

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



**THE EFFECT OF PERFORMANCE APPRAISAL ON EMPLOYEE MOTIVATION IN
COMMERCIAL BANK OF ETHIOPIA: THE CASE OF NORTH ADDIS ABABA
DISTRICT**

*A Project Paper Submitted to the Office of Graduate Studies Presented in Partial Fulfillment of
the Requirements for Master of Business Leadership*

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Addis Ababa
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DECLARATION

I declare that the project entitled “The Effect of Performance Appraisal System on Employee’s Motivation in Commercial Bank of Ethiopia: A Case of North Addis Ababa District (CBE-NAAD)” is my original work and has not been presented in Addis Ababa University or any other University, and that all sources of material used for the project have been duly acknowledged.

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Statement of Certification

I certify that Hunegn Eshetu has carried out his research entitled “The Effect of Performance Appraisal on Employee’s Motivation in Commercial Bank of Ethiopia: A Case of North Addis Ababa District (CBE-NAAD)” under my guidance. The research paper is submitted in partial fulfillment of the requirements for the Degree of Master of Business Leadership.

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Acronyms/Abbreviations

BARS = Behavioral Anchored Rating Scale

BES = Behavioral Evaluation Scales

BOS = Behavioral Observation Scales

CBB = Construction and Business Bank

CBE = Commercial Bank of Ethiopia

EPM = Employee Performance Management

ERP = Enterprise Resource Planning

HBE = Harvard Business Essential

HBP = Harvard Business Press

HBR = Harvard Business Review

MBO = Management by Objective

NAAD = North Addis Ababa District

PA = Performance Appraisal

PAS = Performance Appraisal System

PMS = Performance Management System

PRP = Performance Related Pay

SPSS = Statistical Package for Social Science

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Abstract

The general objective of this study was to examine the Effect of Performance Appraisal on Employee Motivation in Commercial Bank of Ethiopia: a case of North Addis Ababa District. Explanatory research design was used and quantitative data were collected from a sample of 196 employees using proportionate stratified sampling technique, and the data were analyzed using descriptive and inferential analysis. A Structured questionnaire developed in form of a five point Likert Scale was used for data collection. The collected data was analyzed by a Statistical Package for Social Sciences (SPSS) software. Pearson's correlation coefficient was used to determine the relationships between performance appraisal practice and employee motivation. A regression model was used to determine the co-efficient of the effect of performance appraisal on employee motivation. The study shows that there was a low perception of employees about the organization's PAS. The study also indicated that there was a positive significant correlation between performance appraisal and employee motivation. The study also found that 42% of the changes in the employee motivation variables could be ascribed to the combined effect of performance appraisal practice predictor variables. The study suggested that allowing and encouraging employees' participation in performance appraisal practice from planning to evaluation and implementing PAS in clearly delineated procedures and fair measurement standards are important for effective performance appraisal system.

Keywords: Performance Appraisal System, Employee Motivation, Employees' Participation Ongoing Feedback, Open Communication, Trained Appraisers, Rewarding Performance and Fairness of Performance Appraisal System.

CHAPTER ONE

INTRODUCTION

This chapter introduces the nature of the proposed research and the overall planned approach to deal with the stated research problem. It consists of the background of the study, stated problem, and objective of the study, significance, scope and limitations of the study and overall organization of the study.

1.1 Background of the Study

The success and sustainability of organizations in the 21st century largely depends on the performance of the human capital (HBE, 2006). The core competencies of employees and teams play a crucial role in the accomplishment of organizational goals. Thus, organizations are concerned with having productive, motivated, and enthusiastic workers for excellent organizational performance. Accordingly, organizations have carried out performance appraisal of their employees. However, the major challenge that faces managers in all type of organization is how to get maximum performance from their employees (Kirkpatrick, 2006).

Performance appraisal is a formal method for assessing how well an individual employee is doing with respect to assigned goals. It is one part-but an important part-of the larger system of performance management (HBE, 2006). It is an essential part of performance management because important management practices such as motivation, employee performance, rewards employee training and development are all based on the performance appraisal (Lamesa & Solomon, 2017). Fair processes, equitable and consistent treatment in performance appraisal process are more likely create an environment where employees are motivated to perform (Ashdown, 2014).

Robertson et al. (1992) cited in Management Extra (2009) describe motivation as psychological concept related to the strength and direction of human behavior. It provides the driving force behind our actions and behavior. Accordingly, motivation is the drive that leads individuals to take some actions to achieve a goal that fulfills their needs or expectation. However, motivation, which is one of highly researched concept have been argued with different opinions by different scholars and practitioners (Lamesa & Solomon, 2017). As mentioned in Management Extra (2009), motivation is probably the most complex and least understood aspect of organizational life. In line with this idea Peter Drucker stated that ‘we know nothing about motivation. All we can do is write books about it’ (Drucker, 2007: 223).

Kamiti (2014) stated that performance appraisal has a significant effect on employees’ motivation. Since production and service is influenced by employee motivation level, organizations have to realize what inspires employees to reach the highest level of their performance (Linda, 2014). According to Armstrong (2009), people are motivated when they expect certain course of action will likely lead to achievement of a goal a valued reward one that satisfies their needs and wants. Only when employees are motivated towards appropriate appraisal practices that the likelihood of organizational success is enhanced. Therefore, this study targeted to show the effect of performance appraisal practice on employee motivation in Commercial Bank of Ethiopia North Addis Ababa District (CBE-NAAD)

1.2 Back ground of the Organization

Commercial Bank of Ethiopia (CBE) had evolved through various organizational structures and names throughout the years to reach its current status. Modern banking in Ethiopia started in 1905 with the establishment of Abyssinian Bank based on a fifty year agreement with the Anglo-Egyptian National Bank. Until 1931 the established banks were criticized as being

wholly owned by foreign. However, in 1931 the Ethiopian government purchased the Abyssinian Bank, which was the dominant bank, and renamed it Bank of Ethiopia-the first nationally-owned bank on the African continent (Belay, 1990 Befekadu, 1995 cited in CBE, 2019). In 1943 the Ethiopian government established the State bank of Ethiopia. It was operating as both a commercial and central bank until 1963. In 1963, the Ethiopian government split the State Bank of Ethiopia into two banks, the National Bank of Ethiopia (the central bank), and the Commercial Bank of Ethiopia (CBE). The Ethiopian government merged Addis Bank into the Commercial Bank of Ethiopia in 1980 to make CBE the sole commercial bank in the country. At the time of nationalization, Addis Ababa Bank had 26 branches. The merger of Addis Ababa Bank with CBE made CBE the sole commercial bank in Ethiopia, with 128 branches and 3,633 employees (CBE, 2019).

In 1991, when Eritrea achieved its independence, CBE lost its branches in Eritrea to nationalization. These branches formed the base for what became in 1994 the Commercial Bank of Eritrea. Also in 1994, the Ethiopian government reorganized and reestablished CBE. Parliament in 2018 increased the Bank's capital to 40 billion Ethiopian Birr (Samson, 2018). Moreover, CBE amalgamated with the Construction and Business Bank (CBB) in 2017, which raised its capital by more than half a billion Birr (Samson, 2018). In the same year, the bank changed its former president Bekalu Zeleke following the country's political reform. Currently the president of the bank is Abie Sano who rejoined the bank as president for the second time.

Having emerged from this historical and policy reform process, CBE today is the dominant bank in the country. The leading role of CBE in the industry could be examined from four angles: its role in financing development, support external trade and foreign exchange

generation, playing a principal role in modernizing the banking system through modernization the payment system and advancing the use of IT in the banking system (CBE, 2019)

Regarding the bank's current status, according to CBE profile of 2019/20, it had about 565.5 billion Birr in assets and held approximately 64% of deposits and about 53% of all bank loans in the country. The bank has around 35,000 employees, who staff its headquarters and its over 1600+ branches positioned in overall parts of the country. The Bank also operates two branches in South Sudan, and is contemplating opening re-opening a branch in Djibouti, and opening branches in Dubai and Washington, DC, all to serve the Ethiopian Diasporas (CBE, 2019). Moreover, nowadays CBE has more than 22 million account holders and the number of Mobile and Internet Banking users also reached more than 2.5 million as of June 30th 2019. Active ATM card holders reached more than 8 million.

The CBE is supervised by Board of Directors and the day today functions of the bank managed by the president. Monetary and Banking Proclamation No.83/1994, Licensing Supervision of Banking Business proclamation No 84/1994, Banking Business Proclamation No 595/2008, and the various directives of the NBE are the basis of Bank's business operation. The Bank has process-based corporate structure each process observed by a process owner. The management of the Bank reports to the president. CBE performs its operations through its core and support processes. Currently, the bank is on process of implementing a new organizational structure (CBE, 2019)

CBE has a vision to become a world class Commercial Bank by the year 2025. Its mission stated that "We are committed to best realize stakeholders" values through enhanced financial intermediation globally and supporting national development priorities, by deploying highly motivated, skilled and disciplined employees as well as state of the art technology. "We

strongly believe that winning public confidence is the basis of our success” (CBE, 2019). Moreover, it has embarked on Operational Excellence and Business growth as the strategic themes that pave the way to achieve its vision. As a result, every job role is required to be aligned with the bank’s strategic themes by providing feasible and measurable goals and targets for every performer so that every performer would be able to provide standard services and error free operations. The Bank had exercised manual Performance Management System (PMS) before 2017 and now it has drawn a lesson and incorporated it into the Enterprise Resource Planning (ERP) Employee Performance Management (EPM) module which started to implement in July 2017 (CBE, 2017).

According to English Reporter Newspaper ‘the giant state-owned bank, the Commercial Bank of Ethiopia (CBE) has rolled out a new organizational structure in 2020, the second one since the country’s political reform happened in 2018’ (Abdu, 2020).

1.3 Statement of the Problem

According to Lloyd (2014), if performance appraisal systems are well-designed and well-executed, they have strong motivational impact on the employees. This is indicating that effective appraisal systems have the power to motivate employees to perform better. Where performance appraisal processes do not lead to fair outcomes, or there is a perception of inequitable treatment or favoritism, motivation to perform may well decline (Ashdown, 2014).

Technology is becoming more and more important in almost every facet of business and organization today. With constant modernization and digitization, present-day businesses realize the importance of proper managerial solutions for internal use. Performance management is not different. A number of performance management systems are already available in the marketplace, each providing various levels of value to specific industries (Cardy & Leonard,

2011). Currently, Enterprise Resource Planning (ERP) systems represent the most popular approach to maintain in-house business processes and to gather, store, and interpret data (Bacal, 2012). Accordingly, CBE started to implement Human Resource Oracle Module in 2017. Among these Modules, Performance Management Oracle Module is mentioned which started to implement in July 2017 (CBE, 2017). However, this performance appraisal practice has been complained by employees regarding its reliability, how to implement and on its timely feedback. Besides, an employee has no chance to know his/her appraiser-ascribing the so called the “system”. This creates conflict between employees and their immediate supervisors which affect their motivation and performance.

Moreover, it becomes a bone of contention in the district and creates grievances on employee. For instance in 2019/20 budget year third and fourth quarter about out of 3015 employees of NAAD, 1024 provide grievance on their performance appraisal results. Similarly, in 2020/21 budget year first quarter 624 employees provide grievance on their performance appraisal results. In this regard, the manager HRD NAAD in his /her response to branches stated “as we have observed in the previous quarter the effort of the manager and employees in tracking the performance data negatively affected the result of the employees and it was becoming the source of the grievance during the appraisal period. Hence it is significantly important to generate the report and making Branches on the track every time.” (NAAD HRD, 2020) Moreover, nowadays PMS became an issue between Employee Labor Union and the Bank’s Management (CBE Labor Union, 2020). Therefore, unless the organization gives attention and resolved the problem it demotivates employees and affect their performance and organization performance at large which creates customer dissatisfaction. Although there are studies on performance appraisal of CBE, to the best of my knowledge there is no study that focuses on the

currents PAS of CBE, i.e. Performance Management Oracle Module which started to implement in July 201. Thus this study focused on the following research questions.

1.4 Research Questions

This paper try to address the following research questions:-

1. How do employees perceive performance appraisal system in CBE NAAD?
2. What is the level employees' motivation in CBE NAAD?
3. What is the effect of performance appraisal practice on employees' motivation in CBE NAAD?

1.5 Objectives of the study

The study will have the following general and specific objectives.

1.5.1 General Objective of the study

The general objective of this research is to examine the effect of performance appraisal on employee motivation.

1.5.1 Specific objectives of the study

- i. To find out the perception of employees regarding the performance appraisal of CBE NAAD.
- ii. To examine the level of employee motivation in CBE NAAD.
- iii. To investigate the effect of Employee Participation in PAS on their motivation in CBE NAAD.
- iv. To explore the effect of Open Communication on employee motivation in CBE NAAD.
- v. To examine the effect of Trained Appraiser on employee motivation in CBE NAAD.
- vi. To explore the effect of Ongoing Feedback on employee motivation in CBE NAAD.

- vii. To examine the effect of Fairness of PAS on employee motivation in CBE NAAD.

1.6 Definition of Terms

Performance Management: is a strategic and integrated approach to delivering sustained success to organizations by improving the performance of the people who work in them and by developing the capabilities of teams and individual contributors (Armstrong & Baron, 1998).

Performance Appraisal: is the process by which an individual's work performance is assessed and evaluated. It answers the basic questions, how well has the employee performed during the period of time in question? Combine planning, communicating, diagnosing problems and identifying barriers to performance (Bacal, 2012).

Motivation: is the willingness, initiation or desire to do something that conditioned by the activity or the ability to satisfy some needs in return (Armstrong, 2010).

Employee Participation: is the process by which the employee and manager work together to plan what the employee should do, define how performance should be measured, identify and plan to overcome barriers, all while creating a common understanding about the job (Bacal, 2012:50)

Ongoing communication: is the process by which manager and employee work together to share information about work progress, potential barriers and problems, possible solutions to problems and how the managers can help the employee. It is the dialogue that links planning and appraisal (Bascal, 2012:63)

Feedback: a method of providing regular, ongoing verbal and written support to employees in a way that enhance their motivation in performance appraisal (Armstrong, 2010).

Trained Appraiser: a manager or a supervisor by whatever intervention, training, or coaching provides the employees with the supporting knowledge and skills necessary to meet the new requirements of the job and its appraisal. This can nurture confidence, a vital ingredient for effective performance (Ashdown, 2014: 22).

Reward: Companies decision regarding pay levels, bonuses and other rewards, and promotions for service performed (Bascal, 2012).

Fairness: an area of evaluation that looks at how the process/activity of performance appraisal has been carried out and the outcome of the process (Ashdown, 2014:179).

1.7 Significance of the study

Intense competition, dynamism and demanding customers among other things characterize the current business environment. The environment is even more demanding to banks and other financial service providers. So it is the order of the day either to make enough room for such demands or submit to the competition. Thus, to assist firms like CBE to walk well with the changing business environment, effective performance appraisal is very important so as to create enthusiastic and motivated employees. However, CBE has encountered challenges and regular grievances on its performance appraisal practices from its employees. In this regard the study may have the following contributions.

- It helps policy makers and implementers of the bank as reference in the area of performance appraisal.
- It provides the organization (CBE) with adequate information and feedback that enable it to revise and recognize its performance appraisal based on the needs and interests of its employees.

- The finding of this research may stimulate other researchers to conduct further study on this area/topic and to that effect too it may serve as a source of review literature.

1.8 Scope of the Study

The study conceptually restricted to expectancy, goal-setting and equity aspect of employee motivation. Thus the study delimited conceptually on the effect of PAS (participation in PAS process, ongoing communication, trained appraiser, ongoing feedback, rewarding performance and PAS fairness) on employee motivation.

Regarding the study area (geographically) it restricted to CBE NAAD city branches for its manageability.

Temporally the study is restricted to the past three years (2018-2020) of the bank's performance appraisal practices implemented by Performance Management Oracle Module. Methodologically, the study delimited as quantitative since it used numerical data.

Moreover, quantitative research is a means of testing objective theories by examining the relationship among variables. These variables, in turn can be measured, typically on instruments, so that numbered data can be analyzed using statistical procedures.

1.9 Limitation of the Study

The study conceptually focused only the three process theories of motivations (goal-setting, expectancy and equity) believing that they have direct relevance with performance appraisal practices. However, this may create limitation on the study since other theories of motivation may have contribution on the effect of performance appraisal in employee motivation. Moreover, due to resource constraints, the study area did not include CBE NAAD branches located outside of Addis Ababa. Thus this may have its own limitations on the findings

of the study. Besides, since the study was quantitative in its methodology, it has its own limitation in data sources that would get from qualitative sources which enables to triangulate sources.

1.10 Organization of the Study

The research will be organized in five chapters. The first one deals with the background of the study, statement of the problem, significance, scope of the study and organization the study itself. The whole of the second chapter deals with review of the related literature that is theoretical insight, methodological construction, and literature and a window view of existing practices. The third chapter goes to research methodology and related issues, the fourth chapter deals with presentation and data analysis and the final chapter focus on conclusions and recommendation.

CHAPTER TWO

REVIEW OF RELATED LITURATURE

This chapter reviews theoretical and empirical literature that are relevant for the topic of the study. In addition, it presents the conceptual framework of the study.

2.1 Theoretical Literature Review

2.1.1 Overview of Performance Management

2.1.1.1 Definition of Performance Management

Performance management is a continuous process of identifying, measuring and developing the performance of individuals and teams and aligning performance with the strategic goals of the organization (Aguinis, 2009:3). Performance management is a method used to measure and improve the effectiveness of people in the work place (HBE, 2006). According to Mabey & et al. (1998) performance management refers to a set techniques and procedures which the common features of: providing information on the contribution of human resources to the strategic objectives of the organization, forming framework of techniques to secure maximum achievement of objectives for given inputs; and providing a means of inspecting the functioning of the process links which deliver performance against objectives.

2.1.1.2 Approaches to Performance Management

Organizations can take a variety of approaches to manage performance. The approaches taken are heavily influenced by such factors as the type of organization (sector, size, culture) and the pervasive management style. According to Taylor (2008), cited in Ashdown (2014) identifies

two distinct perspectives associated with different use of performance management in organizations.

First, the standards-oriented approach where the emphasis is on ensuring compliance to standards (Ashdown, 2014). In this approach performance management process will focus on clearly defined objectives for all and close monitoring of performance against those standards (Bacal, 2012). Another key area in this approach will be managing underperformance where employees are not meeting the required standards. This approach has been linked to a transactional leadership style in which, depending on whether the required performance is met, either a 'reward' or 'punishment' will follow (Ashdown, 2014)

The second approach that Taylor (2008) cited in Ashdown (2014) identifies is that of the 'excellence-oriented approach'. Here the focus of performance management is on striving for excellence, continuous improvement and development. The emphasis here for performance management is to create an environment where individuals are motivated to perform, committed to achieving excellence, and equipped with the skills and knowledge to deliver that excellence (Bacal, 2012). This approach has been linked to the transformational style of leadership (Ashdown, 2014). Transformational leaders provide a clear vision and empower employees to meet higher standards.

Another interesting and somewhat controversial approach to performance management is that of a strength-based approach (Ashdown, 2014). This involves performance management focusing on people's strengths rather than on their weaknesses when seeking to improve their performance. Instead of trying to develop areas in which an individual may never be very effective, this approach encourages identifying what people do well and then finding them more opportunities to use the skills and knowledge they have in those area (Armstrong, 2010).

2.1.1.3 The Performance Management Cycle

There is no single, universally accepted model of performance management in use; rather, the management literature advances a number of separate contributions which fall under the umbrella term 'performance management' because they typically contain and link a common set of elements. These can be expressed as a 'performance measurement cycle' consisting of five elements: setting performance objectives; measuring outcomes; feedback of results; rewards linked to outcomes; and amendments to objectives and activities as depicted below (Mabey & et al., 1998).

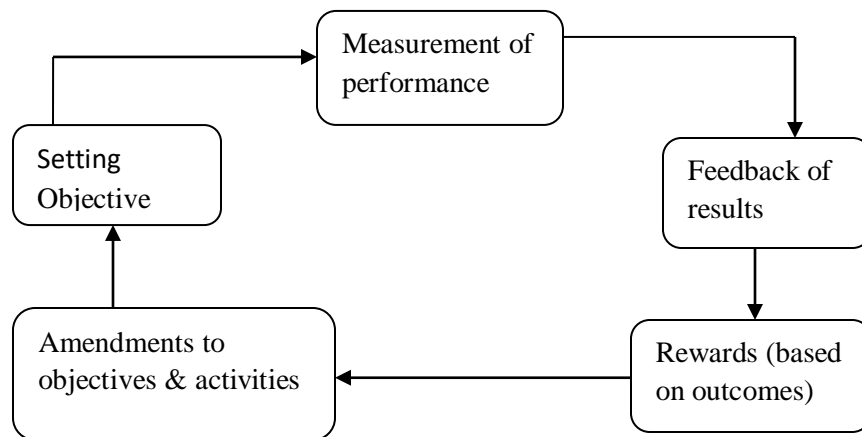


Figure 2.1: The performance Management Cycle (Adapted from Mabey & et al., 1998:127)

The essence of performance management is establishing a framework in which performance by human resources can be directed, monitored, motivated and refined; and that the links in the cycle can be audited. Accordingly, the principal theoretical foundation of performance management is social psychology, with its detail consideration of the ways in which people are motivated to perform (Mabey & et al., 1998). According to Armstrong and Baron (1998), there is no one right way of managing performance: the approach must depend on the

context of organization-its culture, structure, and technology-the view of stakeholders and the type of people involved.

Performance management is not performance appraisal (Bacal, 1999). Evaluating or appraising performance is not the same thing as managing performance. Evaluating performance is one part of performance management system. Performance appraisals are important elements of performance management, although their criteria and formats vary widely (Armstrong, 2009).

2.1.2. Performance Appraisal

2.1.2.1 Definition of Performance Appraisal

According to HBE (2006:78), performance appraisal is “a formal method assessing how well an individual employee is doing with respect to assigned goals. Its ultimate purpose is to communicate personal goals, motivate good performance, provide constructive feedback, and set the stage for an effective development plan”. Thus performance appraisal is the process that used to evaluate and support employees’ on-the-job performance (HBR, 2009). It is part of a system of performance management that is based on goals organizations and their employees set together.

Performance appraisals can be one of the most anxiety-provoking aspects of work life- for both the supervisors and employees (Armstrong, 2010). Appraisals are meant to clarify and reward, and to be interactive and fair. They take real time, real dialogue and a real focus on the future, rather than just the previous month. In line with this idea Peter Drucker (2007: 18) stated as follow: “No matter how ‘scientific’, no matter even how many insights it produce, an appraisal that focuses on ‘potential’ on ‘personality’, on ‘promise’- anything that is not proven and provable performance- is an abuse”.

2.1.2.2 Historical Development of Performance Appraisal

Performance appraisal or performance review has been a thorny issue since God assessed Adam's performance in the Garden of Eden and found it wanting (Saul, 2002). Terrestrially, the historical development of performance appraisal has developed from a range of approaches. Formal observations of individual work performance were reported in Robert Owens's factory in New Lanark in the early 1800s, hanging a piece of decorated wood over machines to indicate the superintendent's evaluation of the previous day's conduct (white for excellent, yellow, blue and then black for poor performance) (Cole, 1925 cited in Prowse & Prowse, 2009). The twentieth century led to F.W. Taylor and his measured performance and the scientific management movement (Pepitone, 2000). The psychological tradition developed in the 1930s used approaches that recognized personality and performance used feedback from graphic rating scales, a mixed standard of performance scales noting behavior in Likert-scale ratings, given that evidence to take on and identify management potential in the field of selection (Pepitone, 2000)

In the early 1940s behavioral methods were developed using a motivational approach. These included behavioral anchored rating scales (BARS), behavioral observation scales (BOS), behavioral evaluation scales (BES), critical incident, and job simulation (Armstrong and Baron, 1998). These judgments were used to decide the specific levels of performance criteria to specific issues such as customer service and rated in factors such as "excellent", "average" or "needs to improve" or "poor". These feedback ratings are allocated numerical values and summed to a statement comment by the appraiser but were basically developmental and also led to detection of any potential need for training and, more importantly, to identify talent for careers in line management supervision and future managerial would-be (Prowse & Prowse, 2009) .

After World War II the results-oriented approaches were developed and led to the development of management by objectives (MBO). This offered aims and specific targets to be achieved and within time frames such as specific sales, profitability and deadlines, with feedback on earlier performance (Wherry, 1957 cited in Prowse & Prowse, 2009). The cut-off date may have required alteration and led to specific performance levels of staff. It also provided a compulsory distribution of rankings of comparative performance and paired comparison ranking of performance and setting and achieving objectives. In the 1960s the development of self-appraisal by discussion led to specific time and opportunity for the employee to evaluate their performance thoughtfully in the discussion and the interview developed into a dialogue on a range of topics that the employee needed to discuss in the interview (Pepitone, 2000). Until the end of 1980s the success of the appraisal was dependent on the skill of interviewer.

In the 1990s, the 360-degree appraisal was developed, where information was required from a wider range of sources and the feedback was no longer dependent on the manager-subordinate power relationship but included groups appraising the performance of line managers and peer feedback from peer groups on individual performance (Redman & Snape, 1992 cited in Prowse & Prowse, 2009). The final development of appraisal interviews developed in the 1990s with the emphasis on linking performance with financial reward (Armstrong & Baron, 1998).

2.1.2.3 Essential Characteristics of Performance Appraisal

It is highly unlikely that any performance appraisal system will be totally free from criticism or even immune to legal challenge (Caruth & Humphreys, 2008). However, based upon a review of the literature across disciplines, evaluation systems possessing certain definitive characteristics are right to be more justifiable (HBE, 2006). Consideration of these characteristics will make another significant point abundantly clear: development of an effective appraisal

system is not an easy chore (Boice & Kliener, 1997 cited in Caruth & Humphreys, 2008) nor does it happen overnight. A performance appraisal system that does its job well is the result of hard work, careful thinking, and serious planning; especially so when the integration of the administrative, developmental, and strategic needs of the firm is intended (Aguinis, 2009). Consistent with this perspective, the following characteristics are an effective employee performance appraisal system.

Formalization. The first requirement for any effective performance appraisal system is that it be formalized. There should be definite written policies, procedures, and instructions for its use (Allan, 1994 cited in Caruth & Humphreys, 2008). Such written guidance should be delivered to all appraisers. General information about the system should be given to all employees through an employee handbook if one exists or by a separate memorandum if an organization has no handbook (Caruth & Humphreys, 2008).

Job relatedness. All factors used to evaluate performance must flow from the jobs that are being appraised. In as much as performance appraisal is an employment test according to the definition of test given in the Uniform Guidelines on Employee Selection Procedures (Allan, 1994 cited in Caruth & Humphreys, 2008), general traits, personality characteristics, and tenuously related job factors should be scrupulously avoided. Only appraisal factors that account for success or lack of success in performing a job should be used. These factors must be susceptible to standardized definition and uniform interpretation by all appraisers. Such standardization certainly enhances the reliability of the process for control purposes. Developing job-related performance factors may, obviously, necessitate creating different sets of factors for different levels or families of jobs (Martin & Bartol, 1998 cited in Caruth & Humphreys, 2008). Because jobs differ in content and expected results, it is difficult to develop a single set of

performance appraisal factors that will adequately cover every job in an organization (Caruth & Humphreys, 2008). Thus, weak job-related measures do more than run afoul of the law and lower employee morale; they can actually hinder the organization's strategic ability to execute properly in dynamic environments.

Standards and Measurements. Establishing standards and measurements is a difficult and challenging task, but it is one that must be accomplished if job performance is to be evaluated accurately (Caruth & Humphreys, 2008). Standards are expectations, norms, desired results, or anticipated levels of accomplishment that express an organization's concept of acceptable performance (Sales Agency Management, 1999 cited in Caruth & Humphreys, 2008). To set standards an organization must carefully examine each of its jobs and determine reasonable expectations that are acceptable to both the institution and the employees performing the jobs. This is not an effortless task, but it is one that must be accomplished if performance is to be evaluated meaningfully (Brown, 1987 cited in Caruth & Humphreys, 2008). In many instances, measurements are difficult to establish because many of today's jobs do not lend themselves to straightforward quantification. (Donald & John, 2008 cited in Caruth & Humphreys, 2008)

Validity. A test is valid if it measures what it purports to measure. As far as performance appraisal is concerned, the system employed or the method used is valid if it measures what it is designed to measure: actual job performance as compared with the established standards (Smither & London, 2009). Establishing the validity of performance appraisal begins during job analysis, the process wherein job performance factors are clearly identified (Marsden, 1999 cited in Caruth & Humphreys, 2008). These factors may include quantity of work, quality of work, meeting of deadlines, adhering to prescribed procedures, and so forth. Whatever the specific

factors are, they must be items that directly and specifically reflect the outcomes expected of an individual performing the job. Again, they should also be items that are subject to explicit definition and measurement. Unfortunately, most performance appraisal systems currently in use do not appear to have been subjected to statistical validity studies as required by the Uniform Guidelines (Caruth & Humphreys, 2008). This is tragic, since the consequences of feeding invalid information back into the strategic process can be deadly.

Reliability. Reliability, statistically speaking, refers to the ability of any test or measurement to produce consistent results. A performance appraisal system that does not consistently measure work performance accurately cannot be considered an effective one (Marsden, 1999 cited in Caruth & Humphreys, 2008). A performance appraisal system producing inconsistent results could not be considered a reliable one because of the absence of consistency. High performance must consistently receive a high rating, just as low performance must consistently receive a low rating for the measurement system to be considered reliable (Smither & London, 2009). Thus if the reliability of an appraisal system is in question, it may be positive that affecting employee motivation (Caruth & Humphreys, 2008)

Open communication. All employees have a need to know how well they are performing (Lee, 2005 cited in Caruth & Humphreys, 2008). An effective performance appraisal system assures that feedback is provided on a continuous basis, not in the form of a written annual evaluation, but in the form of daily, weekly, and monthly comments from an employee's supervisor or manager. For any performance appraisal system to be effective this ongoing aspect of its nature must be emphasized to appraisers and the necessity of providing continuous feedback information on job performance must be underscored (Smither & London, 2009). The annual evaluation and its accompanying interview or performance discussion must be devoid of

surprises. While the annual performance discussion presents an excellent opportunity for both parties to exchange observations in depth, the annual performance appraisal discussion is not a substitute for day-to-day or week-to-week performance communications (HBE, 2006). Avoiding or inhibiting such communication is without doubt a real organizational weakness regarding employee motivation (Caruth & Humphreys, 2008).

Trained appraisers. Essential to the effectiveness of a performance appraisal system is thorough training, as well as periodic updating and retraining, of all individuals in the organization who conduct evaluations (Allan, 1994 cited in Caruth & Humphreys, 2008). Classroom training is especially important when a new or revised system is being installed; classroom training is also indispensable for all new managers and supervisors. An organization should never assume that, because performance appraisal information is contained in a supervisory or managerial handbook or is included in the company personnel policy manual, supervisors and managers will automatically learn how to conduct effective appraisals. In addition to formal training sessions, opportunities for coaching and counseling by the appraisers' immediate supervisors and managers should also be incorporated into the system's procedures (Smither & London, 2009). Such personal sessions often permit the discussion and resolution of appraisal problems in their incipiency. Moreover, by actively involving each level of management in teaching performance appraisal, the system becomes more strongly imbedded in the organization as a vital function of human resource management that considering employee motivation in appraisal processes (HBE, 2006).

Ease of use. A performance appraisal system does not have to be complex to be effective (Smither & London). In fact, the simpler the system, the easier it is to use, the more readily it can be understood by evaluators, the more likely it is to be used in the manner intended

(Allan, 1994 cited in Caruth & Humphreys, 2008). If the system is firmly based on standards and measurements, it will probably be not only easier to use but also more valid and reliable, and motivators of performers.

Ethicality. Good Performance appraisal system comply with ethical standard operationally, this means that supervisor suppresses his or her personal self interest in providing evaluation (Smither & London, 2009). Moreover, the supervisor evaluates only performance dimension for which s/he has sufficient information, the privacy of the employee should be respected.

Appeal procedures. A fundamental principle of jurisprudence is the right of due process (Rossum and Tarr, 1991 cited in Caruth & Humphreys, 2008). Unfortunately, in some organizations there is no procedure whereby an employee can appeal what he or she considers an unfair or inaccurate performance appraisal. The employee is simply stuck with the immediate supervisor's evaluation. In such situations, the employee has few options other than living with the unfavorable review or possibly leaving the organization for employment elsewhere (Caruth & Humphreys, 2008). There have even been instances where employees whose performance was acceptable for years were summarily discharged on the basis of one bad performance appraisal. Now that an employer's right to fire at will is being challenged in the courts, sometimes successfully, the need for a clearly delineated appeal procedure in the performance appraisal system is imperative (Beck-Dudley & McEvoy, 1991 cited in Caruth & Humphreys, 2008).

In general, the requirements for successful performance appraisal were indeed demanding. Lazer & Wikstorm (1977) cited in Armstrong & Baron (1998) stated the requirements as follow: "A good performance appraisal scheme must be job related, reliable, and

valid for the purpose for which it is being used, standardized in its procedures, practical in its administration and suited to the organization culture.”

2.1.2.4 Effective Performance Appraisal

According to Armstrong (2010) to ensure sound appraisal he advised that organizations must understand rating errors, understand how to process observed information, understand how to establish a frame of reference for what is observed, be familiar with the performance appraisal system in use, practice effective interviewing techniques and practice conducting a performance appraisal. Similarly, HBE (2006) provide eight steps to effective performance appraisal. These include:

Be prepared: like every activity, performance appraisal benefits from preparation-by both employees and managers. Little can be accomplished if either the manager or the employee-or both-strolls into an appraisal meeting without having reflected on what has happened during the preceding months (HBE, 2006).

Conduct the performance appraisal meeting: Many people are anxious about performance appraisal meetings (Armstrong & Baron, 1998). So, create a ton of partnership from the very beginning. Start by setting the person at ease; do not let him/her feel like defendant on trial. Review the purpose of the appraisal and its benefit (HBE, 2006). This will psychologically prepare the appraiser and appraisee and will act as a warm-up for dialogue. Therefore, the annual appraisal should be positive event, even when improvement is required (Bacal, 2012).

Identify both good and bad performance: after disclose the appraisal, give priority to how the employee’s accomplishment compare to agreed-upon goals. Looking for gaps between actual and expected performance, but also look for areas in which a person has met or exceeded expectations. Remember, appraisal is not strictly about performance problems. However, if the

appraisal has found a gap between the employee's goal and actual performance, make this a focus of your discussion and feedback (Fletcher, 2008).

Find the root cause of performance gap: if the employee is failing short of goals, seek the root cause. Identifying the root causes of performance gaps will in most cases, create an atmosphere of objectivity in which both supervisor and employee can contribute in positive ways (Fletcher, 2008). The following suggestions can help to offer more careful feedback: encourage the employee to articulate points of disagreement, avoid generalization, be selective and stick to the issues that really matter; give authentic praise as well as meaningful criticism and orient feedback toward problem solving and action (HBE, 2006).

Plan to close performance gaps: after identifying performance gaps in the previous step and found the root causes, make sure that the employee acknowledges them and their importance. Once that is done, begin a dialogue about their resolution. Then give the employee the first opportunity to develop a plan to close the gaps. A good plan includes the following components: specific goals, a timeline, action steps and a description of the training, coaching, or practice required (Armstrong, 2010).

Reevaluate performance goals: since an entire year may have passed since employees' last formal performance appraisals, reexamine the goals toward which your employees are expected to work (McKirchy, 1998).

Get it on the record: It is very important to document your meeting, its key points, and its outcomes. So, make a record that includes the following elements: the date, key points and phrases used by the employee, including his/her self-appraisal, key points and phrases used by supervisor, point of disagreement (if any), a summary of the development plan, a summary of agreed-upon next steps and performance goals for the coming year (Harbour, 2009).

Follow up: plan on following up every appraisal meeting. The high performers and satisfactory performers will obviously need less follow up. However, employees with performance problems and who have committed to development plans should be more carefully monitored (HBE, 2006).

2.1.2.5 Automated Performance Appraisals

The amount of time required to develop appraisal is criticized almost universally (Armstrong, 2010). Already overloaded with paperwork, managers and employees are not looking for more. The time-consuming nature of good appraisals is one reason why so many participants want to just get through them- fast (Armstrong, 2010).

One reason they take so long is the paper itself: writing, circulating, and keeping track of each form. During evaluation online can help. It is important that the organization know its goals, the features it want to include, and the results it wants to draw from the process. To be effective, an evaluation software program should help managers and improve the paper-based process, not merely automate it.

Moreover, according to Marchington & Wilkinson (2012) referred to Latham & et al (2007) stated that electronics performance monitoring can be used to give second-by-second tracking and provides fact-based performance review. Although this reduced theft and absenteeism, it leads to increased stress and labor turnover and debase the trust between employer and employee. Just automating a poor appraisal tool will not save time or simplify the process. It's still crucial to have clearly defined goals, performance standards that are understood and tied to the business plan and action plans for dealing with any performance shortfalls. But ones these elements are firmly in place, automating can make the process easier. A well-

developed system can promote attention to training, performance gaps, and the need for course corrections. Thus training is essential to get the most out of the system (Armstrong, 2009).

2.1.2.6 Critiques of Performance Appraisal

Critiques of appraisal have continued as appraisals have increased in use and scope across sectors and occupations (Prowse & Prowse, 2009). Critics of performance appraisal present several compelling arguments against its use, including performance appraisal assumes a false degree of measurement accuracy and is frequently used as a control device (Deming, 1986; Thayer, 1987; Fox, 1991; Bowman, 1994; Joiner, 1994) cited in Robert & Reed (2004). Supporters argue that many appraisal systems are ineffective because of deficiencies in rater training, inadequate upper-management support, a lack of employee input and participation, unclear performance standards, and rater bias (Carroll & Schneier, 1982; Bernardin & Beatty, 1984; Daley, 1992b; Cardy & Dobbins, 1993; Murphy & Cleveland, 1995 cited in Prowse & Prowse, 2009).

Armstrong & Baron (1998) stated that many of the criticism of performance appraisal focus on the tendency of managers to adopt a unitary frame of reference, managers are too scared to give negative or corrective feedback (pusillanimity), managers have not been trained in the skill of appraisal. Moreover, appraisal ignores the collective aspect of work and there is conflict between the individual approach to appraisal adopted by managers and their emphasis on teamwork. Besides appraisal is an inconsistent and fundamentally subjective process. It is bureaucratic process to which managers are hostile. On top of that managers indulge in rhetoric and development but often do not put their supported view into practice.

In short, according to Armstrong & Baron (1998) two issues dominated the academic critiques of performance appraisal. The first one is that the process is problematic because of the

complexity and difficulties involved in one person attempting to sum up the performance of another: performance appraisal requires subtle psychological and social skills which may not be acquired by managers (Bowles & Coates, 1993 cited in Armstrong & Baron, 1998). The second issue is that of appraisal as means of oppressive or coercive control: appraisals enlist compliance, aims at voluntary compliance and appraisal is a form of control used to ‘police’ performance (Armstrong & Baron, 1998).

On the other hand, according to Levinson (1976) cited in Armstrong & Baron (1998) many criticisms of performance appraisal were made of the ways in which appraisal schemes operated in practice. He stated that the most obvious drawbacks were: Judgments on performance are usually subjective, impressionistic and arbitrary; ratings by different managers are not comparable, delay in feedback occurs, which creates frustration when good performance is not quickly recognized and anger when judgment is rendered for inadequacies long past and managers generally have a sense of inadequacy about appraising subordinates, and paralyzing and procrastination result from their feeling of guilty about playing God.

2.1.3 Motivation

2.1.3.1 Definition of Motivation

Motivation comes from motive, which derives from the Latin verb *movere*, to move. So a motive quite simply is something that moves us to action (Adair, 2009). Characteristically these words motive or motivation, however, suggested that something within us is at work, impelling or driving us forward (Adair, 2009). As J. Samuel Bois says in *The Art of Awareness* cited in Armstrong (2010) “motivation is what impels us to do certain things rather than others; to wish for certain things rather than others; to react to persons and situations in a manner peculiar to

ourselves.” In other words, motivation is personal; the performance appraisal must be too (Armstrong, 2010).

Motivation is an element that retains and manages employee manners and behavior (Steers & Porter, 1987 cited in Robson, 2016). Motivation acts as driving force that leads employees towards its goals. Motivated employees are highly involved and engaged in their job and try to make their performance best. Self-driven and freedom oriented qualities are mostly found in motivated employees (Grant, 2008 cited in Robson, 2016). Motivated people are highly committed and have few desires. According to Armstrong (2010) motivation is the force that energizes, directs and sustains behavior. Motivation theory explains how motivation works and the factors that determine its strength.

2.1.3.2 Theories of Motivation

Adair (2009) stated, “Theories and research on motivation will not give us any sure and certain answers, but the true function of such ideas is to stimulate our own thought.” Accordingly, it is helpful to explore some of the theories of motivation in order to consider how performance appraisal process can create an environment where people are more likely to be motivated to perform. There are huge ranges of theories of motivation many of which have relevance for performance management. However, according to Ashdown (2014:24) “there are three theories in particular that have a strong relevance to performance management”. These are goal-setting, expectancy and equity theories.

Goal-setting Theory

Goal-setting theory was established by Edwin Locke in a paper published in 1968, in which he argued that goals pursued by employees can play an important role in motivating superior performance (Mabey & et al., 1998). Moreover, according to Cardy (2004) goal-setting

is a straightforward and simple approach to motivation that has received solid support as an effective tool for increasing performance. In following these goals people examine the consequences of their behavior. If they infer that their goals will not be achieved by their current behavior, they will either modify their behavior, or choose more realizable goals.

According to HBE (2006) subsequent empirical research into goal-setting has specified more precisely the conditions necessary for organizational goals to be motivating to employees; these are that goals should be specific, rather than vague or excessively general; goals should be demanding, but also attainable; feedback of performance information should be made; goals should be accepted by employees as desirable; and supported by appropriate rewards.

Goal setting theory has been subject to a great deal of theoretical and empirical scrutiny since it was first advanced. The resulting body of evidence now provides a set of rigorously tested principles which offer a clear guidance to designers of performance management systems (Mabey & et al., 1998; Cardy, 2004). However, it is probably most effective if goal setting is a part of compatible system that emphasizes goal achievement (e.g. compensation and recognition tied to goal achievement and training in obtaining business outcomes) (Cardy, 2004).

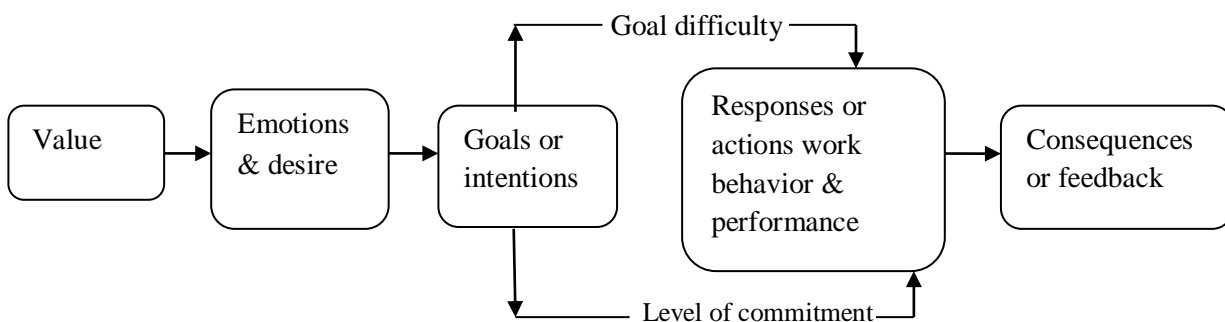


Figure 2.2: Locke’s theory of goal-setting (Source: Mullins, 1999 cited in Management Extra, 2009)

Expectancy theory

A book published by Victor Vroom in 1964, *Work and Motivation*, stimulated a flurry of research interest in expectancy theory as a framework for understanding motivation in work (Mabey & et al, 1998). Expectancy theory hypothesizes that it is the anticipated satisfaction of valued goals which causes an individual to adjust his behavior in a way which is most likely to lead to his attaining them. According to Adair (2009) expectancy theory centers upon the conscious or rational process by which we calculate what we will get as opposed to what we will have to given.

Expectancy theory has been developed from Vroom's early specifications to be expressed very clearly as a combination of three factors. First the person's own assessment of whether performing in a certain way will result in a measurable result. This factor labeled the *expectancy*. Second the perceived likelihood that such a result will lead to attaining a given reward. This factor is known as *instrumentality*. Third the person's assessment of the likely satisfaction, or valence, associated with the reward. These factors can be expressed in a dramatic form as follow:

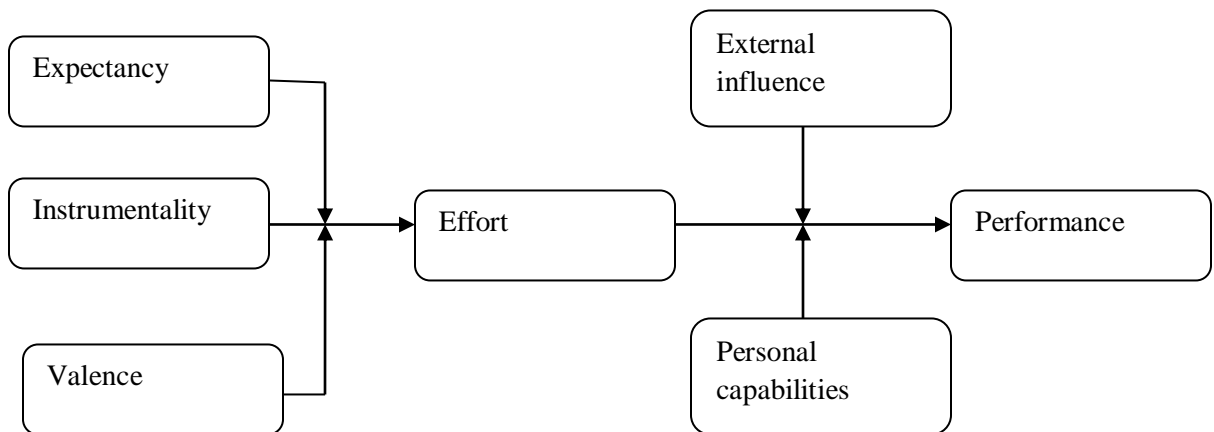


Figure 2.3: A simple expectancy model (Adapted from Mabey & et al, 1998)

Vroom theory appears to offer a way of measuring human motivation. The preference that an individual has for a particular outcome he called it valence. A person may seek or avoid a certain outcomes or, be ambivalent about them so valence can be positive, negative or neutral (Adair, 2009). Vroom's term subjective probability describes the individual expectation that behavior would lead to a particular outcome. It is subjective because people will differ in their judgments of the relationship between their behavior and outcome. The strength of motivation for a particular action thus depends on both the valence of the outcome and the subjective probability of achieving it (Mullins, 1999 cited in Management Extra, 2009).

In practice, if a person sees it as being clear that performing in a certain way will bring about a reward which he/she values, thus this individual is more likely to attempt to perform in that way than if the relationship between effort and measured performance, or measured performance and rewards, is slight or uncertain (Mabey& et al., 1998). Thus we can improve expectancy theory by extending it to encompass the more unconscious judgment of the mind. But it is only as good as the assumption on which it rests, namely that human rationality. It is this concept of rationality which needs further exploration (Adair, 2009)

According to Cardy (2004) expectancy theory provides a systematic and structured means by which motivation problems can be considered. It can identify sources of motivation problems that might otherwise not be recognized. The core message of this theory is that people will be motivated to perform well on task only if the task has value to them and if they believe they can be successful (Management Extra, 2009).

Equity Theory

Equity theory is developed by J. Stacey Adams and concerned with a person's perceived inputs to a work setting and the outcomes received from that setting. It suggested that every one

calculates the ratio of inputs to outcomes, similar to considering a return on any investment (DeNisi and Griffin, 2014). But once individuals calculate this ratio for themselves, they then must determine if their ration (rate of return) is “fair”. They try to determine this by comparing their ration to the perceived ratio of some other comparison person. The employee then compares his/her input-outcome ratio to the ratio of other person (a co-worker, a supervisor, a friend or even an ideal that does not really exist) to determine whether the employee’s ratio is fair (Management Extra, 2009). Accordingly, employees will be most likely to be motivated when they believe they are being treated fairly, which in the case of this theory is defined as equitable.

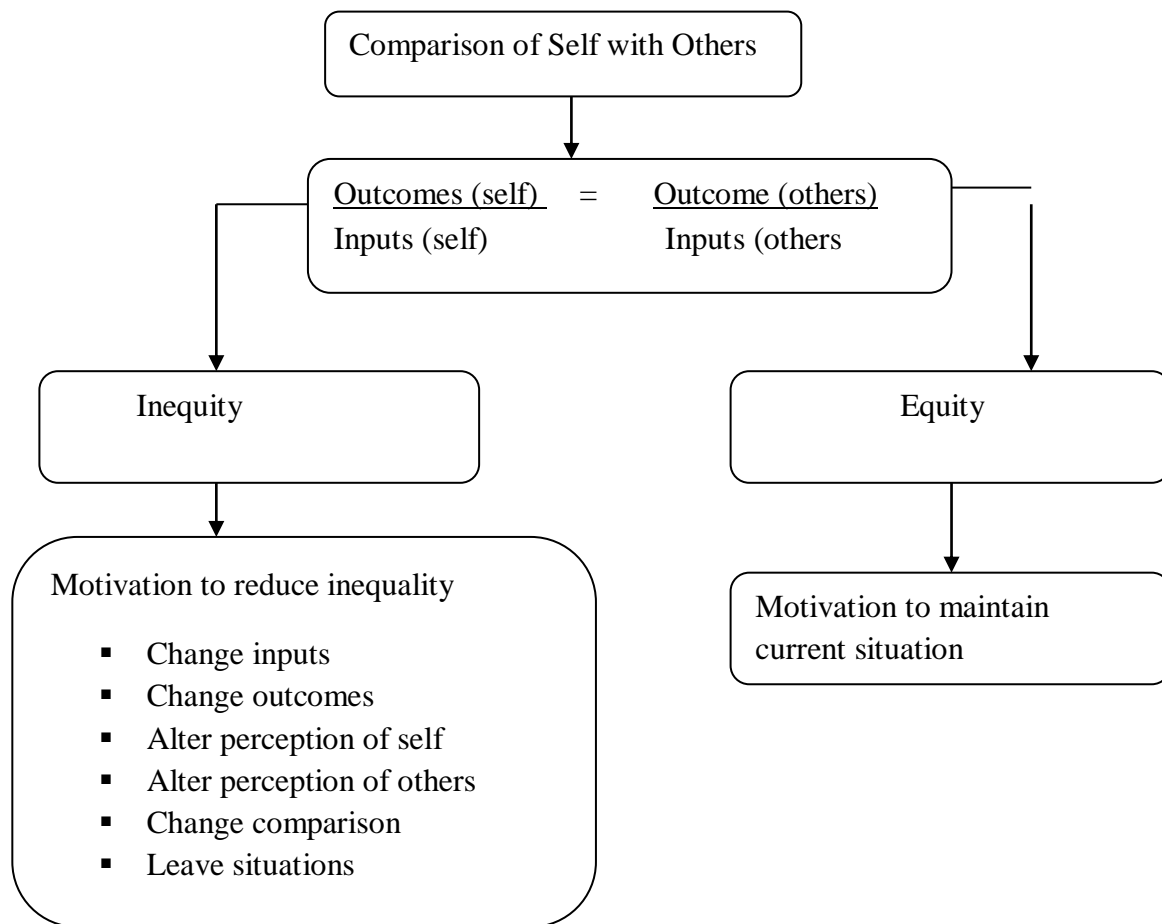


Figure: 2.4: The Equity Comparison Process (Adapted from DeNisi & Griffin, 2014: 295)

Equity theory can be quite useful in performance appraisal because it makes it clear that any reward associated with effort or performance will be evaluated, in part for their fairness as well as their innate attractiveness (Ashdown, 2014). In other words giving someone a raise for a job well done may not be particularly motivating if another employee received a large raise for a similar job. We are assuming that most people consider equity a good rule for determining fairness; that is, most people would assume that the person who contributes more should receive more (Management Extra, 2009). However, there is evidence to suggest that other cultures (comparing with Western cultures) are more likely to judge fairness using a rule of equality which would suggest that everyone shares equally in any outcomes regardless of their contribution. Therefore, it is important to realize that not everyone judges what is fair in the same way (DeNisi and Griffin, 2014).

2.1.3.3 Rewarding Performance

A system of performance management will not succeed in bringing about high performance against objectives unless employees consciously act in ways seen as being most likely to achieved objectives. Goal-setting and expectancy theories portray processes by which individuals act and then receive desirable rewards (intrinsic or extrinsic) for their behavior. Both expectancy and goal-setting theories emphasize the importance of ensuring that employees make this decision, but each takes a different route in describing what causes this to be made (Mabey & et al., 1998).

Expectancy theory specifies the need to tie performance outcomes to rewards which are valued by employees. Goal-setting theory lays stress on the need for acceptance by employees of the goals *per se*, so that motivation is more intrinsically based (HBE, 2006). At one level, expectancy theory is almost tautological (true by virtue of its logical form alone). It seems to

suggest that people will perform in order to attain outcomes which they value, without specifying what it is that people value (Mabey & et al., 1998). Thus if expectancy theory is to be applied usefully it requires of a complimentary theory of what motivates people; for the designer of performance appraisal system this carries the clear implication that a judgment must be made of what rewards will be valued by employees (HBE, 2006).

The concept of valence in expectancy theory establishes the notion that successful performance will only result to the extent rewards on offer are valued by employees. There exists a myriad of rewards which firms can offer employees, of which money is just one. Others include power, status, autonomy, praise, and fringe benefits. A choice must be made by companies.

Rewards which can be offered can be thought of as intrinsic or extrinsic. Intrinsic rewards arise from within the system itself (HBE, 2006). For example the sense of achievement of meeting performance targets may be reward enough for some employees to cause them to strive for certain performance outcomes. Extrinsic rewards are added separately to the system and may be financial (e.g. a cash bonus) or non-financial (e.g. time off from work) (Mabey & et al., 1998).

Pay is one possible means of rewarding employees in a system of performance management. Although performance-related pay is widespread, it need not be assumed that performance management is money driven (HBE, 2006; Mabey & et al., 1998). Herzberg in his classical article entitled “One More Time: How Do You Motivate Employees?” Which was first published in 1968; found that extrinsic incentives such as bigger paychecks and plush offices do not necessary make people work harder or better. When such motivators do succeed the positive effects are short-lived (HBE, 2006). Money can be a huge motivator, but it often motivates the

wrong behaviors-for example, encourage people to cut ethical corners to earn a bonus or to game the reward system-and it does not build commitment (HBE, 2006). Similarly Wilkinson and Redman (2013) referred to Pink (2011) stated that the trouble with schemes such as Performance Related Pay (PRP) is that they assumed that we are all robotic wealth maximizers: 'intrinsic motivation is of greater importance for all economic activities'. It is inconceivable that people are motivated solely or even mainly by external incentives. In this regard goal-setting theory is a useful complement to expectancy theory for designers of performance appraisal systems. This is because goal-setting theory places particular emphasis on intrinsic motivation associated with achieving performance goals which have been set.

The problem for practitioners is twofold. First how to find out which goals or rewards will be valued by employees. A second problem arises from individual differences (Mabey & et al., 1998). In line with this idea York (2010) referred to Kohn (1993) stated that the intent of linking the performance objective to incentive pay or bonus is to reward past performance and motivate future performance, although the intent and the effect may sometimes diverge. Therefore, a solid performance appraisal system requires due respect to both intrinsic and extrinsic rewards. Real motivators such as recognition and team spirit, when combined with adequate pay, have produced a committed workforce and a lower level of employee turnover (HBE, 2006). In the modern organizations where knowledge and using people as competitive advantage is key, it is argued that autonomy, mastery and purpose are essential drivers/motivators which any strategic reward scheme must incorporate (Wilkinson & Redman, 2013).

2.2 Empirical Literature Reviews

Kamiti (2014), in his research on the effect of performance appraisal on motivation of civil servants revealed that performance appraisal is an important factor which touches on the employees' motivation. In addition to that a study by Higher Performance Work Practices (HPWP) (2004) cited in Abraham (2018) based on a case study of ten organizations and a survey of two hundred and ninety four companies in United Kingdom identified specific higher performance work practices being employed in a number of public sector organizations. The study concluded that performance appraisal creates a chance for correcting under performance and also motivating the employees.

Moreover, according to research conducted at Ghana Commercial Bank, by Thomas Owusu (2012) cited in Robson (2016), concluded that when employees are motivated they are able to turn the fortunes of the bank in terms of increased deposit, loan/advances and profitability. A highly motivated employee's agility can effectively reduce operational cost without compromising service quality and profitability. On top of that a research conducted at private commercial banks, the result of the correlation has revealed that there is a positive relationship between performance appraisal system and employee motivation (Berhanu, 2014). In line with idea, a study conducted on commercial banks of Ethiopia by Worku and Abreha (2018) indicated that there is a significant correlation between performance appraisal practices and employee motivation.

2.2.1 Employee Participation in PAS and Employee Motivation

Greller (1978) cited in Newman and Hinrichs (1980) found in a sample of bank employees and research and development engineers that the key factor associated with positive

results from a performance evaluation interview was the creation of ownership or psychological participation on behaviors of the person being evaluated. The employee can also be given an opportunity to participate in the development of plans for improved performance. In the same line, McKirchy (1998) stated that when goals are set by the employee, there is more motivation to achieve those goals.

According to Fletcher (2008), referred to (Donovan, 2001) a larger and consistent body of research findings confirmed that setting targets with employees is a powerful way to increasing motivation. Apart from this objectivity, this participatory approach is giving the person appraised a much greater role and thus creating a more positive attitude. Raising expectations without participation and that are not subsequently met is a prescription for demotivation and disenchantment (Armstrong, 2006). Therefore, if performance appraisal is to be constructive and useful, there has to be something in it for the participants-both the appraiser and appraisers. Performance evaluation, like management in general, is to a large extent an art. Motives and attitude are, oftentimes, more important than technique and skill (Newman & Hinrichs, 1980).

Based on the empirical findings stated above and the tenets of goal-setting theory, the following hypothesis is conjecture:

H1: Employees' Participation in PAS has significant effect on Employee Motivation.

2.2.2 Open Communication and Employee Motivation

According to Armstrong (2010), a survey by Mercer Human Resource Consulting found that 78 percent of companies routinely conduct annual performance reviews and communicate results to workers. But only 26 percent of employees said managers routinely provide constructive feedback and/or coaching. Moreover, Meyer (1977) cited in Newman and Hinrichs

(1980) discuss the importance of performance review procedures which is designed to open communication channels and develop better working relationship between the parties involved. Similarly, Fletcher (2008) stated that it is precisely those managers who have frequent communication with their staff who have the most motivating and productive appraisal. The major reasons for performance problems are lack of direction and lack of feedback. In other words, lack of effective communication is a foremost reason for performance appraisal problems (McKirchy, 1998).

Based on the empirical findings stated above and the tenets of goal-setting theory, the following hypothesis is conjecture:

H2: Continuous open communication in PAS has significant effect on employee motivation

2.2.3 Trained Appraisers and Employee Motivation

According to Borman (1975), cited in Newman and Hinrichs (1980) the effect of a short training session designed to reduce halo error in performance ratings was investigated. Accordingly, the study revealed that the training session significantly reduce halo, while leaving validity of the ratings generally unaffected. Thus reliable judges or raters with qualifications required in successful performance of a job are important to motivate employee (Newman & Hinrichs, 1980). Moreover, according to Armstrong (2006), coaching should provide motivation, structure and effective feedback if managers have the required skills and commitment. There is some evidence that the quality of the rater is more important than the technique used to motivate employees (Newman & Hinrichs, 1980).

According to Fletcher (2008), referred to Industrial Society (2001), surveys showed that training is offered to appraisers by nearly 80 per cent UK organizations. Moreover, he referred to Streber et al (2001) stated that another survey of managers themselves indicated that 30 per cent of them had not been trained. One of the most important considerations in delivering training in performance appraisal is to ensure that it addresses the issue of diversity, raising awareness of the kind of biases and misunderstandings that can arise in the appraisal context. However, as Fletcher (2008) stated one of the main findings of appraisal trainings has been the emphasis on the procedures and paperwork rather than on the process and the skills needed to carry out appraisal in a sensitive and constructive manner.

Based on the empirical findings stated above and the tenets of goal-setting and expectancy theories, the following hypothesis is conjecture:

H3: Trained Appraisers have significant effect on Employee Motivation.

2.2.4 Ongoing Feedback and Employee Motivation

According to Armstrong (2010), a 2006 survey by the Council of Communication Management confirmed that almost every employee knows that positive feedback related to their efforts and recognition for a job well done are the top motivators of employee performance via formal evaluation and regular informal routes. Thus performance appraisals yield excellent opportunities to motivate. Prowse and Prowse (2009) cited in Mugizi (2015) contend that performance appraisal provides a major potential for employee feedback that links strongly to increasing motivation, an opportunity to clarify goals and achieve long-term individual performance and career development.

According to Newman & Hinrichs (1980), feedback about the effectiveness of an individual's behavior has long been recognized as essential for learning and for motivation in performance oriented setting. Besides Fletcher (2008) stated that it has been an article of faith that giving feedback, quite apart from assisting in task performance, is something that motivates people. Thus assessment made in appraisal provides the basis for such feedback.

Based on the empirical findings stated above and the tenets of goal-setting expectancy theories, the following hypothesis is conjecture:

H4: Ongoing Feedback in PAS has significant effect on Employee Motivation.

2.2.5 Rewarding Performance and Employee Motivation

According to Miner (1968), cited in Newman & Hinrichs (1980) research at General Electric indicated that feeding back information on salary actions along with performance evaluations is not desirable is so far as motivational and developmental goals concerned. Assessment increases motivation by facilitating the fair distribution of rewards. The importance of perceived fairness in how people responded to appraisal can hardly be overstated (McKirchy, 1998).

Taylor and Pierce (1999) cited in Fletcher (2008), stated that higher level of performers showed substantial downturns in their ratings of satisfactions and cooperation with their bosses following the appraisal and associated pay decision. He continues to state that in his own researches on performance appraisal, he found that staff who described getting the average assessment and pay award as 'a kick in the teeth' (Fletcher, 2008). Potentially, PRP has just as much power to de-motivate as to motivate (Fletcher, 2008). Similarly, Mckirchy (1998) stated that performance appraisal and salary review are not very compatible, and combining them leads

to less effective and often messy encounters. Recognition takes numerous forms beyond raises, bonuses, or promotions. A major form of recognition is the positive things managers say to their achieving employees. Thus giving non-financial rewards in appraisal does not usually generate the kind of problems associated with merit and some other forms of PRP. Many of them have the distinct advantage of being closer to intrinsic motivation than to extrinsic motivation (Fletcher, 2008).

Based on the empirical findings stated above and the tenets of expectancy and equity theories, the following hypothesis is conjectured:

H5: Rewarding Performance has significant effect on employee motivation.

2.2.6 Fairness of PAS and Employee Motivation

According to Frank & et al (1978), cited in Newman & Hinrichs (1980) employee perception of the fairness and accuracy of a performance evaluation system were examined by means of questionnaire administered to managerial and professional employees of a larger manufacturing organization. Accordingly, frequency of evaluation, identification of goals to eliminate weakness, and supervisor knowledge of a subordinate's level of performance and job duty were related to perception of fairness and accuracy of performance evaluation.

Dirks and Ferrin (2001), as cited in Farr and Jacobs (2006) reviewed the empirical literature on the effect of interpersonal trust on workplace-related attitudes, beliefs and behavior. They found that trust has been found to have both direct and moderating effects on fairness, some of which seem especially relevant to appraisal system implementation. Moreover, an empirical application of concept of organizational justice to performance management showed

that cultures high on self-expression (such as Norway) view the use of standardized performance appraisals as less fair than cultures high on survival (China, Lithuania) (Briscoe & Claus, 2008).

According to Farr and Jacobs (2006: 327) 'the effectiveness of a performance appraisal system in an organization is what we might label as the collective trust of stakeholders in the appraisal processes'. Trust is a motivating factor in an individual's willingness to engage in an organizational citizenship behavior or contextual performance (Farr & Jacobs, 2006). The crux of performance appraisal problem is the fact that criticism is threatening to an individual's self-esteem. Research on threats to self-esteem indicated that people react to such threats by lowering their level of motivation or by another defensive reaction (Meyer, 1974 cited in Newman & Hinrichs, 1980). If the feeling is conveyed to people that they cannot be trusted with confidential information it will not do much for their motivation (Armstrong, 2006). Additionally, expectancy theory also suggests that when subordinates perceive that the procedures used to evaluate their performance are fair, they will have the motivation to perform better (Porter & Lawler, 1968; Vroom, 1964).

Based on the empirical findings stated above and the tenets of expectancy and equity theories, the following hypothesis is conjectured:

H6: Fairness of PAS has significant effect on employee motivation

Summary of Hypothesis:

Based on these empirical studies and conceptual framework developed, the following research hypotheses were developed for this study.

H1: Employees' participation on PAS has significant effect on employee motivation.

H2: Continuous open communication in PAS has significant effect on employee motivation

H3: Trained appraisers have significant effect on employee motivation.

H4: Ongoing feedback in PAS has significant effect on employee motivation.

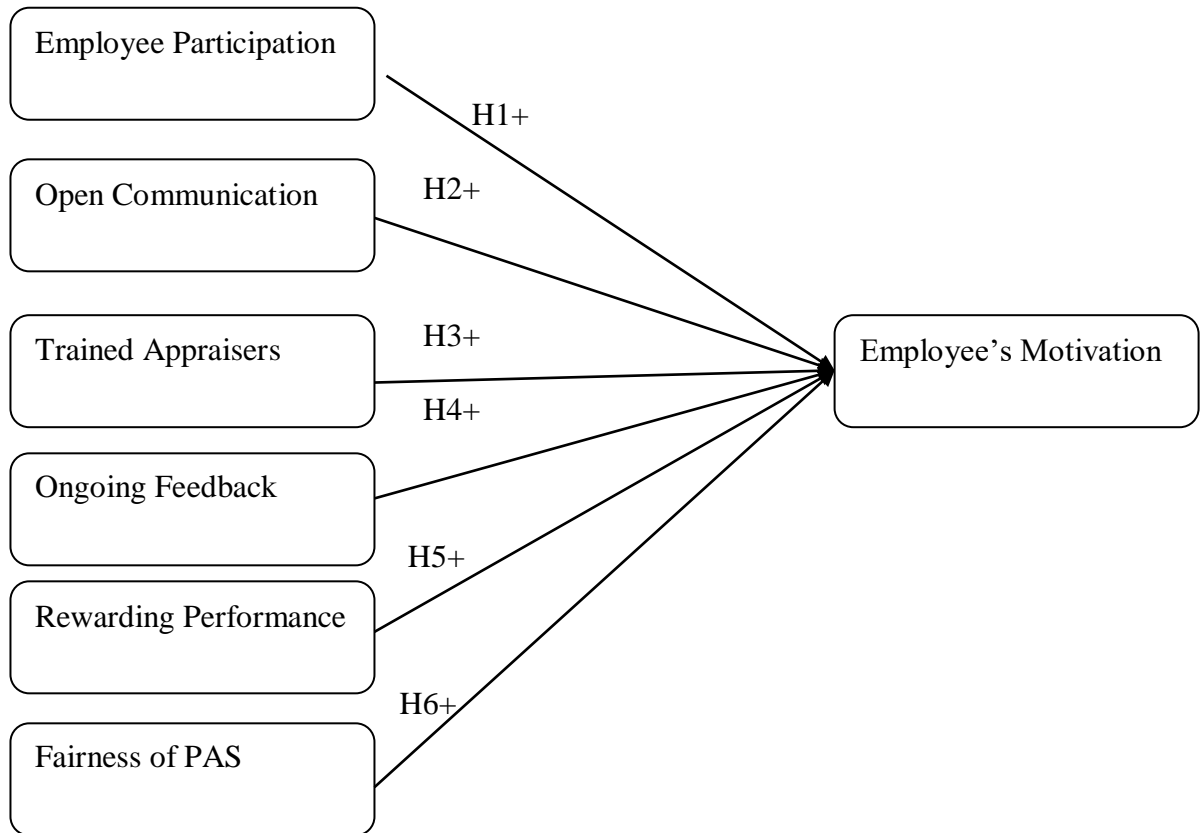
H5: Rewarding Performance has significant effect on employee motivation.

H6: Fairness of PAS has significant effect on employee motivation.

2.3 Conceptual Framework

The theoretical framework of this study was premised based on the concept that the characteristics of an effective PAS could influence motivation. The basic purpose of the PAS is to improve performance of individuals, team, and the entire organizations. The system may also serve to assist in making administrative decision concerning pay increase, promotion, transfer or termination. The following factors would assist in accomplishing the PAS to serve its purpose by making it effective. These factors are necessary for one PAS to be called an effective. These important factors are employees' participation, open communication, trained appraisers, rewarding performance, ongoing feedback and fairness.

Effective PAS



Source: Adopted from literatures. Fletcher, C. (2004); Manuel (2009) cited in Abreham (2018)

Figure 2.5: Conceptual Framework on Performance Appraisal System and Motivation.

CHAPTER THREE

RESEARCH METHODOLOGY

The objective of this study is to examine the effect of performance appraisal on employee motivation. The methodology used to achieve this objective is presented in the following sections.

3.1 Research Setting

CBE has more than 1600 branches all over the country under fifteen districts. This study selected NAAD of CBE located in Addis Ababa around Arat Kilo next to Ministry of Education. Administratively it covered northern part of Addis Ababa and its outskirts.

3.2 Research Approach

This study was quantitative in its approach. It focuses on gathering numerical data across group of people or to explain a particular phenomenon. Quantitative research method is considered to be very efficient for questions answered in number (Collis & Hussey, 2014). Moreover, the outcome of quantitative research is easy to measure and the results can be clearly shown through objective data. Therefore, in this study quantitative method was used in order to analyze statistics based data collected through questionnaire.

3.3 Research Design

The type of academic research can be exploratory, descriptive, or explanatory. Exploratory studies aim for basic knowledge within the problem area. Descriptive research is appropriate when a problem is clearly structured but the intention is not to conduct research

about connection between causes and effects. Explanatory research is useful for studying relation between cause and effects (Kothari, 2004). Accordingly this study was targeted to show the effect of performance appraisal on employee motivation, thus it is explanatory in its design.

3.4 Population and Sampling

3.4.1 Population of the Study

A population can be defined as all people or items (unit of analysis) with the characteristics that one wishes to study (Kothari, 2004). The target population of this study was the employees of CBE NAAD, with the total number of 2232 employees under 58 branches according to 2020 Employee Directory report.

Due to time and resource constraints, it is difficult to cover all branches, and to keep the study manageable, out of these 58 branches, 15 branches with the total number of 551 were selected randomly as per their grade (special to grade I). Thus the researcher carried out the study in these selected branches which are located in Addis Ababa and excluded outlying branches.

3.4.2. Sample Size Determination

Sampling is the process of selecting units (e.g. people, organizations) from a population of interest so that by studying the sample, a fairly generalize results is trace back to the population from which they were chosen (Collis & Hussey, 2014)

To obtain the minimum population sample for this study, the researcher adopted simplified sampling as a technique using Slovin (1960) formula (cited in Tesfaye, 2017) as follows:

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

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

$$n = \frac{551}{1 + 551(0.05)^2}$$

$$n = 231$$

Therefore, a sample size of 231 was select from a total population of 551 employees. Thus the sample size is sufficiently large enough to produce results among variables that are significantly different and it broadens the range of possible data and forms a better picture for analysis.

3.4.3. Sampling Techniques

The sampling method that was employed in this study is both stratified and simple random probability sampling. To select respondents from each stratum simple random sampling design was employed; in doing so, the existing employee list was obtained from human resource department of the organization and then the proportional weight was assigned to each stratum in order to sampled data properly represent the population from which the stratified sample of existing employee is drawn. To ensure that as much as possible biasness is removed or is minimized and a fair representation is obtained, the population of the study was stratified in to five major target group based on the existing grade of branches.

3.4.4 Sample Distribution Plan

In this study the total population was divided into stratum based on branch's grade and from each stratum the researcher took sample branches and non-managerial employee. A stratified random sampling allows us to take into account the different subgroups of people in the population and helps guarantee that the sample accurately represents the population on specific characteristics. It enables the study to include all branch grades of the Bank and to allot the total sample for each stratum proportionately.

Table 3.1: Sampling technique using proportionate stratified random sampling

S. No	Branch Category Based on Grade	Selected Branches from each grade	No. of Employee (Population)	Proportional	Sample size
1	Special	Arat kilo	70	$70/551*231$	29
2	Grade VI	Sidist kilo Campus	45	$45/551*231$	19
		Arada Giorgis	158	$158/551*231$	66
		Addisu Gebeya	34	$34/551*231$	14
3	Grade III	Shiromeda	40	$40/551*231$	17
		Kechene Medihanem	33	$33/551*231$	14
		Genete Tsige	28	$28/551*231$	12
4	Grade II	Hamle 19	23	$23/551*231$	10
		Tayitu Bitul	21	$21/551*231$	9
		Entoto	18	$18/551*231$	8
		Chilot	15	$15/551*231$	6
		Tilahun Abay	20	$20/551*231$	8
		Tsion Condominum	20	$20/551*231$	8
5	Grade I	Yekatitit 12	16	$16/551*231$	7
		Abebe Bikila	10	$10/551*231$	4
Total		15	551		231

Source: Employee Directory of NAAD, 2020

3.5. Data Type and Source

Primary data was collected from randomly selected CBE NAAD employees through questionnaire.

3.6. Data Collection Instrument

For this study, questionnaire used to collect the data. A questionnaire consists of a number of statements about PAS and motivation in the form of Likert Scale used to collect the primary data. Accordingly, a questionnaire was given to the selected employees to answer the questionnaire.

Table 3.2: Summary of Measures

No.	Study Variables	Source of Items (scale or Instrument source)	No. of Items in the Scale	Cronbach's Alpha Results
1	Employee Participation	Adopted from Abreham, 2018	4	.836
2	Open Communication	Adopted from Abreham,2018	4	.878
3	Trained Appraisers	Adopted from Abreham,2018	4	.780
4	Ongoing Feedback	Adopted from Abreham,2018	4	.726
5	Rewarding Performance	Adopted from Abreham,2018	4	.788
6	Fairness of PAS	Adopted from Abreham, 2018	4	.810
7	Motivation at Work	Management Extra (2009: 19)	8	.914

Source: Own survey, 2021

3.7. Data Collection Procedure

The questionnaires were pre-tested and any suggestions for improvement encountered during the piloting process were incorporated in the final questionnaire. Final questionnaire were distributed to the respondents by the researcher and his assistants. This enhanced the speed of

data collection. The questionnaire contained structured statements using a method of Likert Scale rating. They had clear instructions and a well design layout.

The study targeted at a total of 231 respondents with self-administered questionnaires. Self-administered questionnaires method of data collection has its own advantage because of it is low cost, it is also proven to be free from bias of the respondents, it also gave the correspondence adequate time to give well thought answers and since large samples could be made use of, the results are more dependable and reliable (Kothari, 2004).

3.8. Reliability and Validity

Reliability is the extent to which a measurement procedure yields the same answer however and whenever it is carried out. The reliability of the scales was determined by Cronbach's alpha method as indicated in Table 3.2 above. According to Burns and Burns (2008), the Cronbach's alpha result of 0.7 and above implies acceptable level of internal reliability.

Validity indicates the degree to which an instrument measures what it is supposed to measure. Accordingly, a questionnaire paper was reviewed by researcher's advisor and modified as per the finding of the pilot test as well.

3.9. Data Analysis Methods

After the data was collected and plausible checks were conducted, inconsistent data was cleared appropriately. Then the data was coded to the system, so as to make the data useful and relevant to analysis. Statistical Package for Social Science (SPSS) software version 26 was employed to analyze and present the data through the statistical tools, namely descriptive and inferential analysis.

The descriptive statistical results were presented by tables, frequency distributions, percentages, mean and standard deviation to give a condensed picture of the data. This was achieved through summary statistics, which includes the means, standard deviations values. Inferential Analysis Pearson's correlation coefficient used to determine the relationships between performance appraisal system and employee motivation. Regression analysis used to investigate the effect of performance appraisal practice (independent variable) on employee motivation (dependent variable).

3.10 Ethical Considerations

Ethical conduct states that it is the responsibility of the researcher to assess carefully the possibility of harm to research participants, and to the extent that it is possible, the possibility of harm should be minimized (Burns & Burns, 2008). During the data collection and interpretation processes, the researcher convinced the participants that any confidential information they disclose will be kept confidential. The respondents also were told that, their response will be used only for academic purposes. Accordingly, every questionnaire was attached with a cover letter which clearly explained the purpose of the study.

CHAPTER FOUR

RESULTS AND DISCUSSION

This chapter focused on the analysis undertaken with the data collected. Accordingly, both descriptive and inferential techniques of data analysis were employed to see characteristics of the sample and also identify and discuss the relationship between the independent and dependent variables.

The study targeted a total of 231 respondents. However, only 208 respondents acted in response and returned the questionnaires. Out of the 208 returned questionnaires 12 questionnaires were discarded due to improper and partial filling of questionnaires. Thus the study used 196 properly filled and returned questionnaires which contributing to 85% response rate. According to Pallant (2005), a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and above is excellent; therefore, this response rate is adequate for analysis and reporting.

In this analysis first the demographic characteristics of respondents were identified, then the descriptive analysis of respondents' rate about statements on PAS were explained with frequencies, percentages, means and standard deviations and finally the relationships between variables examined with correlation and regression.

4.1 Demographic Characteristics of Respondents

The demographic characteristics of respondents are discussed under sex, educational level, age, and work experience in the organization. Accordingly the various findings regarding the respondents' demographic characteristics are presented and discussed with the aid of Table 4.1 shown below.

Table 4.1: Demographic Characteristics of Respondents

Respondents Demographic Variables		Frequency	Percentage
Sex	Male	117	59.7
	Female	79	40.3
	Total	196	100.0
Age	Below 25	8	9.2
	25-35	132	67.3
	36-45	41	20.9
	46-55	5	2.6
	Above 55	-	-
	Total	196	100.0
Education Level	Diploma	4	2.0
	First Degree	128	65.3
	Masters Degree	64	32.7
	Above MA	-	-
	Total	196	100.0
Work Experience in Present Organization	1-5 years	74	37.8
	6-10 years	101	51.5
	11-15 years	15	7.7
	Above 15 years	6	3.1
	Total	196	100.0

As shown in Table 4.1, the majority of the sampled employees are male (59.7%) which is expected in many public and private organizations in Ethiopia. Regarding respondents age, the majority (67.3) of the respondents fall in the age category of 25-35 implying that most of them are youngsters. This is a result of the bank's recruitment focus on large number of fresh graduates for last decade. The level of their educational qualification shows that the majority (65.3%) of them gets hold of their first degree and 32.7% of them are in second degree level. In

terms of years served in the organization, majority of the respondents (51.5%) had an experience of six to ten years of service in the organization.

Demographics are the important factors taken into consideration in most human resource and management decisions like performance appraisal because they influence work behavior and productivity of the employees. The studies by Kahn (1990) and Schaufeli and Bakker (2004) suggest that the level of work engagement is affected in general terms by the demographic characteristics of the respondents. Moreover, Bakan et al. (2011) also observed that employee personal characteristics such as age, gender, and job tenure can have significant effect on employee motivation and organizational commitment. Thus demographic variables like gender, age, educational level and numbers of years in organization of the employees are vital in determining the motivation and satisfaction of employees. Therefore, the composition of respondents in their demography satisfied the above factors and enables to get balanced data in this study.

4.2. Descriptive Analysis Result

In this section the descriptive analysis was presented in frequency, percentage, mean and standard deviation to show the result obtained from respondents.

4.2.1. Analysis of Respondents Response on Participation in PAS

Employees were requested to select the level of agreement concerning to their participation in the PAS and employees response rate to the statement presented in table 4.2 below.

Table 4.2: Employees Response Result to the statements about Participation in PAS

Item	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	SD
I personally get involved in the process of setting objectives and targets of my job performance.	29 (14.8%)	49 (25.0%)	44 (22.4%)	50 (25.5%)	24 (12.2%)	2.95	1.262
Participating in the PAS motivates me, because it makes me feel I am part of the organization.	24 (12.2%)	56 (28.6%)	60 (30.6%)	36 (18.4%)	20 (10.2%)	2.88	1.164
PAS instruments are developed and designed in job related performance factors with the help of employees.	28 (14.3%)	76 (38.8%)	41 (20.9%)	35 (17.9%)	16 (8.2%)	2.67	1.167
I am ready to accomplish my duties (track data to the system manually) that the PAS needs to be effective.	47 (24.0%)	51 (26.0%)	41 (20.9%)	37 (18.9%)	20 (10.2%)	2.65	1.306

Based on the results presented on Table 4.2 above, only 25.5% of the respondents agreed and parallel to that 25.0% of them disagreed about their personal involvement in the process of setting targets of their future performance, while 14.8% of them strongly disagreed and 12.2% strongly agreed and the rest 22.4% were neutral. Moreover, the majority of the respondents (38.8%) disagreed that participation in the PAS motivates them, while 20.9% were neutral. Similarly, regarding to the statement of that employees prefer to be evaluated by an instrument they participated with its design while 30.6% of the respondents were neutral and 28.6% of them disagreed. Finally under this category respondents were asked to rate about their readiness to accomplish their duties (track data to the system manually), the majority 26.0% of them

disagreed and 20.9 % preferred to be neutral. To sum up the respondents' data indicated that participation of employees in the PAS of the organization is low.

4.2.2. Analysis of Respondents Response on Continuous Open Communication

Employees requested to select the level of agreement concerning to continuous open communication there in the PAS and employees response rate to the statement presented in the Table 4.3 below.

Table 4.3: Employees Response Result to Open Communication in PAS

Item	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	SD
The PAS provides an opportunity to communicate with the supervisors to facilitate my job performance	8 (4.1%)	31 (15.8%)	31 (15.8%)	91 (64.4%)	35 (17.9%)	3.58	1.08
There is a two way communication with both managers and employees for expressing their views.	12 (6.1%)	8 (4.1%)	38 (19.4%)	81 (41.3%)	57 (29.1%)	3.83	1.085
I found difficulty to discuss PAS issues with my managers.	12 (6.1%)	16 (8.2%)	29 (14.8%)	63 (32.1%)	76 (38.8%)	3.89	1.187
There are definite written procedures and instructions for PAS usage.	4 (2.0%)	20 (10.2%)	56 (28.6%)	69 (35.2%)	47 (24.0%)	3.69	1.013

Table 4.3 presents employees responses about the existence of open communication in PAS. Of the total respondents, 46.6% agreed for the statement that PAS provides an opportunity to open communication, 17.9% strongly agreed, while 15.8% disagreed. Regarding with the statement, there is two-way communication, the majority of the respondents (41.3%) agreed and 29.1% strongly agreed, while 19.4% referred to be neutral about the statement. Most of the employees (38.8%) found it easy to discuss PAS issue with their immediate managers or supervisors, and 32.1% of them also agreed with the statement, the rest 14.8% were neutral. For the last statement that states about the existence of definite written procedures and instructions for PAS usage, majority of the respondents (35.2%) showed their agreement with the statement but almost at equal level of percentage (28.6%) of them showed their neutrality. The result indicated that the majority of the employees did not encounter problems in PAS regarding well and open communication in their organization. Moreover, majority of employees had knowledge about the organization's definite written procedures and instructions for PAS usage.

4.2.3. Analysis of Respondents Response on Trained Appraiser

Respondents were asked to rate their agreement level according to the statements indicated in Table 4.4 about their immediate appraiser.

Table 4.4: Employees Response Result on Trained Appraiser

Item	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	SD
The PAS is regularly carried out by the responsible appraiser.	44 (22.4%)	34 (17.3%)	53 (27.0%)	45 (23.0%)	20 (10.2%)	2.81	1.297
I am confident because the appraiser knows enough about the PAS to appraise me.	45 (23.0%)	45 (23.0%)	46 (23.5%)	48 (24.5%)	20 (6.1%)	2.68	1.242
I got coaching and counseling from my immediate supervisor.	51 (26.0%)	30 (15.3%)	49 (25.0%)	52 (26.5%)	14 (7.1%)	2.73	1.297
My immediate supervisor has got training on the PAS.	40 (20.9%)	61 (32.7%)	56 (27.6%)	28 (13.8%)	11 (5.1%)	2.54	1.134

Table 4.4 above indicated that majority of the respondents 27.0 % were neutral and 23.0% agree to the statement PA is regularly carried out by the responsible appraiser. For the statement whether they are confident on the appraiser knowledge about the PAS, the majority of the respondents 24.5% were agreed while 23.0% of them strongly disagree and 23.0% of them disagree, and 23.5% were neutral. Moreover, 26.5% the respondents agreed with the statement, they got coaching and counseling from their immediate supervisor in PA process, while proportionate number of respondents (26.0%) were strongly disagree and 25.0% of them remain neutral. The last statement of this sub section that respondents were requested to rate is whether

they and their immediate appraiser got training on PAS, 32.7% of them disagreed and 20.9% of them strongly disagreed while 27.6% of the respondents showed their neutrality about the statement.

4.2.4 Analysis of Respondents Response on Ongoing Feedback in PAS

Respondents were requested to rate their level of agreement regarding to the following statements about the ongoing feedback of PAS in the organization.

Table 4.5: Employees Response Result on Ongoing Feedback in PAS

Item	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	SD
I receive regular and timely performance feedback beside the annual performance review.	39 (19.9%)	58 (29.6%)	39 (19.9%)	44 (22.4%)	16 (8.2%)	2.69	1.248
The information provided by my supervisor during my performance feedback is accurate.	43 (21.4%)	55 (28.1%)	43 (21.9%)	46 (23.5%)	9 (4.6%)	2.61	1.196
The performance feedback I received helps me to improve my job performance and to attain my goals.	27 (13.8%)	51 (26.0%)	44 (22.4%)	41 (20.9%)	33 (16.8%)	3.01	1.305
The feedback I got helps me to gain insight about my weakness and strength.	30 (15.3%)	37 (18.9%)	37 (18.9%)	76 (38.8%)	16 (8.2%)	3.06	1.233

As illustrated on the above Table 4.5, the majority of the respondents 29.9% disagreed and 19.9% strongly disagree that, they receive regular and timely performance feedback beside the annual performance review while 22.4% agreed about the statement. For the statement regarding accuracy of feedback that provided by their immediate supervisor, 28.1% of respondents disagreed and 21.4% strongly disagreed while 23.5% of them agreed. A response to statement three under this category showed that 26.0% of the respondents disagree that performance feedback improves their job performance and to attain their goal. However, 22.4% of them were neutral. For the fourth statement the majority of the respondent 38.8% of them agreed towards the feedback they get helped them to gain insight about their weakness and strength, While 18.9% of the respondents disagreed. Therefore, we can conclude that there is no effective ongoing feedback in the organization to help and meet the employee's needs.

4.2.5. Analysis of Respondents Response on Rewarding Performance

Employees were asked their agreement level about the rewarding performance in CBE NAAD were effective or not using the following statements as shown in Table 4.6 below.

Table 4.6: Employees Response Result on Rewarding Performance

Item	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	SD
Performance appraisal is linked with my salary increment and promotion.	34 (17.3%)	48 (24.3%)	35 (17.9%)	55 (28.1%)	24 (12.2%)	2.93	1.309
I am rewarded proportional to my individual performance.	40 (20.4%)	68 (34.7%)	39 (19.9%)	33 (16.8%)	16 (8.2%)	2.58	1.219
I received annual bonus based on my performance and it really motivated me.	35 (17.9%)	52 (26.5%)	32 (16.3%)	45 (23.0%)	32 (16.3%)	2.93	1.367
PAS creates a climate of appreciation and encouragement.	40 (20.4%)	37 (18.9%)	39 (19.9%)	56 (28.6%)	24 (12.2%)	2.93	1.336

Table 4.6 can depicted the reaction of respondents about the existence of performance rewarding using performance appraisal in the bank. Accordingly majority of the respondents 28.1% agree that performance appraisal is linked with salary increase and promotion in the bank while 24.3% of the respondents disagree about the statement. Moreover, majority of the respondents 34.7% and 20.4% disagree and strongly disagree respectively about the statement, rewarded proportional to their individual performance. Similarly 26.5% of the respondents disagree and 17.9% of them strongly disagree that their annual bonus was based on their performance while 23.0% of them agreed. On the other hand, majority of the respondents 28.6% agreed that PAS creates a climate of appreciation and encouragement while 20.4% of them strongly disagreed. The results show that there is a considerable amount of variety throughout the organization as to whether rewards and promotion are linked to the results of the

performance appraisal, but majority of the respondents believe that the PAS is not linked with reward and their rewards are not based on their performance.

4.2.6. Analysis of Respondents Response about Fairness of PAS

Employees were asked their perception level about fairness of PAS in CBE NAAD were effective or not using the following statements in Table 4.7 below.

Table 4.7: Employees Response Result on Fairness of PAS

Item	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	SD
I am evaluated according to the setting standards and measurements without subjectivity and bias.	40 (20.4%)	43 (21.9%)	48 (24.5%)	53 (27.0%)	12 (6.1%)	2.77	1.226
I can appeal (with clearly delineated procedure) what I considered unfair and inaccurate in my appraisal.	37 (18.9%)	36 (18.4%)	44 (22.4%)	63 (32.1%)	16 (8.2%)	2.92	1.261
I feel fairly treated in every way in the PAS.	43 (21.9%)	64 (32.7%)	45 (23.0%)	24 (12.2%)	20 (10.2%)	2.56	1.245
I trust the PAS in my organization as rational and fair.	48 (19.9%)	60 (33.7%)	52 (26.5%)	24 (16.3%)	12 (6.1%)	2.45	1.165

As demonstrated in the above Table 4.7 employees response rate regarding to the statement of evaluated according to the setting standards and measurements without subjectivity and bias, majority of the respondents 27.0% were agreed while 24.5% of them preferred to be neutral about the statement. Similarly, 32.1% of the respondents agreed that there is clearly delineated procedure to appeal about inaccuracies while 22.4% of them remain neutral. On the

other hand, majority of the respondents 32.7% of the respondents disagree and 21.9% of them strongly disagree about the statement fairly treated in every way in the PAS while 23.0% of them neutral. In addition, regarding their trust about PAS in the organization, majority of the respondents 33.7% were disagree and 19.9% of them strongly disagree while 24.0% of them were neutral Therefore, based on these aggregate results the attitude of employees toward the fairness of the current PAS in the organization was negative.

4.2.7. Analysis of Respondents Response on Employee’s Motivation at Work

Under this section the study intended to determine whether the employees were motivated with their current job the respondents involved in the study illustrated below in Table 4.8.

Table 4.8: Employees Response Result on Level of Motivation at Work

Item	Highly Dissatisfied	Dissatisfied	Neutral	Satisfied	Highly Satisfied	Mean	Standard Deviation
I arrive early for work	12 (6.1%)	24 (12.2%)	42 (21.4%)	74 (37.8%)	44 (22.4%)	3.58	1.145
I help colleagues with their task	8 (4.1%)	31 (15.8%)	31 (15.8%)	91 (46.4%)	35 (17.9%)	3.58	1.081
I take responsibility	12 (6.1%)	8 (4.1%)	38 (19.4%)	81 (41.3%)	57 (29.1%)	3.83	1.085
I communicate well with colleagues	12 (6.1%)	16 (8.2%)	29 (14.8%)	63 (32.1%)	76 (38.8%)	3.89	1.187
I ask constructive questions	4 (2.0%)	20 (10.2%)	56 (28.6%)	69 (35.2%)	47 (24.0%)	3.69	1.013
I am committed to achieve targets	12 (6.1%)	40 (24.4%)	19 (9.7%)	65 (33.2%)	60 (30.6%)	3.62	1.278
I am interested in developing myself and others	8 (2.0%)	29 (14.8%)	32 (16.3%)	56 (28.6%)	71 (36.2%)	3.78	1.202
I enjoy my work and the people	28 (14.3%)	19 (9.7%)	29 (14.8%)	68 (34.7%)	52 (26.5%)	3.49	1.357

As Table 4.8 depicted the employee's level of motivation at work, majority of respondents 37.8% agree and 22.4% of them strongly agreed that they arrived early for work while 21.4% of them were neutral. Besides, 46.4% of them agreed and 17.9% of them strongly agreed that they helped their colleagues with their task. Moreover, majority of the respondents 41.3% agreed and 29.1% of them strongly agreed that they took responsibility while 19.4% of them were neutral. Furthermore 38.8% of the respondents strongly agreed that they communicated well with their colleagues and 32.1% of them agreed on the same statement while 14.8% of them preferred to be neutral. Concerning the statement they asked constructive questions, majority of the respondents 35.2 % of the respondents agreed while 28.6% of the respondents were neutral. In addition, 33.2% of the respondents agreed that they committed to achieve their targets and 30.6% of them strongly agreed while 20.4% of them disagreed with the statement. Regarding the statement interesting to develop oneself and others, majority of the respondents 36.2% of the respondents strongly agreed and 28.6% of them agreed while 16.3% of them were neutral. Finally under this category respondents were asked to rate about enjoyment of work and people around them, majority of the respondents 34.7% agreed and 26.5% of them strongly agreed

In general when we conclude from the above data, although the magnitude of their agreement was differed, majority of the respondents were satisfied with the statements that expressed their motivation at work.

Table 4.9: Summary of Mean and Standard Deviation of Performance Appraisal System Indicators and Employee Motivation

Variables	N	Mean	Std Deviation
Employee's Participation	196	2.78	1.004
Continuous Open Communication	196	3.75	0.935
Trained Appraisers	196	2.69	0.965
Ongoing Feedback	196	2.84	0.923
Rewarding Performance	196	2.84	1.023
Fairness of PAS	196	2.67	0.978

Table 4.9 presented the summary of Mean score and Standard Deviation of Performance Appraisal System Indicators and Employee Motivation. In describing an array of data, researchers usually present two descriptive statistics: The mean and the standard deviation. Although there are other measures of central tendency and dispersion, these are the most useful for descriptive purpose (Burns & Burns, 2008).

To describe the mean score of the participants, mean score measurement used by Pihie (2009) was applied where mean score of <3.39 considered as low, mean score of 3.4-3.79 as moderate and mean score of >3.8 as high. Accordingly, Employees' Participation in PAS has a mean of 2.78 (SD=1.004), Continuous Open Communication has a mean of 3.75 (SD=.935), Trained Appraisers has a mean of 2.69 (SD=.965); Ongoing Feedback has a mean of 2.84 (SD=.90518), Rewarding Performance has a mean of 2.84 (SD=1.023), fairness of PAS has a mean of 2.67 (SD=.978) and finally Employees Motivation has a mean of 2.82 (SD=.968).

The analysis of mean scores showed that with all performance appraisal practice indicators except Open Communication has a lower mean value. This implies that employees' perception on Ongoing Feedback, Rewarding Performance, Trained Appraisers, Employees' Participation, and Fairness of PAS in the organization is low and employees are not happy with performance appraisal system indicators in the organization.

4.3 Analysis of Correlation between Variables

Correlation is the degree of correspondence between variables. This implies the relationship is mutual or reciprocating, but we do not include in our concept of correlation any proposition that one thing is the cause and the other the effect (Burns and Burns, 2008). In this analysis, Bivariate Pearson Product-Moment Coefficient (r) has been used to see the relationship between the dependent and independent variables. Correlation analysis, in this study determines the strengths of relationship between performance appraisal system and employee motivation.

According to Evans (1996), to describe the strength of the correlation or to interpreting correlation size, we can use the following rule. For the absolute value of r is between 0.00 and 0.19 as "very weak", between 0.20 and 0.39 as "weak", between 0.40 and 0.59 as "moderate", between 0.60 and 0.79 as "strong", and between 0.80 and 1.0 as "very strong". The analysis of correlation between variables result was tabulated in Table 4.10 below.

Table 4.10: Correlation Matrix

Correlations								
		Employee Motivation	Participation in PAS	Open Communion	Trained Appraiser	Ongoing Feedback	Rewarding Performance	Fairness in PAS
Employee Motivation	Pearson Correlation	1						
	Sig. (2-tailed)							
	N	196						
Participation in PAS	Pearson Correlation	.958**	1					
	Sig. (2-tailed)	.000						
	N	196	196					
Open Communication	Pearson Correlation	-.031	-.021	1				
	Sig. (2-tailed)	.667	.765					
	N	196	196	196				
Trained Appraiser	Pearson Correlation	.562**	.549**	.297**	1			
	Sig. (2-tailed)	.000	.000	.000				
	N	196	196	196	196			
Ongoing Feedback	Pearson Correlation	.614**	.609**	.138	.788**	1		
	Sig. (2-tailed)	.000	.000	.055	.000			
	N	196	196	196	196	196		
Rewarding Performance	Pearson Correlation	.542**	.574**	.041	.566**	.679**	1	
	Sig. (2-tailed)	.000	.000	.565	.000	.000		
	N	196	196	196	196	196	196	
Fairness in PAS	Pearson Correlation	.768**	.752**	.011	.576**	.665**	.463**	1
	Sig. (2-tailed)	.000	.000	.881	.000	.000	.000	
	N	196	196	196	196	196	196	196
**. Correlation is significant at the 0.01 level (2-tailed).								

Source: Own Survey, 2021

Correlation results presented in Table 4.10 above shows that there is very strong positive relation between employee participation in performance appraisal process ($r = .958$, $P < .001$) and employee's motivation, a substantial positive relation between fairness of performance appraisal system ($r = .768$, $P < .001$) and employee motivation, and a moderate positive relationship

between ongoing feedback($r = .614$, $P < .001$), trained appraiser ($r = .562$, $P < .001$), and rewarding performance ($r = .542$, $P < .000$), and employee motivation.

In line with this finding, Dessler (2013) cited in Worku & Abreham (2018) stated that there are four indicators of performance appraisal that need to evaluate is clarity of performance expectation, fairness and trust of performance appraisal system and ongoing feedback towards motivation and job satisfaction. Several studies support the notion that these above mentioned variables are significantly related to employee motivation, job satisfaction and their commitment to their organization (Ashdown, 2014; HBP, 2009; and Morrow, 2008 cited in Worku & Abreham, 2018). Thus we can conclude that there are positive relationships between performance appraisal system and employee motivation.

4.4 Regression Analysis

Regression is widely used technique and links to Pearson's 'r', sharing many of its assumptions, including linearity and the use of scale data (Burns & Burns, 2008). Moreover, the technique of regression allows the researcher to make a prediction of the likely value of the dependent variable Y from known values of independent variable X in a simple linear regression, from known values of a combination of independent variables D, E & F in multiple linear regressions (Burns & Burns, 2008). The regression formula

$$y = b_0 + b_1x$$

Where y = Predicted score on dependent variable

b_0 = constant

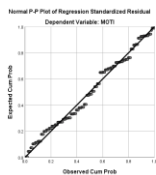
b_1 = slope

x = known score on independent variable

Thus, in examining the factors that could affect employee motivation, the study used a multiple linear regression model to show the effect of the six independent variables on the dependent variable i.e. Employee Motivation.

In using regression, scholars like Collins and Hussey (2014) advice to check linearity, normality, multicollineary and independence of the residuals on the data we used. Accordingly, among several ways to check for the normality assumptions for multiple linear regression analysis, it is advisable to inspect to see if a distribution is linear through a probability–probability plot (P–P plot). Therefore, to establish the validity of these assumptions, the researcher also checks normality through P-P plot as follows.

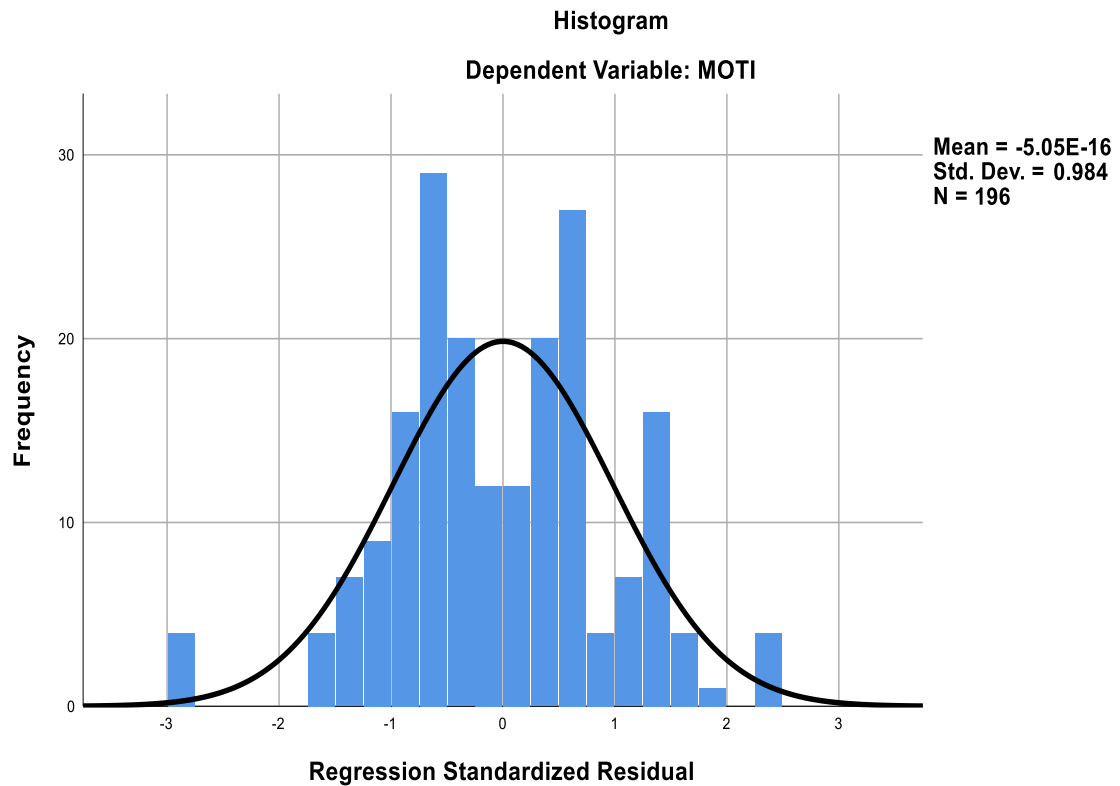
Figure: 4.1 Linearity Test Result



Source: Own Survey, 2021

The normal probability plot also shows up deviations from normality. The straight line in this plot represents a normal distribution, and the points represent the observed residuals. Therefore, in a perfectly normally distributed data set, all points will lie on the line (Burns & Burns, 2008). Similarly, as we can see in the above Figure 4.1, the dots are closely plotted to the straight line, which indicate a small or no deviation from normality and there are no extreme cases observed. Therefore, the assumption of multiple linear regression has been met and we can possibly assume that the model is accurate and can probably generalize to the population.

Figure: 4.2 Normally Test Result



Source: Own Survey, 2021

Figure 4.2 shows the frequency distribution of the standardized residuals compared to a normal distribution. As we can see, although there are some residuals (e.g., those occurring around 0) that are relatively far away from the curve, many of the residuals are fairly close. Moreover, the histogram is bell shaped which lead to infer that the residual (disturbance or errors) are normally distributed. Thus, no violations of the assumption normally distributed error term.

Multicollinearity Test

The table below shows that all tolerance levels are more than 0.2 and VIF is less than 10, providing that there is no multicollinearity problem (Collins and Hussey, 2014).

Table 4.11: Multicollinearity Test Result

Coefficients ^a			
Model		Collinearity Statistics	
		Tolerance	VIF
1	Employee Participation in PAS	.364	2.747
	Open Communication	.850	1.176
	Trained Appraiser	.328	3.052
	Ongoing Feedback	.256	3.901
	Rewarding Performance	.480	2.085
	Fairness of PAS	.353	2.835
a. Dependent Variable: Employee Motivation			

Source: Own Survey 2021

Table 4.12: Multiple Linear Regressions between the Six Performance Appraisal System Variables and Employee Motivation

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.961 ^a	.424	.422	.27099	2.247

a. Predictors: (Constant), Employee Participation, Open Communication, Trained Appraiser, Ongoing Feedback, Rewarding Performance and Fairness of PAS

b. Dependent Variable: Employee Motivation

Source: Own Survey, 2021

In Table 4.12 R indicates the relationship between dependent and all the independent variables and R² represents how much the dependant variable can be explained by the independent variables. From the equation, it was realized that motivation had a strong positive relationship with performance appraisal system. The correlation value was 0.961 which is considered as a strong relationship because the value falls greater than 0.70 (Collis & Hussey, 2014). The value was also positive indicating that, when the independent variables increase dependent variable also increases and vice versa. The adjusted R² indicates that 42.4 % (0.424) of employee motivation could be explained using the independent variables (Fairness of PAS, Open Communication, Rewarding Performance, Trained Appraiser, Employee Participation and Ongoing Feedback).

Table 4.13: Analysis of Variance Results of the Regression Analysis between Predictor Variables and Employee Motivation

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	168.908	6	28.151	383.358	.000 ^b
	Residual	13.879	189	.073		
	Total	182.787	195			

a. Dependent Variable: Employee Motivation.

b. Predictors: (Constant), Employee Participation, Open Communication, Trained Appraiser, Ongoing Feedback, Rewarding Performance and Fairness of PAS.

Source: Own Survey

Table 4.13 above summarized the information about the variation of the dependent variable explained by the existing model used for this study and the residual that indicates the variation of the dependent variable that are not captured by the model. Accordingly, it is observed that the independent variables give a significant effect on the dependent variable, where F-value is 383.358 with a p-value of less than 0.05 (i.e. p value 0.000) indicating that, over all, the model used for the study is significantly good enough in explaining the variation on the dependent variable. To ensure the statistical adequacy of the model, the goodness of fit can also be measured by the square of the correlation coefficient also called R².

This study focused on the effect of performance appraisal system on employees' motivation. It established that the relationship between PAS and employees motivation is significant. The findings of this study indicated that employee's motivation is strongly affected by the variables of the effective PAS like employee's participation and fairness of the PAS. In line with this finding various studies in the effect of PAS and employees motivation have shown

that employee participation in PAS and fairness of the PAS seems to be crucial in influencing employees' motivation (Ashdown, 2014; HBE, 2006; Armstrong, 2010).

Table 4.14: Regression Coefficients of the Relationship between Employees Motivation and the Six Predictive Variables

Model		Coefficients ^a		Standardized Coefficients	t	Sig.
		Unstandardized Coefficients				
		β	Std. Error	Beta		
1	(Constant)	.268	.103		2.597	.010
	Employee Participation	.845	.032	.876	26.357	.000
	Open Communication	-.029	.023	-.028	-1.269	.206
	Trained Appraiser	.051	.035	.050	1.441	.151
	Ongoing Feedback	.007	.042	.007	.178	.859
	Rewarding Performance	-.035	.027	-.037	-1.267	.207
	Fairness of PAS	.093	.033	.094	2.777	.006

a. Dependent Variable: Employee Motivation

Source: Own Survey, 2021

β = co-efficient of the independent variable

Sig. = represent the statistical significant level of the model

The regression equation is therefore $y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + b_5x_5 + b_6x_6$. When the values from the table are computed, the equation becomes $y = 0.268 + 0.845(x_1) + 0.093(x_6)$

The regression coefficient explains the average amount of change in dependent variable that caused by a unit of change in the independent variable. The larger value of Beta coefficient that an independent variable has, brings the more support to the independent variable as the more important determinant in predicting the dependent variable.

As illustrated in Table 4.14 above, the co-efficient value for employee participation was 0.845. This means that all things being equal, when the other independent variables (Open

Communication, Trained Appraiser, Ongoing Feedback, Rewarding Performance and Fairness of PAS) are held constant, motivation would increase by 85 % if there is 100% employee participation in PAS. This was statistically significant ($0.00 < 0.05$) i.e. the variable (employee participation in PAS) is making a significant unique contribution to the prediction of the dependent variable (employees' motivation). However, as indicated in Table 4.14, the co-efficient value for open communication, trained appraiser, ongoing feedback and rewarding Performance were statistically insignificant.

As illustrated in Table 4.14, the co-efficient value for fairness of PAS was 0.093. This means that all things being equal, when the other independent variables (Employee participation, Open Communication, Trained Appraiser, Ongoing Feedback and Rewarding Performance) are held constant, motivation would increase by 9.3 % if there is 100% fairness in PAS. This was statistically significant ($0.006 < 0.05$) i.e. the variable (Fairness of PAS) is making a significant unique contribution to the prediction of the dependent variable (employees' motivation).

Table 4.15: Summary of Hypothesis

	Hypotheses	Standardized Beta Coefficient	Significant (P<0.05)	Result (Supported or Not Supported)
H1	Employees' participation on PAS has significant effect on employee motivation.	.876	.000	Supported
H2	Continuous open communication in PAS has significant effect on employee motivation	-.028	.206	Not Supported
H3	Trained appraisers have significant effect on employee motivation.	.050	.151	Not Supported
H4	Ongoing feedback in PAS has significant effect on employee motivation.	.007	.859	Not Supported
H5	Rewarding Performance has significant effect on employee motivation.	-.037	.207	Not Supported
H6	Fairness of PAS has significant effect on employee motivation.	.094	.006	Supported

Source: Own Survey, 2021

As Table 4.15 showed out of six hypothesizes only two of them (participation in PAS and Fairness of PAS has significant effect on employee motivation) supported. Various studies (Cardy and Dobbins, 1994, HBE, 2006, Fletcher, 2008, Agunis, 2009, Ashdown, 2014) agreed with this finding.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter presented the summary of the study, its conclusion and recommendations for the concerned bodies comprehensively.

5.1. Summary of Findings

The result of background of respondents indicated that majority of the respondents were males with total of 117(59.7). In line with their age, most of the respondents were in the range of 25-35 years old (67.3%) and majority of the respondents, 128 (65.3) were degree holder regarding their educational level. Concerning the respondents work experience in current organization, majority of them, 101 (51.5%), served six to ten years.

The results obtained from descriptive statistics showed that majority of respondents were disagreed and dissatisfied with participation in PAS, ongoing feedback, trained appraiser, and fairness of PAS. Thus from the mean result that found in descriptive statistics, it is observed that employees were not satisfied with performance appraisal system which was a demotivation factor in the organization.

From the correlation analysis, the factors of effective PAS, participation in PAS, trained appraiser, ongoing feedback, rewarding performance and fairness of the PAS have positive correlation with employees' motivation. Consequently, there is a significant and positive relationship between the performance appraisal system and employee motivation.

Moreover, multiple regression analysis was conducted to test the influence among predictor variables. The regression analysis results showed that, 42.4% ($R^2 = 0.424$) of the changes in the employee motivation could be explain using combined effect of the predictor variables. Moreover, the p-value of the regression coefficient was less than 0.05 for participation in PAS and fairness of the PAS. Therefore, it is noted that participation in PAS and fairness of PAS had significant effect on employees' motivation in CBE NAAD.

5.2. Conclusions

Based on the objectives of the study and from the summary of the findings the researcher reached on the following conclusions.

Majority of respondents dissatisfied with the performance appraisal system of the organization. Moreover the level of employee's motivation regarding to the current performance appraisal system and their perception about the performance appraisal system was low although their motivation at work was high.

Employees' attitude of performance appraisal system has significantly and positively related with employees motivation. Consequently, there is a significant and positive relationship between the performance appraisal system and employee motivation in CBE NAAD.

From the regression analysis it is possible to infer that employees' attitude towards PAS significantly and positively predicts employee motivation. Strong effect of the performance appraisal system observed in the area of participation in PAS and fairness of the PAS.

5.3 Recommendations

Based on the findings of the study, the following points have been recommended for the organization to make its appraisal system more effective.

In recent times performance management has shifted from a ‘controlling’ activity to one of the partnership, where employer and employee share responsibilities for delivering required level of performance. Therefore, the organization (CBE) should develop the appraisal system that employees have a more responsibility to play an active part in developing objectives and identifying the required performance to deliver against those objectives and to strive for continuous improvement. Moreover, managers and employees work together to identify what the employee should be doing for the period being planned, how well the work should be done and other specifics, such as level of authority and decision making for the employee to facilitate open communication and ongoing feedback.

Moreover, performance appraisal is a key delivery mechanism for line managers to drive performance through strong communication, support, and building trust and respect. They have a key role supporting, enabling and creating an environment in which employees are more likely to be motivated to perform. Therefore, the organization should give proper responsibility for line managers regarding performance appraisal rather than simply depend only on the oracle system. In addition, the immediate supervisors of the employees and employee themselves should get training on current performance appraisal system so as to make it effective.

Finally, equitable and consistent treatment in performance appraisal process is more likely to create an environment where employees are motivated to perform. Therefore, the organization should create clearly delineated procedure that indicated who gets what in proper and measurable standards and objectives which reduce subjectivity and grievances.

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Appendix

**ADDIS ABABA UNIVERSITY COLLEGE OF BUSINESS AND ECONOMICS
SCHOOL OF COMMERCE
GRADUATE PROGRAM IN BUSINESS LEADERSHIP
ADDIS ABABA**

Questionnaire filled by Employees

Purpose: The main objective of this questionnaire is to collect primary data for the study on *'Effect of performance Appraisal on Employee Motivation: The Case of Commercial Bank of Ethiopia North Addis Ababa District'*. It is initiated to obtain the necessary data from you, as a vital source of information for this study. Thus, your kind and genuine response will contribute much to the study. Be confident that the information you provided will be kept confidential and used **only** for academic purpose.

Direction

- i. No need of writing your name.
- ii. The questionnaires contain statements about performance appraisal and employee's motivation. Give your own opinion and feeling about each item. Please mark (√) your response to each statement according to the following five-point scale in terms of your own agreement and disagreement of the statement. 5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree, 1 = Strongly Disagree.

Part I – Demographic profile of the respondent

1. Sex: Male Female
2. Age: Below 25 25-35 36-45
46-55 above 55
3. Educational Level: Diploma First Degree
Master Degree above Master Degree
4. Work experience in the present organization: 1-5 years 6-10 years
11-15 years above 15 years

Part II: Employees' Perception on Performance Appraisal System

Indicate the extent to which you agree with the following statements by using a scale of 1 to 5 where 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree. Please tick (√) in the box that best reflects your answer where:

No	Statement about the determinant factors of effective Performance Appraisal System (PAS) and the extent of their implementation in the existing performance appraisal practices	Measurement Scale				
	Employees Participation on PAS	1	2	3	4	5
1	I personally get involved in the process of setting objectives and targets of my job performance.					
2	Participating in the PAS motivate me, because it make me feel I am part of the organization.					
3	PAS instruments are developed and designed in job related performance factors with the help of employees.					
4	I am ready to accomplish my duties (track data to the system manually) that the PAS needs to be effective.					
	Continuous Open Communication	1	2	3	4	5
5	The PAS provide an oppportunity to communicate with the supervisors to facilitate my job performance					
6	There is a two way communication with both managers and employees for expressing their views.					
7	I found difficult to discuss PAS issues with my managers.					
8	There are definite written procedures and instructions for PAS usage.					
	Trained Appraiser	1	2	3	4	5
9	The PAS is regularly carried out by the responsible appraiser.					
10	I am confident because the appraiser knows enough about the PAS to appraise me.					

11	I got coaching and counseling from my immediate supervisor.					
12	My immediate supervisor has got training on the PAS.					
Ongoing Feedback		1	2	3	4	5
13	I received regular and timely performance feedback beside the annual performance review.					
14	The information provided by my supervisor during my performance feedback is accurate.					
15	The performance feedback I received helps me to improving my job performance and to attain my goals.					
16	The feedback I got helps me to gain insight about my weakness and strength.					
Rewarding Performance		1	2	3	4	5
17	Performance appraisal is linked with my salary increment and promotion.					
18	I rewarded proportional to my individual performance.					
19	I received annual bonus based on my performance and it's really motivated me.					
20	PAS creates a climate of appreciation and encouragement.					
Employees Perception about Fairness of PAS		1	2	3	4	5
21	I am evaluated according to the setting standards and measurements without subjectivity and bias.					
22	I can appeal (with clearly delineated procedure) what I considered unfair and inaccurate in my appraisal.					
23	I feel fairly treated in every way in the PAS.					
24	I trust the PAS in my organization as rational and fair.					

Part III: Level of Employees' Motivation regarding to the PAS.

Indicate the extent to which you agree with the following statements by using a scale of 1 to 5 where 1= Highly Dissatisfied, 2 = Dissatisfied, 3 = Neutral, 4 = Satisfied, 5 = Highly Satisfied.

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

No	Statement about the level of Motivation	1	2	3	4	5
25	I am motivated by and satisfied with the participation provided in the whole performance appraisal process in the Bank					
26	I am motivated by the ways of communication between the employees and the management with respect to the appraisal process.					
27	I am satisfied with the current appraisers competencies and skill in enhancing my motivation.					
28	I am satisfied with the current ongoing feedbacks applied in PAS and it helps me to improve my performance.					
29	I am satisfied with the current reward system linked to the PAS in enhancing my motivation.					
30	I am satisfied and motivated with the PAS because it is fair and unbiased.					

Part IV: Level of Employees' Motivation at work

Indicate the extent to which you agree with the following statements by using a scale of 1 to 5 where 1= Highly Dissatisfied, 2 = Dissatisfied, 3 = Neutral, 4 = Satisfied, 5 = Highly Satisfied.

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

No	Statement about the level of Motivation at work	1	2	3	4	5
31	I arrived early for work					
32	I helped colleagues with their task					
33	I took responsibility					
34	I communicated well with colleagues					
35	I asked constructive questions					
36	I am committed to achieve targets					
37	I am interesting in developing myself and others					
38	I enjoyed my work and the people					