or avoiding of responsibility.					
Your staff and you are volunteer for tough, challenging assignments.					
The organization is a learning organization, seeking feedback for self-improvement.					