

**THE EFFECT OF PERFORMANCE APPRAISAL SYSTEM ON
EMPLOYEES MOTIVATION: A CASE STUDY OF COMMERCIAL
BANK OF ETHIOPIA, ADDIS ABABA**

**A Thesis Submitted to the School of commerce of Addis Ababa University in
Partial Fulfillment of the Requirements for the Award of Master of Arts
Degree in Human Resource Management**



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This is to certify that the thesis prepared by Alemneh Admassu entitled “The Effect of Performance Appraisal System on Employee’s Motivation: A Commercial bank of Ethiopia (Addis Ababa Area)”, which is submitted in partial fulfillment of the requirements for the Degree of Masters of Art in Human Resource Management, complies with the regulations of the University and meets the accepted standards with respect to standards to originality and quality.

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DECLARATION

I declare that the project entitled “The effect of Performance Appraisal System on Employees Motivation in Commercial Bank of Ethiopia.” 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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Acronyms/Abbreviations

BSC- Balanced Score-Card

CBE- Commercial Bank of Ethiopia

HRD- Human Resource Development

HRM-Human Resource Management

PAS- Performance Appraisal System

PM- Performance Management

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Abstract

The general objectives of the study were, to determine the effect of performance appraisal system on employee's motivation at Commercial Bank of Ethiopia in Addis Ababa. The research design used in the study was descriptive study and explanatory research design, because descriptive design was appropriate for the achievement of the research objectives to show or describe the existing relationship between PAS and employees motivation, and explanatory research design used to examine the relationship between PAS and employees motivation by developing the working hypotheses from an operational point of view. The population for the study was 9699 and a sample size of 384 respondents was selected. Questionnaire was used as an instrument to collect primary data for this study and out of 384 questionnaires distributed 366 of the respondents were retrieving from the respondents. The data analyzed with descriptive and inferential analysis, and the result presented with tables and charts. Among the main finding of the study was that from the six factors of effective PAS, which are ongoing feedback, rewarding performance, trained appraiser, continuous open communication, fairness of the PAS have significant positive effect on employees motivation, except employees participation in the PAS. The result shows that the relationship between employees participation in the PAS and employees motivation was insignificant. Again, it was conclude that the level of employee's motivation regarding to the current performance appraisal system was low. The study recommends that the performance appraisal system is an important factor for employee motivation. Performance appraisal system helps to improve employee job performance and motivation at work. There are a few elements of the current performance appraisal system that are limiting the effectiveness of the appraisal to enhance motivation in organization.

Key word: performance appraisal system, motivation. feedback, reward, communication, participation, fairness, Commercial Bank of Ethiopia.

CHAPTER ONE

Introduction

1.1. Background of the Study

In competitive environment organizations should keep high performance, so that they can stay competitive in the industry, and to meet their customer needs by deliver the products and services they specialized in and finally to achieve their purpose of establishment. Bennet (2002) explains that people working for an organization, are the most valuable, the most costly, and the most volatile of all the resources that it can use to accomplish the organization's work. For this reason the major keys are to motivate employees in order to make their performance better, and effective management system of employee's performance is needed to evaluate their performance, these could maintain the organization performance on high level.

Grote (2002) suggests that performance Appraisal is a most important management tools that provide for the evaluation of the quality of an individual's performance in an organization. PAS refer the time period in which to summarize the overall progress that an individuals or team has made as result of being coached and to agree on the new goals that should be set. Performance appraisal system (PAS) is an important Human Resource Development (HRD) mechanism designed and utilized for the all round development and growth of employees as well as organizations. The information generated from such performance appraisal programs generally help the management to implement certain administrative and developmental decisions regarding selection, placement, promotion, rewards training and termination. Performance appraisals are important for staff motivation, attitude and behavior development, communicating organizational aims, and fostering positive relationships between management and staff (James and Manuel, 2009). All this exercise is done to keep employee motivated so that, the employees can improve their productivity both in terms of quality and quantity so that they can contribute effectively towards the short term and long term goals of the organization.

Motivation is the key of a successful organization to maintain the continuity of the work in a powerful manner and help organizations to survive. Motivation has the role to develop and intensify the desire of every member of the organization to work effectively and efficiently in his

position. Motivation can be defined as the propensity of the individuals to expend effort in work (Wendy, Curtis, Phillip, 2007). Peter and John (2005) suggest that there are two major theories of motivation, content theory and process theory. Content theory is based on the idea that there are psychological needs, probably of biological nature, which underpin human behavior; it also known as, Needs theory. Process theories on the hand, concerned with the process through which individuals become motivated and are generally based on cognitive psychology, that is, they assume that individuals engage in a rational calculating process in choosing to pursue particular objectives. These include expectancy theory, equity theory, goal theory and the psychological contract (Peter and John, 2005).

Amongst these theories, Expectancy Motivational Theory is most applicable to study the effect of performance appraisal system on employee's motivation. According to Wendy, Curtis and Phillip (2007), it has greater relevance for professionals such as accountant and other bankers. Therefore for the purposes of this research, and after full consideration of all the theoretical evidence, Expectancy theory is thought to be most relevant for this study to examine the relationship between performance appraisal and employee's motivation in CBE.

Commercial bank of Ethiopia is one of government owned bank in Ethiopia that was established in 1942. CBE is one of the biggest financial institutions in Ethiopia which shows outstanding performance in the previous years and put the bank as large and successful. It plays its own role in the economic development of the country. The bank has nearly 1,150 branches throughout the country. The number of employees of the bank is also increasing rapidly; it has almost 30,000 employees working in different branches through all over the country. CBE is currently operating by setting a vision to become world class bank by 2025. CBE mission is to be committed to best realize stakeholders' values through enhanced financial intermediation globally and supporting national development priorities, by deploying highly motivated skilled and disciplined employee as well as state of the art technology.

The performance management system of the bank is one of the major functions of HR, which is changed recently. The bank doesn't have well organized measurement system before the implementation of Business process re-engineering (BPR). However after implementing the BPR and use it for few years the bank introduced new performance management system with the aim of managing employee's performance with the help of BSC. Balance score-card is utilized to

cascade the strategic actions of the bank up to process level and mainly measuring performance of team, and individual's level.

Therefore, it would be necessary to conduct a research on the relationship between performance appraisal systems and employees motivation in CBE, because the motivation of employees have a significant effect on employee's performance and organizational performance. And, understanding how HRM practices which is the PAS influence employee motivation could help organizations setting up a better management system, and finally improve employee performance and organizational performance.

1.2. Statement of the Problem

Only recently, the potential role of HRM in improving an organizations performance has been realized (Breadwell and Holden, 1997). Breadwell and Holden (1997) HRM practices can develop the performance of an organization by contributing to employee satisfaction. Among the HR practices that have been studied, performance appraisal is arguably one of the more crucial ones in terms of organization performance and appears to be an indispensable part of any HRM system (Shrivastava and Purang, 2011). „The success, survival and competing power of organizations depend on the commitment of their members, and this may, to a large extent, depend on how satisfied the employees are in respect of the organization's appraisal mechanism.“ (Abdulkadir, Isiaka & Adedoyin, 2012, p.124).

Commercial bank of Ethiopia is the largest financial institute in Ethiopia. The organization plays important role on the economy of the country, for instance the organization create many job opportunity for many people in the country. It has more than 29000 employees working under the organizational. In order to manage the performance and motivate all these employees, the organization need properly developed and effectively implemented performance appraisal system to effectively managing the performance of employee's in order to sustain the organization performance. Effective PAS helps the organization to achieve its goals by developing productive and motivated employees. The bank has currently initiated the institutionalization of management tool which is called" Balanced score-card", which would enable it to formulate and implement its strategy and to track its performance.

However, the current PAS possess certain problems and these problems could be a possible cause of much dissatisfaction. Based on Business Development Process survey, 2016, in CBE, the employees' motivation towards performance appraisal systems and its practice is found at low stage, the primary a result is that the PAS process that often take place without the participation and engagement of employees. Agunis (2009), explains that to make the PA effectively work in the organization the involvement of employees on performance appraisal process are the major factors, because involvement of employee can reduce the employee and managers resistance to the performance management and increase the sense of belongingness in the work place. The second reason of employee's low satisfaction is related with the performance rewarding approaches. In practice, it is often the case that employees receive annual bonus setting based on the whole branch evaluations, the system do not provide rewarding of performance for employees related to their individual contribution. In general these problems are challenges to the PAS to be effective.

As a result, CBE should implement effective and acceptable PAS to fill these gaps through creating well developed performance rewarding, the individual performance and contributions for achieving the goal should take in to account when the rewards provide, increase the engagement of employees and provide an opportunity of involvement of employees in PA process.

Therefore, it was important to conduct this research to show that effective performance appraisal system are existed in CBE and to examine its effect on employee motivation, so that a completed and comprehensive performance system could be built up.

1.3. Research Question

This section deals with the formulation of the research question that helps to achieve the objective of the study. They are:

1.3.1. Main Question

- What is the effect of performance appraisal system on employee's motivation of commercial bank of Ethiopia?

1.3.2. Sub Questions

These are the following

- What is the effect of performance appraisal system practices on employees' motivation in CBE?
- Does effective performance appraisal system practices existed currently in CBE?
- What is the level of employees' motivation regarding to the actual performance appraisal system in CBE?

1.4. Objectives of the Study

1.4.1 General Objective

The overall objective of the study was to investigate the current effect of performance appraisal system of the bank on employee's motivations.

1.4.2. Specific Objectives

To realize the main intent of the survey, the following specific objectives were address:

- To examine the effect of performance appraisal system practices on employees' motivation in CBE.
- To determine effective performance appraisal system practices currently existed in CBE.
- To determine the level of employees' motivation regarding to the actual performance appraisal system.

1.5. Significance of the Study

In this research the finding can contributes to the bank by providing information, about the existing level of employee motivation related to the performance appraisal system and how the performance appraisal system are crucial to incorporate as a means of enhancing the employees' performance in the organization as well as enhance motivation at the workplace. It also gives insight about the effect of the existing performance appraisal system, so that the bank can take appropriate action to solve the current problem.

The study also provides relevant information for concerned organs found at various levels of management, human resource department and labor unions, to understand the importance of effective performance appraisal system and its effect on employee motivation.

This study would be useful to academicians and researchers who might be interested in pursuing research in the same area. The study will help them understand the effect of the appraisal performance system on employee motivation.

Additionally this study would help the researcher to acquire knowledge and experience of doing a study and learning about the relation of performance appraisal system and motivation.

1.6. Scope of the Study

The study used cross-sectional data to examine the relationship between performance appraisal system and employees motivation, which means the data collected in one point in time. The study examined the effect of performance appraisal system on employee motivation despite to other factors that influenced or affected by the appraisal system. The study used both descriptive and explanatory research design. The study was focus on one dependent variable, which is motivation and independent variable performance appraisal. The study was limited on one organization, commercial bank of Ethiopia in Addis Ababa area, due to the difficulties to cover all branches of the bank throughout the country regarding with limited time and scare resource.

1.7. Limitation of the Study

Due to resource constraints, the study did not include CBE branches and offices located outside of Addis Ababa. It is thus understandable that this may have its own limitations on the findings of the study. The study was about the effect PAS, so that it only question employees whom evaluated or affected by the PAS to gain valid information about the PAS. The researcher again faced the problem of the unwillingness of some staff of the selected branches to answer questions on the questionnaires. Even though some of the respondents accepted the questionnaires, some of the spaces provided were left unfilled.

1.8. Definition of Terms

Conceptual Definition

- Performance management -is a strategic and integrated approach to delivering sustained success to organizations by improving the performance of the people. (Baron and Armstrong, 1998).
- Performance appraisal system refers evaluating performance to encourage employee motivation and performance and to provide information to be used in managerial decision making (Grote, 2002).
- Motivation can be defined as the psychological forces within a person that determine the direction of that person's behavior in an organization, effort level, and persistence in the face of obstacles (George and Jones, 2012).
- Human resource management is defined as a strategic and coherent approach to the management of an organization's employees which is the most valued assets (Armstrong, 2006).

Operational Definition

- BPR is the technique of analyzing the current operations and system within an organization in order to identify and eliminate anything that does not add value (Heery and Noon, 2008).
- BSC refer utilized to cascade the strategic actions of the organization up-to process level and mainly measuring performance of team, and individual's level (Heery and Noon, 2008).

1.9. Organization of the Study

The study comprises five chapters. Chapter one discusses the background, problem statement, scope, significance, and objectives for undertaking this research project. Chapter Two looks at existing literature related to the study to gain an understanding of the research topic. Chapter Three presents the research methodology that the researcher used to undertake the study. Chapter Four comprises the findings and discussions of the findings to the study. Chapter five summarize the findings of the study and also make recommendations that would contribute to solving the problem raised, as well as a recommendation for further study.

CHAPTER TWO

Literature Reviews

2.1. Performance Appraisal

Performance can be defined as

“What is expected to be delivered by an individual or a set of individuals within a timeframe. What is expected to be delivered could be stated in terms of results or efforts, tasks and quality, with specification of conditions under which it is to be delivered” (Kumari & Malhotra, 2012, p.78).

Armstrong (2006) defined Performance Appraisal as the formal assessment and rating of individuals by their managers at, usually, an annual review meeting. While The Chartered Institute of Professional Development (CIPD) have a more comprehensive and in-depth definition which argues that

„Performance Appraisal is an opportunity for individual employees and those concerned with their performance, typically line managers, to engage in a dialogue about their performance and development, as well as the support required from the manager” (CIPD, 2013).

Performance appraisal is not just about rating employees, Meenakshi (2012) identified that organizations carry out Performance Appraisal as a basis for administrative decisions such as promotion, allocation of financial rewards, employee development and identification of training needs. „Appraisal is preceded by establishing general objectives or a description for the job, identifying specific job expectations, providing feedback and, when necessary, coaching. (Hillman, Schwandt & Bartz, 1990).

Fletcher (2004) believes that the general aims of Performance Appraisal also include Motivating staff, Succession planning and identifying potential, promoting manager subordinate dialogue and formal assessment of unsatisfactory performance. However, Khan (2007) states that the fundamental objective of performance appraisal is to facilitate management in carrying out administrative decisions relating to promotions, firings, layoffs and pay increases. From carrying out the performance appraisal, management then have to make choices in

relation to retention, future assignments and training and developmental needs (Hillman et al, 1990).

According to Obisi (2011), „Organizational performance and its resultant efficiency and effectiveness can only be achieved when individuals are continuously appraised and evaluated. This explains why almost every organization carries out some form of performance appraisal either on its own or as part of their performance management system“.

2.1.1. The Historical Emergence of PAS

„Performance Appraisal became a widely used management tool in businesses around the 1980’s. Its modern uses had previously been restricted to Army Officers and Senior Management“ (Taylor, 2005). However appraisal has been present throughout history and has advanced significantly over time.

Some of the earliest evidence of Performance Appraisal was seen in the 3rd century when a Chinese philosopher Sin Yu criticized a biased rater of the Wei Dynasty on the grounds that the Imperial Rater of Nine Grades rarely rates men by their merits but always rates them according to his likes and dislikes (Patten, 1977). Appraisal was seen further on, in 1648 when it was stated that the Dublin Evening Post evaluated legislators using a rating scale based on personal qualities (Hackett, cited in Wiese and Buckley, 1998). Appraisal then became a more formal process, firstly in the 1800’s when a General in the US Army submitted an assessment of his soldiers to the War Department. The Army General used a global rating, which defined his men as for example „a good-natured man“ or „a knave despised by all“ (Bellows and Estep, 1954).

The first recorded appraisal system in industry was by Robert Owen in New Lanark Mills, Scotland around 1800. He used character books and blocks to rate staff. The character book recorded each worker’s daily report. The blocks were colored differently on every side to represent an assessment of the worker rating them from strong to weak. These blocks were then displayed in the employee’s workplace. Owen was happy with the how the blocks improved the workers behavior (Cardy & Dobbins, 1994).

Following the success of the appraisal system used in the Armed Forces, senior management of large US corporations wanted to test this technique within their organizations,

and so hired many of these people who were associated with the practice used in the Army. The tools for rating evolved over time from Global Rating towards Man-to-Man Rating and then to Trait based Rating. These appraisal tools tended to exclude top management and also used the same forms for all workers regardless of skills and duties. They tended to focus on past actions instead of future goals and were always conducted by the supervisor with little input from the employee (Wiese & Buckley, 1998). Because of this a change was brought about in the tools used and consequently the critical incident and forced choice methods were introduced. These methods were more advanced and substantive than previous approaches, but their intricacy meant that they are not readily used in today's world (Flanagan, 1954).

The popularity of performance appraisal in an industry setting was growing and by the early 1950s, 61 percent of organizations carried out performance appraisals frequently, compared to only 15 percent immediately after the Second World War (Spriegel, 1962). Smith and Kendall (1963) created the Behaviorally Anchored Rating Scales (BARS) hypothesized to be superior to alternative evaluation methods in several. This replaced numerical or adjective ratings used in the graphic or trait rating scales, with behavioral examples of actual work behaviors". BARS meant supervisors could rate employees on observable behavioral elements, rather than on a scale. The major advantage of such measures is that the evaluator has to make fewer inferences about the employee. The evaluator is cast more in the role of observer and less in the role of judge (Schwab, Heneman, & DeCotiis, 1975). „Numerous spin-offs to BARS have been developed since. The contribution of these developments has been an emphasis on the behavioral bases of performance ratings“ (Wiese & Buckley, 1998).

One of the most influential events in the evolution of performance appraisal was the legal requirements that changed how appraisals could be carried out. The enactment of the 1964 Civil Rights Act in the United States, which prohibited administrative action on the basis of color, religious beliefs, sex, etc., led to a legal use for Performance Appraisal. This legal constraint was the final blow to subjective, trait based approaches (Banner & Cooke, 1984). This meant that the use of personality traits in Performance Appraisal and the links between appraisal and human resource consequences had become strictly regulated. This change has played an enormous part in the shift towards Performance Appraisals as they are now, where there are numerous ethical concerns to take into consideration.

2.1.2. Performance Appraisal Today

In recent years, performance appraisals have been used in organizations for numerous reasons, as opposed to the historical method it was used for, making administrative decisions. According to Cleveland, Murphy & Williams (1989) there are four main uses for Performance Appraisal in organizations today. These are Between Individual Comparisons, Within Individuals Comparisons, Systems Maintenance and Documentation.

Between individuals relates to comparison of individuals in terms of performance, Within Individuals concentrates on identifying and developing individuals strengths and weaknesses. Systems Maintenance can mean using Performance Appraisal as a source to link company procedures and strategy with the performance of employees and the goals that they have achieved and are working toward. Linking Performance Appraisal to the business goals of the company has been seen as an innovative way of focusing employees' actions to the priorities of the business. The purpose of Documentation is the use of performance appraisal to document or justify personnel decisions and ensure they are meeting legal requirements (Cleveland et al, 1989; Wiese & Buckley, 1998).

Throughout the vast amount of journal articles and research on performance appraisal, there is a substantial view that while performance appraisal seems like a great tool and should be of huge benefit to every organization, they can be moderately ineffective and so have taken a lot of criticism. Lawler (2012) discusses how a lot of literature poses the idea of dismissing performance appraisal completely, but he believes that Performance Appraisal is a vital procedure for effective talent management. He recommends that the way forward for Performance Appraisal is not to eliminate it but to work on making it an effective tool. „The key is to make them part of a complete performance management system, which includes goal setting, development, compensation actions, performance feedback and a goals based appraisal of performance“ (Lawler, 2012).

2.1.3. Performance Appraisal and Performance Management

The majority of recent literature on Performance Appraisal states that it needs to be carried out as part of a whole Performance Management system and none solely on its own. Performance Management can be defined as a systematic process for improving organizational

performance by developing the performance of individuals and teams (Armstrong, 2006). Walters (1995) defined Performance Management as the „process of directing and supporting employees to work as effectively and efficiently as possible in line with the needs of the organization“. Williams (2002) believes the notion of Performance Management is creating a shared vision of the aims and purpose of the organization, helping each individual employee to understand and recognize their part in contributing to them, and thereby managing and improving the performance of both individuals and the organization.

Performance Appraisal plays a central role in Performance Management Systems; it is normally the vehicle behind which the organizational goals and objectives are translated into an individual's objective. It also remains the primary way of discussing and acting on the development of the individual (Fletcher, 2004). When a part of performance management, appraisal is much more tightly linked with the larger business environment. De Nisi and Griffen (2008, p.318) state that Performance management refers to „a general set of activities which are carried out by the organization to improve employee performance“. Although performance management is typically reliant on performance appraisals, performance management is a broader and more encompassing process and is the ultimate goal of performance appraisal activities (De Nisi & Griffen, 2008). Performance Management has been seen to be more successful and brings a lot of benefits to an organization.

Performance management systems are effective when they are based on goals that are jointly set and are driven by an organization's business strategy (Lawler, Benson & McDermott, 2012). Performance Appraisal from a social-psychological perspective as opposed to the traditional tool for measurement is becoming more popular, viewing Performance Appraisal as a communication and social process.

2.1.4. The Purpose of Performance Appraisal

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

a. Development. It can determine which employees need more training, and it can help evaluate the results of training programs. It helps the subordinate-supervisor counseling relationship, and it encourages supervisors to observe subordinates' behavior to help employees.

b. Motivation. It can encourage initiative, develop a sense of responsibility, and stimulate efforts to perform better. Robbins P. (2003) defined motivation as the process that account for an individual's intensity, direction, and persistence of effort toward attaining a goal.

c. Human resources and employment planning. It can serve as a valuable input to skills inventories and human resource planning.

d. Communications. It can serve as a basis for an ongoing discussion between superior and subordinate about a job-related matter. Through interaction and an efficient feedback process, the parties get to know each other better.

e. Legal Compliance. It can serve as a legally defensible reason for promotions, transfers, rewards, and discharges.

f. HRM research. It can be used to validate selection tools such as a testing program.

McGregor (1987) cited by Kumar (2005) grouped the objectives of performance appraisal in a number of ways: Administrative, Informative and Motivational.

- Administrative. Providing an orderly way of determining promotions, transfers and salary increases.
- Informative. Supplying data to management on the performance of subordinates and to the individual on his or her performance.
- Motivational. Creating a learning experience that motivates staff to develop themselves and improve their performance.

According to Stredwick (2005) there are two main purposes driving towards performance management. Firstly, the operational reasons (control, communication and effectiveness), which serve to lead and control. As organizations exist in an increasingly competitive environment, it becomes more and more important for employees to have clear guidance and direction towards the organization's aims and objectives. The performance management system sets out to communicate the link between an organization's mission and strategic direction and the required employee performance. The process can also be used as a form of strict control over employees. As can be observed; the list is long even additional points could be added. However, behind all

these lies the notion those managers are interested to see if employees are performing as well as they can and also to assess the potential for growth (Kressler, 2003).

Most of the times performance appraisal is related with compensation level since both the employees and the employer want to assess whether the employees are fairly rewarded for the contracted services (Grote, 2002). The evaluation has to be on concrete or verifiable factors but some of the factors will be difficult to measure directly. Strebler (1997) as cited by Nyaoga (2010) clearly indicated that employee performance appraisal has become a key feature of an organization's drive towards competitive advantage.

Generally the above purpose of performance appraisal can be divided into two. The points related with compensation, promotion, demotion, layoffs, etc., could be termed as administrative purpose and the others which are forward looking like required training, identifying areas for growth, development planning, career planning, etc., can be called developmental purpose (Mathis and Jackson, 1997). The different purposes set to be achieved by the system demand a thorough thought to see whether such seemingly contradictory objectives could be achieved at all or fairly done. For this purpose one type of criteria or dimension will not be enough.

2.1.5. 360° Appraisal

360 degree appraisal is an approach to performance appraisal that involves gathering performance information from people on all sides of the manager – above, beside, below and so forth (De Nisi & Griffen, 2008). This approach allows management to match the strengths and weaknesses from each perspective and gain a more accurate, rounded view of a person's true performance (Conway, 1996).

Rees and Porter (2003, p.83) define 360 degree appraisal as a process that involves the key people in a person's network of working relationships making assessments of a person's performance. The subordinate being appraised is then given structured feedback; this may involve feedback from subordinates and any key outside parties, if it is practicable. Some of the subordinates that may give feedback are the immediate manager, other management in the organization, peers, internal and external customers and suppliers.

360 degree appraisal can be used to reduce the bias of the appraisal process by removing top down ratings by managers. This is done by replacing them with a multi-source assessment (Grint, 1993). However, Prowse and Prowse (2009, p.73) argued that a manager in 360-degree appraisal „collates feedback rather than judges performance and summarizes evaluations and so the validity of upward appraisal means the removal of subjective appraisal ratings“.

Using the 360 degree appraisal technique can mean there will be more negative feedback given, and this is known to demotivate staff. It is therefore vital that the managers are using the feedback received from the other raters wisely and ensure it is consistent and unbiased (De Nisi and Griffen, 2008). De Cenzo and Robbins (1996) feel that appraisers should only rate in those areas in where they have substantial job knowledge. They should be as close as possible to the organizational level of the employee being evaluated. If the appraiser is not in position where they can observe the persons work behavior then there is a greater chance of inaccuracies.

2.1.6. Performance Appraisal Process

Peter (1994) categorizes a four- step process of the performance appraisal system. Performance appraisal systems comprises of established performance standards, a method of determining individual performance, comparison against standards and an evaluation of performance based on the comparison. The first step of establishing performance standards outlines the employees“ job responsibilities. The job standards are set against the worker performance. The second step involves pegging the worker performance (such as traits approach, behavioral approach, ranking methods, alternation ranking, and results methods, productivity measures, 360 degrees evaluation and Management by Objectives (MBO). Thirdly, there is comparison against standards. At some point, the individual work record it compared with the standards set for the job. Fourth, an evaluation of performance is made pegged on the comparison.

2.1.7 Methods for Appraising Employee Performance

Performance can be appraised by a number of methods. The various methods are categorized into four major groups: category rating, comparative, narrative and special methods (Mathis and Jackson, 1997, p.352).

2.1.7.1. Category Rating Methods

The simplest methods for appraising performance are category rating methods, which require a manager to mark an employee's level of performance on a specific form. The graphic rating scale and checklist are common category rating methods while the other is forced choice method (Mathis and Jackson, 1997, p.352).

A. Graphic Rating

Graphic Rating Scale allows the rater to mark an employee's performance on a continuum. Because of its simplicity, this method is the one most frequently used. It is also the oldest method in which the rater checks the appropriate place on the scale for each duty listed. More detail can be added in the space for comments following each factor rated (Stephen and Coulter, 2002).

There are some obvious drawbacks to the graphic rating scale. Separate traits or factors are grouped together, and the rater is given only one box to check. Another drawback is that the descriptive words sometimes used in such scales may have different meaning to different raters. Terms such as initiative and cooperation are subject to many interpretations, especially in conjunction with words such as outstanding, average and poor. This method in many forms used widely because they are easy to develop; but for the same reason, they encourage errors on the part of the raters, who may depend too heavily on them.

B. Checklist

Checklist is composed of a list of statements or words. Raters check statements most representative of the characteristics and performance of employees. The following are typical check list statements presented by Mathis and Jackson (1997, p.354)

The checklist can be modified so that varying weights are assigned to the statements or words. The results can then be quantified. Usually, the weights are not known by the rating supervisor and are tabulated by someone else, such as a member of HR unit. There are different difficulties with the checklist as with the graphic rating scale. The words or statements may have different meanings to different raters; raters cannot readily discern the rating results if a weighted checklist is used and raters don't assign the weights to the factors. These difficulties limit the use

of the information when a rater discusses the checklist with the employee, creating a barrier to effective developmental counseling. According to Ivancevich (2004), the checklist is a set of objectives or descriptive statements .If the rater believes that the employee possesses a trait listed, the rater checks the item; if not, the rater leaves it blank. A rating score from the checklist equals the number of checks.

C. Forced Choice

This method was developed at the close of World War II. Under this method, a large number of statements in groups are prepared. Each group consists of four descriptive statements (two favorable) concerning employee behavior. Two statements are most descriptive (favorable) and two are least descriptive (unfavorable). Sometimes there may be five statements in each group out of which one would be neutral. The actual weightings of the statements are kept secret. The appraiser is asked to select one statement that mostly describes employee's behavior out of the two favorable statements are kept secret. The appraiser is asked to select one statement which is mostly describes employee's behavior out of the two unfavorable statements. The items are usually a mixture of positive and negative statements. The intent is to eliminate or greatly reduce the rater's personal bias, specially the tendency to assign all high or low ratings. The items are designed to discriminate effective from ineffective workers as well as reflect valuable personal qualities described by Mathis and Jackson (1997). Ivancevich (2004) has argued that the forced choice method was developed to avoid the problems faced in graphic rating scale which allowed supervisors to rate high. This creates difficulty in distinguishing poor and good performance, as sensitivity is one necessary characteristics of a good criterion.

2.1.7.2. Comparative Methods

These methods, unlike the other methods, require managers or supervisors to compare performance appraisals of employees having same job description (Mathis and Jackson, 1997).For example, an accountant's performance can be compared with that of other accountants. Comparative techniques of evaluation methods include ranking, paired comparison and forced distribution.

A. Ranking

Ranking is listing of all employees from highest to lowest or ranked from best to worst in performance. Rankings require a supervisor to generate a list of subordinates in order of some overall criterion. This is very difficult to do if the supervisor is asked to rank the best and worst employees in a reliable way than it is to rank the average ones. In this approach, the evaluators pick the top employee first, and then the bottom employees next until all employees are ranked (Ivancevich, 2004). The drawback of this method is that the difference among individuals is not well defined. This drawback can be overcome to some extent by assigning points to indicate the size of the gaps. Ranking also means that someone must be last. It is possible that the last ranked individual in one group would be the top in a different group. Further, ranking becomes very unmanageable if the group to be ranked is very large (Mathis and Jackson, 1997).

B. Paired Comparison Method

Paired Comparison method was designed to make the ranking process easier for the supervisor and perhaps more reliable, especially when there are many people to rank. The supervisor uses a series of cards which show the strength and weakness of each pair of employees simultaneously, selects one of the two, continues until all employees are paired and compared, and the final ranking is determined by counting how many times a given employee is chosen as the better performance of all of the comparisons made (Ivancevich, 2005). Mathis and Jackson (1997, p.355) have defined paired comparison as a formal comparison of each employee with every other employee in the rating group one at a time. The number of comparisons can be calculated using the following formula:

$$n*(n-1)/2, \text{ where } n \text{ is the number of employee rated.}$$

Both Ivancevich and Mathis and Jackson agreed that larger number of comparisons that must be made is the major drawback of this method.

2.1.7.3. Narrative Methods

Some managers and HR specialists are required to provide written appraisal information. Mathis and Jackson (1997, p.356) divided these methods into: critical incident, essay and field

review methods. Documentation and description are the essences of these methods. These records describe an employee's actions rather than indicating an actual rating.

A. Critical Incident

This method requires listing down good and bad performance actions of the employees. When a critical incident involving an employee occurs, the manager writes down. A listing of critical incidents is kept during the entire rating period for each employee. The critical incident method can be used with other methods to document the reasons why an employee was rated in a certain way. The critical incident method also has its unfavorable aspects. First, what constitutes a critical incident is not defined in the same way by all supervisors. Next, producing daily or weekly written remarks about each employee's performance can take considerable time. Further, employees may become overly concerned about what the supervisor writes and begin to fear the manager's black book (Mathis and Jackson, 1997, p.356)

According to Ivancevich (2004), this technique requires raters to maintain a log of behavioral incidents that represent either effective or ineffective performance for each employee being rated. These incidents are critical incidents. Because these incidents might not be directly comparable for different ratees, lists of standardized incidents can be prepared by a HR specialist in consultation with operating managers. The rating task then becomes one of logging each time a subordinate engages in one of these behaviors. An example of a good critical incident for a salesclerk is the following: listened patiently to the customer's complaint, answered the woman's questions, and then took back the merchandise, giving the customer full credit for the returned product. He was polite, prompt, and interested in her problem. On the other hand, a bad critical incident might read as follows: stayed eight minutes over on his break during the busiest part of the day. He failed to answer three store manager's calls on the intercom and to report to cash register immediately.

B. Essay Evaluation

The essay or free-form appraisal method requires the manager to write a short essay describing each employee's performance during the rating period. The rater is usually given a few general headings under which to categorize comments. The intent is to follow the rater's more flexibility than other methods do. As a result, the essay method is often combined with

other methods (Stephen and Coulter, 2002). In this method, the rater may be asked to describe the strong and weak aspects of the employee's behavior. In some organizations, the essay technique is the only one used; in others, this method is combined with another form such as a graphic rating scale. In this case, the essay summarizes the scale, elaborates on some of the ratings, or discusses additional dimensions that are not on the scale. In both these approaches, the essay can be open-ended, but in most cases there are guidelines on the topics to be covered, the purpose of the essay, and so on.

The essay method can be used by raters who are superiors, peers, or subordinates of the employee to be evaluated (Ivancevich, 2004, p.267). There are criticisms about the accuracy and relevance of essay evaluations. However, they do offer flexibility, and in an organization that emphasizes customer satisfaction, an evaluator can specifically address the ratee's achievements in this area. This flexibility to discuss what the organization is attempting to accomplish is one strength of essays. On the other hand, comparing essays written by the same or different raters is difficult. Skilled writers can paint a better picture of an employee than can unskilled writers.

C. Field Review

In the field review, the HR unit becomes an active partner in the rating process. A member of the unit interviews the manager about each employee's performance. The HR representative then compiles the notes from each interview into a rating for each employee. Then the rating is reviewed by the supervisor for needed changes. This method assumes that the representative of the HR unit knows enough about the job setting to help supervisors give more accurate and thorough appraisals. The major limitation of the field review is that the HR representative has a great deal of control over rating. Although this control may be desirable from one view point, the supervisors may see it as a challenge to their managerial authority. In addition, the field review can be time consuming, particularly if a supervisor has to rate a large number of employees (Mathis and Jackson, 1997 p.356).

2.1.7.4. Special Methods

A. Behavioral Rating

One attempt to overcome some of the difficulties of the methods just described is several different behavioral approaches. Behavioral approaches hold promise for some situations in overcoming some of the problems with other methods. Mathis and Jackson have divided this method into: behaviorally anchored rating scales, behavioral observation scales and behavioral expectation scales. Behaviorally Anchored Rating Scales match descriptions of possible behaviors with what the employee most commonly exhibits.

Behavioral Observation Scales are used to count the number of times certain behaviors are exhibited. Behavioral Expectation Scales order behaviors on a continuum to define outstanding, average, and unacceptable performance.

B. Management by Objectives (MBO)

MBO specifies the performance goals that an individual hopes to attain within an appropriate length of time. The objectives that each manager sets are derived from the overall goals and objectives of the organization, although MBO should not be a disguised method for a superior to dictate the objectives of individual managers or employees. Although not limited to appraisal of managers, MBO is most often used for this purpose. Other names for MBO include appraisal by results, targeting, coaching, work planning and review, performance objectives, and mutual goal setting (Mathis and Jackson, 1997, p. 357).

Implementing a guided self-appraisal system using MBO is a four-stage process (Mathis and Jackson, 1997, p. 358). These are:

- Job review and agreement
- Development of performance standards
- Guided objective setting
- Continuing performance discussions.

It can be deduced that in theory MBO promotes success in each employee because, as each employee succeeds, so do the manager, the department and the organization. However, this happens if all stakeholders have compatible goals (Cascio, 2003). Additionally, as no management tool is perfect, MBO is not appropriate for all employees or for all organizations (Mathis and Jackson, 1997).

2.1.7.5. Selection of Appraisal Methods

Methods which increase effectiveness of performance appraisals systems would be important. However, it is unlikely to get one clear cut solution to this problem. Simply an analysis of the situation could be important. The bottom line regarding the use of the various methods is that, what is important about the different appraisal techniques is not the difference in the results, but the relevance and acceptability of the system by employees and supervisors (Mathis and Jackson, 1997).

Performance appraisal has got an effect, sometimes even a considerable one, on the employee's interests. It has bearing on income, future work, promotion and, of course, also self-esteem, security and status (Kressler, 2003 & Scholtes, 1998). Whether the results are clear-cut or not, there must be feedback on performance appraisals to employees. This will increase the acceptance level and reduce problems of communication and perception.

2.1.8. Effective Performance Appraisal System

From reviewing the literature, there appears to be no one single best method of Performance Appraisal, although there are certain common elements throughout all effective methods. „Effective performance appraisals are commonly associated with clear goals that are attached to specific performance criteria and are well-accepted by both appraiser and appraisee“ (Mustapha & Daud, p.158). All effective performance appraisals include elements such as linking appraisal to rewards, the supervisor and employee working together to identify goals, performance goals clearly defined, feedback given to the appraiser on their effectiveness and compliance with legal requirements (Rankin & Kleiner, 1988).

„The success of any HR intervention in organization is heavily dependent on employees' perception of that intervention“ (Rahman & Shah, 2012, p.11). For performance appraisal to be effective and useful, it is vital that those taking part, the appraiser and the appraisee, are both

benefiting from it and find the procedure a productive tool, as without this, it would be impossible for the system to work.

Employees' thoughts of performance appraisal systems could be as important to the continuing success of the system as reliability and validity (Dipboye and Pontbriand, 1981). Employee perceptions of the fairness of their performance appraisals are useful in determining the success of performance appraisal systems (Erdogan, Kraimer & Liden, 2001). A vast amount of literature looks at whether performance appraisal is successful based on rating accuracy and qualitative aspects of the appraisal, but it is reasonable to suppose that employees' reactions to the appraisal system could have just as much influence on the success of an appraisal system (Cawley, Keeping & Levy, 1998). An organization might develop the most precise and sophisticated appraisal system, but if the system is not recognized by the staff, its effectiveness will be limited.

Fletcher (2004) listed the three things that employees being appraised looked for in a performance appraisal, these are: perceiving the assessment as accurate and fair, the quality of the existing relationship with the appraiser and the impact of the assessment on their rewards and well-being.

According to Cawley et al (1998) subordinates reactions to Performance appraisal can be a way of measuring their outlook towards the system. The main reactions that can be assessed are their satisfaction from the appraisal, the utility, whether they felt they were fairly appraised, how motivated they were from the appraisal and the accuracy of the system.

Boachie-Mensah & Seidu (2012) advises that employees are likely to embrace and contribute meaningfully to the Performance Appraisal scheme if they recognize it as an opportunity for personal development, a chance to be visible and demonstrate skills and abilities and an opportunity to network with others, but if employees perceive Performance Appraisal as an unreasonable effort by management to try to closer supervise and gain control over tasks they carry out, they won't welcome the scheme as easily.

“Performance appraisal isn't about the forms. The ultimate purpose of performance appraisal is to allow employees and managers to improve continuously and to remove barriers to job success, in other words, to make everyone

better. Forms don't make people better, and are simply a way of recording basic information for later reference. If the focus is getting the forms "done", without thought and effort, the whole process becomes at best a waste of time, and at worst, insulting" (Bacal, 1999).

In order to have effective appraisal, the process must be embedded completely throughout the organization where the values shape part of the fabric of the everyday life of the workplace (Piggot-Irvine, 2003). As previously mentioned Rankin & Kleiner (1988, p.14) believed that effective performance appraisals have six key factors. These six factors are:

- Performance goals must be specifically and clearly defined.
- Attention must be paid to identifying, in specific and measurable terms, what constitutes the varying levels of performance.
- Performance appraisal programs should tie personal rewards to organizational performance.
- The supervisor and employee should jointly identify ways to improve the employee's performance, and establish a development plan to help the employee achieve their goals.
- The appraiser should be given feedback regarding his/her effectiveness in the performance appraisal process.
- The performance appraisal system, regardless of the methodology employed, must comply with legal requirements (notably, Equal Employment Opportunities guidelines).

Ensuring that the performance appraisal ties in with organizational goals is pivotal to the effectiveness of the appraisal. If the goals of the performance appraisal process are in contrast with the organizational goals, the resulting performance appraisal system could, in fact, be of harm to effective organizational functioning (Barrett, 1967).

Performance Appraisal is intended to gather crucial information and measurements about the actions of staff and the company's operations which are valuable to management for enhancing the employees' productivity, working conditions, their morale, and inner workings of the organization wholly (Rahman & Shah, 2012). „Effective managers recognize performance appraisal systems as a tool for managing, rather than a tool for measuring,

subordinates. They may use performance appraisals to motivate, direct and develop subordinates” (Wiese & Buckley, 1998, p244).

Having both the manager carrying out the appraisal and the employee setting goals mutually is crucial for the effectiveness of the performance appraisal. This can ensure that the employee will work harder to reach these goals as they participated in setting them initially. The degree of involvement of subordinates in the appraisal has been seen to be of benefit to the success of the system. Cawley et al (1998) proved that subordinate participation in the appraisal procedure is related to employee satisfaction and their acceptance of the performance appraisal system. Employee Participation is a key element of intrinsic motivational strategies that facilitate worker growth and development (Roberts, 2003). Folger (1987), as cited by Roberts (2003) stated that the participation of employees in the appraisal system gives employees a voice and empowers them to rebut ratings or feedback that they are unhappy with. Greater employee participation is known to create an atmosphere of cooperation, which encourages the development of a coaching relationship, reducing tension, defensive behavior and rater – ratee conflict which could be caused by the appraisal (Jordan, 1990).

Pettijohn, Pettijohn, Taylor & Keillor (2001) identify participation and perceptions of fairness as integral to employees' perceptions of job satisfaction and organizational commitment. They conclude that Performance Appraisal Systems can be used to actually improve employees' levels of job satisfaction, organizational commitment, and work motivation.

On the same note, lack of effective performance appraisal system leads to an increased risk of litigation, there are several other detrimental outcomes of poorly implemented systems, including employee burnout and job dissatisfaction, damaged relationships, and increased turnover (Brown & Benson, 2005 ; Gabris & Ihrke, 2001). In addition, there is a large opportunity cost because poorly implemented systems waste time and resources, including time and money. To avoid such drawbacks in performance appraisal processes and ensure its effective implementation, the PMAS: Guideline System and Reference Manual (2006) pointed out the following factors that the system should positively reinforce.

- **Effective Communication:** Employees at all levels should have a clear understanding of their roles, responsibilities and what is expected of them. Feedback on performance must be given on a continuous basis.
- **Objectivity:** Assessments should be made against agreed, clearly stated targets.
- **Transparency:** There should be no “surprises”. Evaluations and decisions should be based on evidence drawn from well documented processes that can stand scrutiny.
- **Fairness:** Decisions and actions should be made and taken with due regard to changing circumstances and environment as they relate to the achievement of objectives.
- **Equitable Treatment:** All employees should be treated equally and must have equal and appropriate access to benefits, training and resources to achieve targets.
- **Mutual Respect and Trust:** Discussions about performance should be conducted with due regard to accepted principles of courtesy, respect and an understanding of each other’s roles and responsibilities.

By ensuring the proper application of the above requirements organizations should be able to build mutual trust among the different levels of the organizational structure.

2.1.9. Appraisal Ineffectiveness

One of the major causes of ineffective performance appraisal is the dislike that both the appraiser and appraisee have towards the process. Performance Appraisal is one of the most emotionally charged procedures in management (Swan, 1991). Almost every executive has dreaded performance appraisals at some time or other. They hate to give them and they hate to receive them (Sims, Gioia & Longenecker, 1987).

Many managers and supervisors are unwilling to make accurate evaluations of subordinates because they do not want them to be hurt. Where the consequence of a low evaluation is termination, no pay increase, an unpleasant work assignment, or no promotion, managers are reluctant to be precise (Kearney, 1978). Watling (1995) highlights the importance of giving appraisals based on facts, not just feelings and suggests the best way to do this is by measuring performance by surveys, on the job observation, peer group feedback and results against targets. This is important to consider in establishing what an effective performance appraisal is. The appraisal will not be accurate if the manager carrying out the appraisal is

having difficulty in giving feedback honestly and truthfully. Because of the emotional variability involved in such processes, accuracy is something which will seldom be achieved.

But is this a vital element for management, as it has been shown that executives giving appraisals have ulterior motives and purposes that surpass the mundane concern with rating accuracy (Sims et al, 1987). One manager surveyed by Sims et al (1987) felt that accurately describing an employee's performance is really not as important as generating ratings that keep things going. Some other reasons for managements manipulation of the feedback in an appraisal setting is that they have to work with these people and do not want to create tension or hostility, also the element of there being a physical document from the appraisal recorded permanently on the employees record meant that the appraiser may soften the language used.

Unfair procedures used in performance appraisals create job dissatisfaction. A Performance appraisal system should be fair and must provide accurate and reliable data (Karimi al, 2011). Therefore it is important that performance management systems are fair to staff so that the organization can reap the benefits.

So many Performance Appraisal systems are solely used as a procedure to determine whether a promotion or raise will be given or as a way of communicating to staff what their role is. But instead of being used as a form of judgment, performance appraisal should be used for the benefit of both the employee and the organization. Continuous assessment could possibly be used as a retention tool and as a system of determining what skills the organization has and what ones it is lacking.

2.1.10. Benefits of Performance Appraisal

An effective performance appraisal system will bring benefits to the staff member being appraised, the manager completing the appraisal and the organization as a whole.

For the Organization, benefits include (Fisher, 1995):

- Improved Performance due to effective communication, increased sense of cohesiveness and better management-staff relationships
- Training and Development needs identified more clearly

- A culture of kaizen – continuous improvement
- Competitive Advantage in the Market place
- Employee Satisfaction as a sense that employees are valued is spread

For the staff being appraised, the benefits include (Fisher, 1995; Sudin, 2011; CIPD, 2012):

- Enhanced relationships with line managers
- Increased job satisfaction
- A better understanding of expectations
- Greater knowledge of strengths and weaknesses

For the Manager carrying out the appraisal, the benefits include (Fisher, 1995; CIPD, 2012):

- Better relationship with employees – trust.
- Stronger knowledge of what is going on in the organization
- Better knowledge of employees – knowing their individual strengths and weaknesses
- Facilitate management in decisions including pay rises, promotions, redundancies etc.

2.1.11. Challenges of Performance Appraisal

The use of ratings and other techniques in PA assume that the human observer is reasonably objective and accurate but raters' memories are quite fallible and raters subscribe to their own sets of expectations about people, expectations that may or may not be valid. Despite the fact that a completely error-free PA is only an ideal we can aim for, with all actual appraisals falling short of this ideal, a number of factors that significantly impede objective appraisal have been isolated for discussion.

A. Bias

Bias is simply a personality-based tendency, either toward or against something. In the case of performance assessment, bias is toward or against an individual employee. All human beings have biases, but supervisors especially cannot afford to allow their biases to enter

into their evaluation of subordinates in the firm (Kumbhar, 2011). This is very easy to say, but very difficult to do. Biases make the evaluation process subjective rather than objective, and certainly provide the opportunity for a lack of consistency in effect on different groups of employees (Ali, Mahdi and Malihe, 2012). So to overcome the bias problem, the appraiser needs to be objective and not let their feelings of liking or disliking the individual influence their assessment (Caruth and Humphreys, 2008).

B. Stereotyping

Stereotyping is mentally classifying a person into an affinity group, and then identifying the person as having the same assumed characteristics as the group (Afriyie, 2009). Though stereotyping is almost always assumed to be negative, there are many incidents of positive stereotypes. However, regardless of whether the stereotype is positive or negative, making membership in a group, rather than explicitly identifying the characteristics of the individuals, creates the potential for significant error in evaluations (Holzer, 2007). Stereotyping can be avoided by getting to know each employee as an individual and objectively evaluating individual employees based on their actual performance (Denby, 2010).

C. Halo Error

Decenzo and Robbins (1993) note that the halo effect or error is a tendency to rate high or low on all factors due to the impression of a high or low rating on some specific factor. According to them, if an employee tends to be conscientious and dependable, the rater might become biased toward that individual to the extent that he will rate him or her positively on many desirable attributes. Also as per their observation in an institution, students tend to rate a faculty member as outstanding on all criteria when they are particularly appreciative of a few things he or she does in the classroom as compared to a few bad habits which might result in students evaluating the instructor as „lousy“ across the board. Cleaveland, Murphy and Williams (1989) also postulate that the halo error is perhaps the most pervasive error in performance appraisal as raters who commit this error assign their ratings on the basis of global impressions of ratees. According to them, an employee is rated either high or low on many aspects of job performance because the rater knows (or thinks he or she knows) that the employee is high or low on some specific aspects.

D. Similarity Error

Decenzo and Robbins,(1993), state that, when evaluators rate other people in the same way that the evaluators perceive themselves, they are making a similarity error. In this case, evaluators who see themselves as aggressive may evaluate others by looking for aggressiveness thus, those who demonstrate this characteristic tend to benefit while others are penalized.

E. Central Tendency

Beardwell and Holden (1997) note that central tendency is the reluctance to make extreme ratings (in either direction); the ability to distinguish between and among rates; a form of range restriction. According to them, raters who are prone to the central tendency error are those who continually rate all employees as average. In this case, if a manager rates all subordinates as 3, on a scale of 1 to 5, then no differentiation among the subordinates exists. As such, failure to rate subordinates as 5, for those who deserve that rating and as 1, if the case warrants it, will only create problems, especially if this information is used for pay increases.

2.1.12. The Concept of Motivation

Motivation is central to management because it explains why people behave the way they do in organizations. Motivation may also be defined as the internal process leading to behavior to satisfy needs. Motivation increases the willingness of the workers to work, thus increasing effectiveness of the organization. Organization goal is to develop motivated employees and support their morale regarding their respective works for better performance (Shadare et al, 2009).

2.1.12.1. Definitions of Motivation

Many scholars had tried to define motivation and it's a well-studied field which has roots in many academic disciplines such as psychology, sociology, education, political science, and economics.

Definition of motivation according to Society for Human Resource Management (2010), motivation is generally defined as the psychological forces that determine the direction of a person's level of effort, as well as a person's persistence in the face of obstacles.

Denhardt et al. (2008) also define motivation as an internal state that causes people to behave in a particular way to accomplish particular goals and purposes. Whilst it is not possible to observe motivation itself, its possible to observe the outward manifestations of motivation. For instance, the acquisition of money may be an extrinsic motivator, but it is simply the manifestation of the internal drive to meet intrinsic needs like purchasing food, paying rent for shelter, or acquiring high social status. Denhardt et al. (2008) further stated that motivation is not the same as satisfaction. Satisfaction is past oriented, whereas motivation is future oriented.

The three components of motivation as listed by Arnold et al (1991) are:

- Direction – what a person is trying to do?
- Effort – how hard a person is trying?
- Persistence – how long a person keeps on trying?

According to Armstrong, Motivating other people is about getting them to move in the direction you want them to go in order to achieve a result. Motivating yourself is about setting the direction independently and then taking a course of action which will ensure that you get there. Motivation can be described as goal-directed behavior. People are motivated when they expect that a course of action is likely to lead to the attainment of a goal and a valued reward – one that satisfies their needs.

There are two types of motivation as originally identified by Herzberg et al (1957):

- Intrinsic motivation – the self-generated factors that influence people to behave in a particular way or to move in a particular direction. These factors include responsibility (feeling that the work is important and having control over one's own resources), autonomy (freedom to act), scope to use and develop skills and abilities, interesting and challenging work and opportunities for advancement. According to Malone and Lepper (1987), intrinsic motivation is what people will do without external inducement such as hunger, a sense of duty, altruism, and a desire to feel appreciated.

- Extrinsic motivation – what is done to or for people to motivate them. This includes rewards, such as increased pay, praise, or promotion, and punishments, such as disciplinary action, withholding pay, or criticism.

2.1.12.2. Theories of Motivation

Theories of motivation stress different factors that contribute to job satisfaction. Both intrinsic and extrinsic motivated behavior reflect the various theories that can be adopted in an attempt to understand motivation behavior. Maslow (1946) and Herzberg (1968) are content theorists who stress on the satisfaction of needs. Maslow (1946) and Herzberg (1968) theory focuses on the question of what arouses, sustains and regulates goal directed behavior that is what particular things motivate people. There is the assumption that everyone responds in much the same way to motivating pressures and that there is, therefore one best way to motivate everybody and it focuses on the needs of an individual.

2.1.12.3. Process Theories of Motivation

They are group of theories about work motivation that attempt to identify the relationships among the dynamic variables which make up motivation and actions required to influence behavior and actions. The three known theories are: equity, expectancy and goal-setting theory.

Adams (1965) formulated the equity approach as an appropriate way to effective supervision and the equity approach is another important means of ensuring motivation of workers. Workers tend to believe in it if the organizational reward system is fair. This theory assumes that people want to be treated fairly and they tend to compare contributions and rewards to those received by others. The equity theory states that people need to perceive equal outcomes for perceived equal circumstances (Ott, 1989). The principles for this theory are that if workers discover that the company does not properly reward them, they will feel dissatisfied and their morale will be lower. The outcome is that they will not work hard anymore or they may choose to depart from the current company. If the workers believe that they are adequately rewarded for what they do, they will maintain the same level of output and performance. On the other hand, if workers perceive the rewards as more than they consider fair, then they will most likely work even harder in the organization.

Victor Vroom (1969) in Ott (1989) came out with expectancy theory, which states that an employee will be motivated to exert a high level of effort when he/she believes that effort will lead to a good performance appraisal, and followed by organization rewards such as, bonus, salary increment or promotion which later satisfy personal goals. Simply put, it means that people are motivated by calculating how much they can get from something, how likely their actions will cause them to get it and how much others in similar circumstances have received (Ott, 1989). The theory is based on three concepts and is also known as valence-instrumentality-expectancy theory (Huczynski and Buchanan, 2001). The expectancy approach focuses on three relationships. Effort-performance Linkage is the probability perceived by an individual that exerting a given amount of effort would lead to performance. Performance-reward linkage is the degree to which the individual believes that increase in performance will lead to a certain outcome. Valence is the importance that an individual places on the potential outcome or reward that can be achieved on the job. This considers the goals and needs of the individual, for example, people will always perceive that recognition and reward offered by bosses are more valuable and better. According to Jennifer M. George and Gareth R. Jones (2012), there are basic three question related to the three variables expectancy, instrumental, and valence. The first one is, does how hard I try really affect my performance? Second, Are personal consequence linked to my performance and third, Do I value the consequences available to me? To be motivated employees must have a positive answer for these three questions.

Locke (1968) introduced the goal setting approach and believes that the intentions to work towards a goal are major sources of work motivation. Basically, the specific goals increase work performance and that is to say that the specific hard goals produce a higher level of output than does the generalized goal of just “do the best”. The specific goal itself acts as an internal stimulus and hence provides the motivation force to people. Employees will do better when they get feedback on how well they are progressing toward their goals because feedback helps to identify any discrepancies between what they have done and what they want to do. Thus, feedback acts to guide behavior, therefore, the goal setting theory presupposes that an individual is committed to the goal, and is determined not to lower or abandon the goal. On goal-setting theory application, management by objectives (MBO) is one way of doing it (Huczynski and Buchanan, 2001). However, goal setting theory has implications

for the design and conduct of staff appraisal system and management by objectives (MBO) methods focus on the achievement of agreed or negotiated performance targets. Some other theories are learning theories which state that managers can increase employee motivation and performance by the way they link the outcomes that employees receive to the performance of desired behaviors in the organization and goal attainments.

2.2. Empirical Review

Performance appraisal sounds simple but researches tell us that it is commonly used in performance feedback and identify individual employee's strengths and weaknesses (Ruddin, 2005). For example, studies were done using a direct effects model to investigate communication openness based on different samples, such as perceptions of 229 workers of public listed companies in Klang Valley, Malaysia (Sudin, 2011) and perceptions of 133 employees of multinational companies in Malaysia (Darehzereshki, 2013). Outcomes of these studies found that perceived value of outcome and perceived fair treatment had increased when the appraisers able to clearly giving explanations about the appraisal system goals, policies and procedures, as well as adequately providing feedback in determining employee performance scores.

Also another research has broadly analyzed the impact of the social context of performance appraisals on employee reactions to these appraisals (Pichler, 2012). For instance, employees' satisfaction with the performance appraisal process as a whole, the performance appraisal feedback, or employees' evaluations of the perceived quality, justice, and fairness of the performance appraisal regime (Greenberg, 1986: Gupta & Kumar, 2013). Furthermore, employee participation in the performance appraisal process is positively related to the satisfaction with the performance appraisal system, perceived fairness, and acceptance of such a practice (Cawley et al., 1998).

Brown et al. (2010) analyze the relationship between performance appraisal quality measured by clarity, communication, trust, and fairness of the performance appraisal process and job satisfaction and commitment based on a sample of more than 2,300 Australian non-managerial employees of a large public sector organization. They find that employees who report a low performance appraisal quality (lowest levels of trust in supervisor, poor

communication, and lack of clarity about expectations, perception of a less fair performance appraisal process) also report lower levels of job satisfaction and commitment.

Furthermore, (Cawley et al., 1998) found that clarity of performance expectations affected the motivation to a great extent. Feedback mechanism and open door policy affected motivation to a great extent. Integrity and fairness affected job performance and employees motivation to a great extent. In addition, distributive fairness affected job performance to a moderate extent. The study found that ideas and innovations, absenteeism/tardiness and timeliness had improved for the last five years. The study found that appraisal motivates staff by clarifying objectives and setting clear future objectives with provision for training and development needs to establish the performance objective. Communication provides employees with the chance of exercising a level of process control. Trust in supervisors is important for determining satisfaction with the appraisal system. Appraisals based on personal traits have little value for providing diagnostic feedback to employees or for designing training and development programs to ameliorate identified skill deficiencies.

Contemporary research studies have also linked performance appraisal to performance of employees as Resella, 2011 revealed that performance evaluation practices have a significant and positive impact on the performance of employees. Najeeb (2011) studied Performance Appraisal in Habib Bank Limited and concluded that transparent appraisal system is vital to an organization and the results of the appraisal affect the performance of any employee heavily.

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. Generally speaking 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 and 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 PAS. These important factors are, ongoing feedback, open communication, trained appraisers, rewarding performance, fairness, and employees' participation.

Ongoing Feedback: It can provide employees with Clear understanding of their strengths and weaknesses to develop into a better performer in future and this might be increased motivation, job satisfaction, and self-esteem of employees. It also create an opportunity to discuss career aspirations and any guidance. It will improved working relationships with supervisors. To keep employees motivated and informed, the supervisor needs to tell them when they are doing something right, not just when they are making a mistake

Employees Participation: On the other hand, employees Participation will create better understanding for employees of their role and it will create belongingness in the organization. When the management provides a room to employees for participation in PAS, it conveying the message to the employees that they have value to organization. And also, employees can generate important ideas for improvements.

Rewarding performance: Like feedback, rewards should be timely and tied to actual performance appraisal. Employees should be appropriately rewarded, recognized, and compensated for efforts put in by them in the growth of the company. Employee needs acknowledgement for their contributions or for their performance.

Trained appraisers: The appraisers should be diligently trained in the performance appraisal process to help them overcome the errors caused in appraisals.

Continuous open communication: An open communication should be encouraged between the employees and the management with respect to the appraisal process as well as any other concerns or suggestion that the employees may have. It will provide an opportunity to improve communication between the employees and management

Performance appraisal is considered as a technique that has positive effect on work performance and employees motivation. If the PAS consider being effective and fulfilling the requirement o these factors, it will have positive effect on motivation but the opposite could result to dissatisfaction.

Practices of Effective PAS

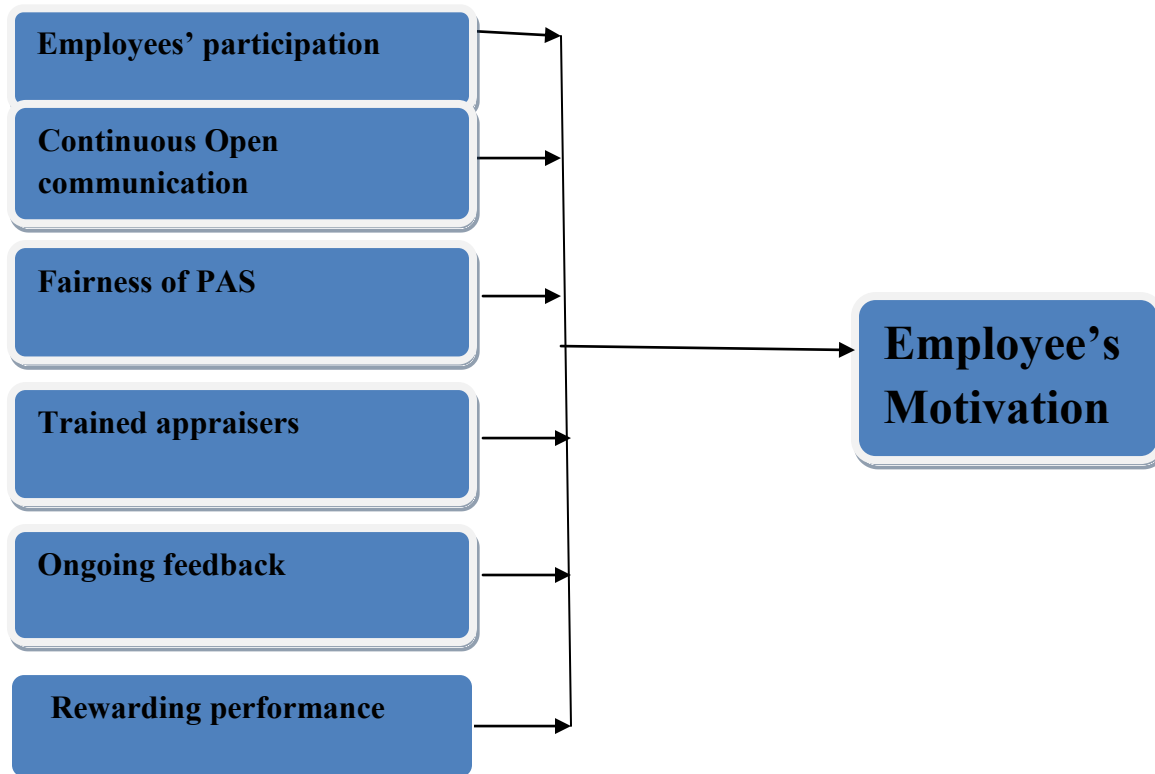


Figure 2.1. Conceptual framework performance appraisal system and motivation.

Source: Adopted from literatures. Fletcher, C. (2004); Manuel, L. (2009).

CHAPTER THREE

Research Design and Methodology

This chapter gives brief and precise explanation about the methodologies tools that the researcher was use to accomplish the study there by achieving the objectives. The chapter organized as follows; research approach, research design, population and sampling, data source and type, data collection procedure, ethical consideration, and analyses of data .

3.1. Research Design and Research Approach

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In fact, the research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data (Kothari, 2004).

Both descriptive and explanatory research design was chosen considering the purpose of the study, the research questions and the magnitude of the target population. According to Kothari (2004), Descriptive research includes surveys and fact-finding enquiries of different kinds. The major purpose of descriptive research is description of the state of affairs as it exists at present. Exploratory research studies are also termed as formulate research studies. The main purpose of such studies is that of formulating a problem for more precise investigation or of developing the working hypotheses from an operational point of view (Kothari, 2004).

Quantitative approach involves the generation of data in quantitative form which can be subjected to rigorous quantitative analysis in a formal and rigid fashion. Quantitative research is based on the measurement of quantity or amount. It is applicable to phenomena that can be expressed in terms of quantity (Kothari, 2004). To this end the Quantitative research chosen to obtain quantitative view point of analysis and inference techniques on the effect of performance appraisal on employees' motivation.

3.2. Population, Sample Size and Sampling Techniques

3.2.1. Target Population

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 populations of this study was the employees of CBE, with the total number of more than 29000 employees according to 2017 report. CBE has totally fifteen districts in Ethiopia. Due to resource constraint, it is difficult to cover all these districts, and to keep the study manageable, however, the study was focused on the four Districts located in Addis Ababa which are, North, South, East and West district and Head office organs. The researcher carried out the research in different branches which is located in Addis Ababa and excluded outlying braches, the total population was 9699.

3.2.2. Sample Size

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. Probability Sampling is used because each member of the population has an equal likelihood of being selected to be part of the sample. From the types of probability sampling, this study find stratified random sampling appropriate for selecting samples from the population. In this study the total population was divided in to five stratums based on geographical area and from this each stratum the researcher takes samples from both job categories managerial and non-managerial.

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 survey to include all hierarchy of the Bank and to allot the total sample for each stratum proportionally. According to Robert and Richard (2008) no survey can ever be deemed to be free from error that could provide complete accuracy. Bearing this in mind, at a confidence level of 95%, the margin of error would be 0.5%.

To obtain the minimum population sample for this study, the researcher adopted stratified sampling as a technique using Yamane's formula (cited in Israel, 1992) 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.

$$n = \frac{9699}{1+9699(0.05)^2}$$

$$n=384$$

Therefore a sample size of 384 will be select from a total population of 9699 employees. 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. The sample population distribution is indicated in Table 3.1

Table 3.1. Sample distribution

Category(group)based on place	Category based on job	Number of employees	percentage	Sample size
Head office	managerial	218	2.24	9
	Non-managerial	1805	18.61	72
East district	managerial	205	2.11	8
	Non managerial	1705	17.57	68
West district	managerial	295	3.04	11
	Non managerial	1484	15.3	59
North district	managerial	187	1.92	7
	Non managerial	1928	19.87	76
South district	managerial	243	2.5	10
	Non managerial	1629	16.79	64
total		9699	100	384

Source: Business development process, 2016

3.2.3. Sampling Techniques

The study used non-probability sampling techniques. Purposive sampling techniques were used by the researcher to select branches in each district and sample of employees. Based on the purposive sampling techniques the researcher selected two key branches in each four districts including head office based on their numbers of employees, and the degree of their contribution.

The researcher select samples of employees by asking the persons who are interested in participating in the survey were included into the survey and subsequent analysis. Therefore, the researcher requested all the persons eligible for the study to participate.

3.3. Data Type and Source

3.3.1. Primary Data

The primary data are those which are collected afresh and for the first time, and thus happen to be original in character. There are several methods of collecting primary data, particularly in surveys and descriptive researches like observation, questionnaire, interview, and so on (Kothari, 2004). For this study, questionnaire was used to collect the data. In this method a questionnaire was given to the persons concerned with a request to answer the questions and return the questionnaire. A questionnaire consists of a number of questions printed or typed in a definite order on a form of close-ended questions were used to collect the primary data for the study from selected samples in order to take the opinions of employees on PAS practices and their motivation in the bank and to complement the data which were obtained through distributing to all managers and non-managers. In all 384 questionnaires were distributed to the selected samples and the researcher personally collected all 366 (95.3%) completed questionnaires and the 18 remaining questionnaires was uncollected from the respondents at their respective branch and head office of CBE due to different reasons.

3.3.2. Secondary Data

The secondary data, on the other hand, are those which have already been collected by someone else and which have already been passed through the statistical process. The secondary sources of information that the researcher used in the study included books, internet search, articles, and journals and others material which are useful to this study. These secondary sources will help the researcher to identify how others have defined and measured key concepts, and how this research project is related to the work of others.

3.4. Data Collecting Procedure

Primary data was collected through the use of self-administered questionnaires. This method of data collection has its own advantage because of it is low cost, it was 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 were more

dependable and reliable (Kothari, 2004). The questionnaire contained structured questions using a method of Likert Scale ranging. To improve the response rate, there was a cover letter explaining the reasons for the research, why the research is important, why the subjects was selected and a guarantee of the respondents' confidentiality will provided. To collect the data the research himself will involve in the collection of the questionnaire in order to make the respondents feel comfortable about their response they gave and give support to rater while they are filling the questionnaire. Before distributing the questionnaire permission was obtain from branch manager and every respondent.

3.5. 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 scale was determined by Crobch's alpha method. According to Bryman and Bell (2003) the Crobch's alpha result of 0.7 and above implies acceptable level of internal reliability. Therefore, the result indicated that the questionnaires of the study were internally consistent by .911.

Validity is the extent to which it gives the correct answer (Kirk and Miller, 1986). It indicates the degree to which an instrument measures what it is supposed to measure. Questionnaire papers were modified according to literatures within the specific topic and were reviewed by professionals and academicians.

3.6. Data Analysis Methods

After the data collected and plausible checks was conduct, and inconsistent data was cleared appropriately. Then coded to the system, so to make the data usefully and relevant to analysis. By doing this it helps to filtered out the incomplete and irrelevant information and accuracy of the data was maintained. The edited data was going through analysis process to come up with concrete conclusions. Data processing and analysis was done by using statistical package for social science (SPSS) to display findings and it helps make it easier by processing all variable and cases.

In order to achieve the findings and results for the dissertation, the researcher used descriptive analysis to summarize the data. These methods will be numerical and/or graphical. Graphical methods are known for recognizing patterns in the data, while the numerical methods

of analysis are acknowledged for giving precise measures. The analysis will consist of graphs, tables, and charts to outline the responses received which will be examined and discussed. The reasons for using this procedure were to make it easier for the reader to compare and understand the findings by presenting the data using frequency, mean, and standard deviation. The study also utilizes correlation analysis, and multiple regression models to examine the degree of relationship of independent variable, which is PAS and dependent variable (motivation).

3.7. Ethical Consideration

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 (Bryman & Bell, 2007). During the data collection and interpretation processes, the researcher convinced the participants that any confidential information they disclose will keep confidential and convince them the important of the study will to help the bank and the employees. The respondents also was told that, the exercise will only for academic purposes and that confidentially will assured and no one would fall a victim because of any adverse findings in connection with their professional duties. This was to be done in order to motivate them to give their responses without reservation. Every questionnaire attached to a cover letter which clearly explained the purpose of the survey. The questionnaire didn't require the names of the respondents; this was to protect their identity and remain anonymous. As a result, the employees were aware from the beginning what the researcher was doing, why and where the information was going and why it was being gathered.

CHAPTER FOUR

Data Analysis and Interpretations

This chapter present the data collected using questionnaire and completed by the employees of the organization and go on to discuss the research findings. The researcher used graphs and charts to display the findings in order to make it easier for the reader to analyze the results. The chapter will first look at the demographic statuses of employees their age, gender, educational level, job category, and employees experience, it will then go on to examine the general objective of the study which is to determine the effect of performance appraisal system on employee motivation in Commercial bank of Ethiopia, through descriptive, regression and correlation analysis. The study was guided by the following specific objectives: To examine the effect of ongoing feedback on employees motivation in CBE, to examine the effect of rewarding performance on employees motivation in CBE, to investigate the effect of performance appraiser on employees motivation in CBE, to analyze how continuous open communication affect employees motivation in CBE, to examine the effect of fairness of PAS on employees motivation in CBE, to determine the effect of employees participation in PAS process on employees motivation in CBE, and to determine the level of employees" motivation regarding to the actual performance appraisal system.

The chapter presents an analysis of the information designed to respond to the research objectives as outlined in the study. There are three sections presented in the questionnaire. The first is a general section which addresses the respondents" demographic characteristics. The following two sections address specific research objectives and they include the extent to which the six performance appraisal system predicator affects employee motivation, and the level of employees" motivation regarding to the actual performance appraisal system.

As per the sampling design 384 questionnaires were distributed. After receiving the questionnaires a thorough verification process was done before going to further analysis to check for completeness and consistency of the questionnaires. From the total distributed questionnaires 366, 95% questionnaire were found to be completed correctly and used for further analysis and the remaining 18 questionnaires were not returned.

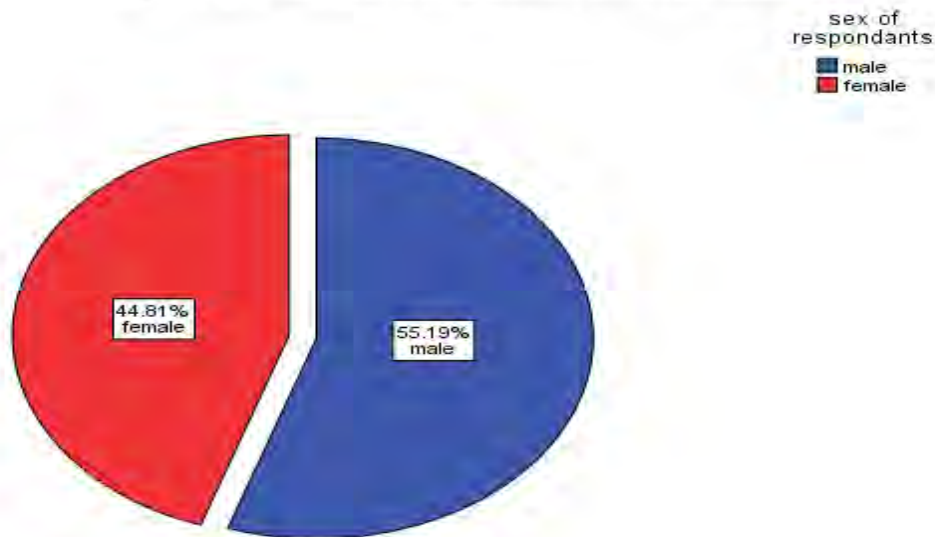
4.1. Demographic Characteristics of Respondents

The demographic characteristics of respondents are discussed under gender, educational level, age, job category, and employee's experience. This was analyzed to ascertain the demographic characteristics of the respondents used for the current study. The various findings relative to the respondents' demographic characteristics are presented and discussed with the aid of frequency, percent, tables and diagrams shown below:

4.1.1 Gender

The researcher sought to find out the gender of the target respondents involved in the study. The findings on Figure 4.1., established that 55.19 % of the respondents were male as compared to 44.81% who were females. Thus, the findings indicate that majority of the respondents were male.

Figure 4.1. Gender composition of respondents



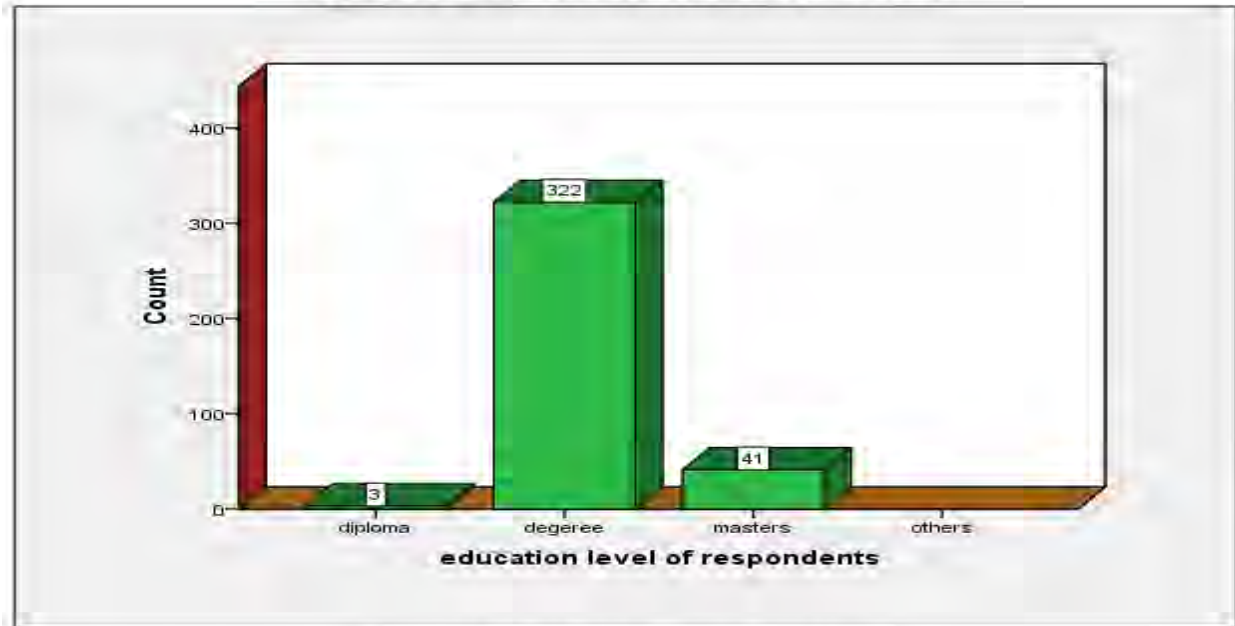
Source: Questionnaire data(question no.1)

4.1.2. Educational Level

The study sought to determine the education level of the respondents from those involved in the study. From fig 4.2. revealed that the majority of the respondents 89% of are university degree graduates, followed by those of masters holders with 11%,and others 1% of the respondents are

diploma. The research shows that greater percentage of workers in education sector is well educated to provide responses on performance appraisal system surveys.

Figure 4.2. Education level of respondents

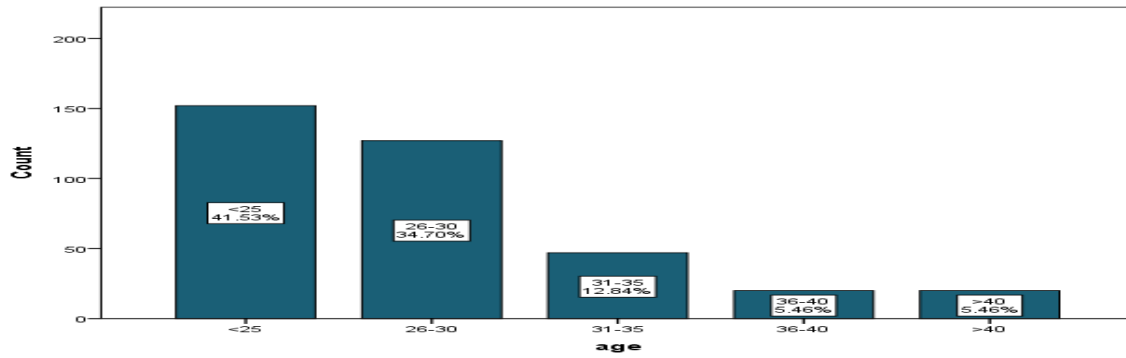


Source: Questionnaire data (question no.2)

4.1.3. Age Bracket

The study intended to determine the age of the target respondents involved in the study. The findings on Figure 4.3. illustrates that 41.53% of the respondents were less than years 25, 34.7% are between 26 to 30 years, 12.84% were between 36 to 35 years, 5.46% of the respondents are between 36-40, and 5.46% were over 40 years. Thus, the findings indicate that majority of the respondents are below 25 years old.

Figure 4.3. Age distribution of the respondents

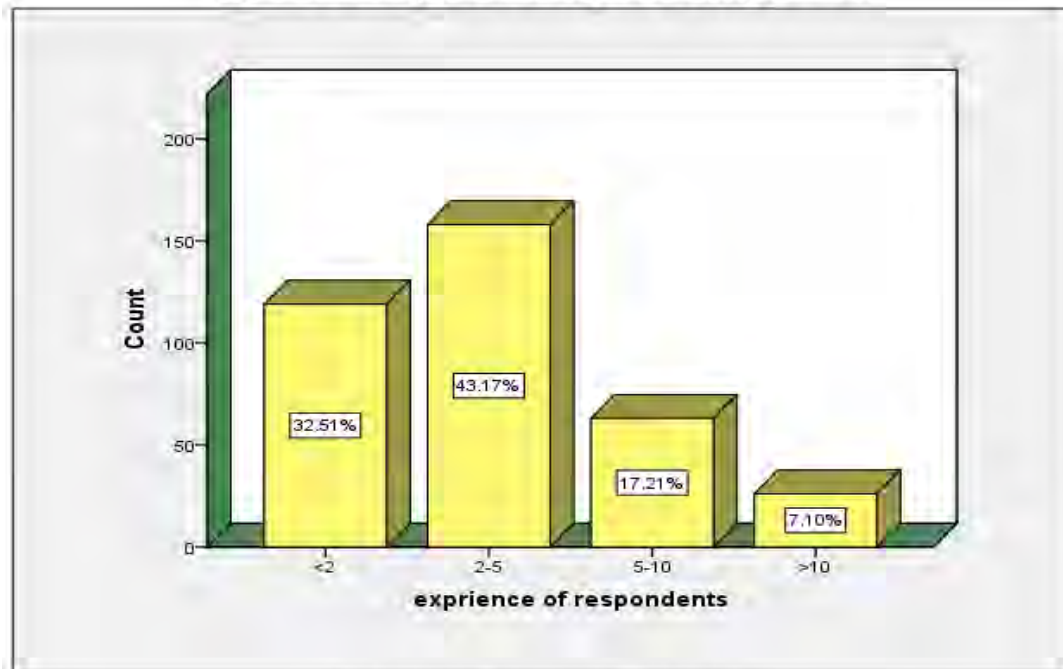


Source: Questionnaire data (question no.3)

4.1.4. Work Experience

The researcher sought to find out the years of experience among the target respondents involved in the study. The findings on Figure 4.4., illustrates that 32.51% of the respondents had worked for less than 2 years, another 43.17% worked between 2 to 5 years, 17.21% between 5 to 10 years, and 7.1% above 10 years of experience. Thus, the findings indicate that majority of the respondents are relatively experienced.

Figure 4.4. Length of service years of respondents

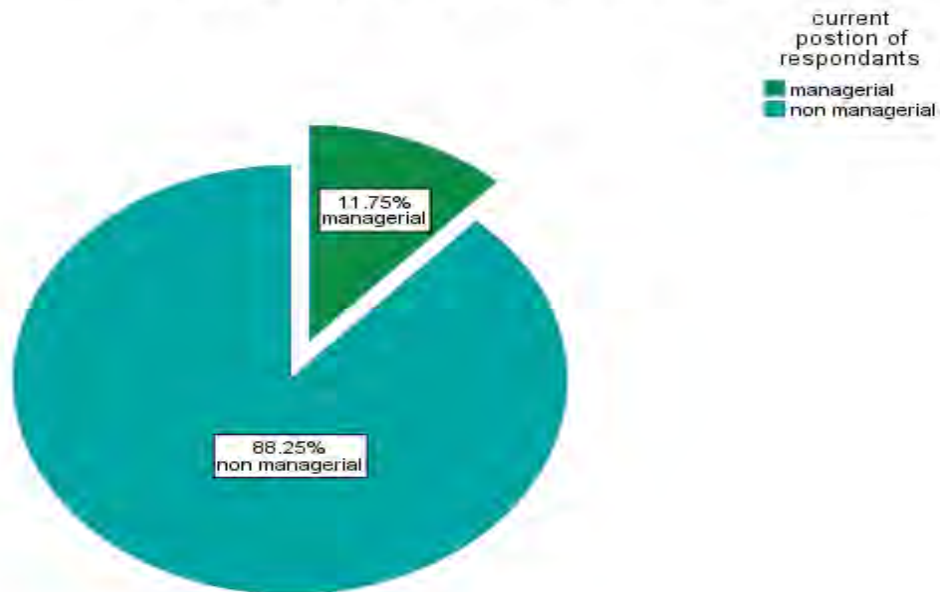


Source: Questionnaire (question no.4)

4.1.5. Current Position

According to Figure 4.5., the managerial and Non-managerial position of the respondents account 11.75% and 88.25% respectively from this the researcher conclude that the majority of respondents were non-managerial position.

Figure 4.5. Job category of respondents



Source: Questionnaire data (question no.5)

4.2. Data Analysis Part to the Study

4.2.1. Descriptive Analysis Result

In this section the descriptive analysis was presented, the researcher used frequency, percentage, mean and standard deviation to show the result obtained from the primary source.

4.2.1.1. Analysis of Employees Participation in the PAS

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

Questions	S. Disagree		Disagree		Neutral		Agree		Strongly Agree		Total	
	F	%	F	%	F	%	F	%	F	%	F	%
I personally involved in the process of setting objectives and targets of my future Performance.	40	10.9	91	24.9	58	15.8	151	41.3	26	7.1	366	100
Participating in the PAS motivate me, because it make me feel I am part of the organization.	26	7.1	66	18.0	78	21.3	181	49.5	15	4.1	366	100
I would prefer my performance to be evaluated by an instrument developed and design with help of employees.	9	2.5	28	7.7	48	13.1	228	62.3	53	14.5	366	100
There is no/low involvement in decisions making regarding to PAS process.	74	20.2	68	18.6	74	20.2	115	31.4	35	9.6	366	100

Table 4.1. Response Summary on Employee's Participation in the PAS.

Mean	3.09	3.25	3.79	2.92
Std. Deviation	1.174	1.030	.872	1.299

Source: own survey 2017

Based on the result presented on the above table 4.1., 48.4% of the respondents agrees, while 35.8% were disagree and the rest 15.8% were neutral to they are personally involved in the process of setting targets of their future performance. The majority the respondents of 53.6% strongly agreed that participation in the PAS motivate them, while 25.1% strongly disagree and

disagree, the rest 13.1% were neutral. Regarding to the statement of employees prefers to be evaluated by an instrument they participate with design 76.8% of the respondents strongly agree, 10.2% disagree and 13.1% were neutral.

4.2.1.2. Response Summary of the 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 below.

Table 4.2. Response Summary Regarding with Open Communication

Questions	S. Disagree		Disagree		Neutral		Agree		Strongly Agree		Total	
	F	%	F	%	F	%	F	%	F	%	F	%
The PAS provide an opportunity to communicate with the supervisors to facilitate my job performance.	30	8.2	78	21.3	122	33.3	98	26.8	38	10.4	366	100
There is a two way communication with both managers and employees for expressing their views.	49	13.4	62	16.9	84	23.0	144	39.3	27	7.4	366	100
I find difficult to discuss work issues with my managers.	51	13.9	127	34.7	67	18.3	74	20.2	47	12.8	366	100
The PAS provide a scope for well communication the overall business and plans to the employees.	11	3.0	59	16.1	98	26.8	157	42.9	41	11.2	366	100

Mean	3.10	3.10	2.83	3.43
Std. Deviation	1.103	1.177	1.264	.987

Source: own survey 2017

As result illustrated on the above table, concerning of the PAS provide an opportunity to open communication 29.5% of the respondents were strongly disagree and disagree, while 37.2% were in the agreement level. The rest 33.3% were neutral. Regarding with the statement of there is two

way communication majority of the respondents 46.7% strongly agreed and agreed, while 30.3% were and 23% were neutral. Most of the employees 48.6% were find it easy to discuss work issue with their managers, and 33% were agreed with the statement, the rest18.3% were neutral. For the last question majority of the respondents agreed with the PAS provide a scope for well communication 54.1%, 19.1%were disagree and 26.8 were neutral. The result infers is that the majority of the respondents with there is well and open communication in their organization.

4.2.1.3 Analysis of Employees Attitude toward the Fairness of the PAS

Employees requested to express their attitude about the fairness of the current PAS rating their level of agreement to the questions listed below.

Table 4.3. Response Summary Regarding with Fairness of the PAS.

Questions	S. Disagree		Disagree		Neutral		Agree		Strongly Agree		Total	
	F	%	F	%	F	%	F	%	F	%	F	%
I trust the PAS in my organization is rational and fair.	26	7.1	55	15.0	137	37.4	128	35.0	20	5.5	366	100
I feel fairly treated in every way in the PAS.	27	7.4	67	18.3	125	34.2	129	35.2	18	4.9	366	100
I get fair feedback from my supervisor and proportion reward to my performance.	37	10.1	113	30.9	63	17.2	122	33.3	31	8.5	366	100
I evaluated fairly according to the setting standards without subjectively and biased.	50	13.7	59	16.1	103	28.1	140	38.3	14	3.8	366	100

Mean	3.17	3.12	2.99	1.116
Std. Deviation	.989	1.008	1.179	3.02

Source: own survey 2017

As illustrated in the above tables employees response rate regarding to the statement of the PAS is rational and fair the response rate was22.1% of strongly disagree and disagree,40.5 %of agree, and 37.4% were neutral most of the respondents 40.1% strongly agreed and agreed that they fairly treated in every way of the PAS, 25.7% of them disagree, and 34.2% were neutral. Out of 100%, 41.8% of the respondents agreed with the evaluation is fair and objective, while 41% of

disagree with this statement and the rest of 17.2% were neutral. Finally based on this results the attitude of employees toward the fairness of the current PAS is positive.

4.2.1.3. Analysis of the Current Performance Appraiser

Employees were answer as requested their agreement level according to the statement about whether their appraiser trained or not.

Table 4.4. Response Summary on Trained Appraiser.

Questions	S. Disagree		Disagree		Neutral		Agree		Strongly Agree		Total	
	F	%	F	%	F	%	F	%	F	%	F	%
The PAS is regularly carried by the responsible appraiser.	23	6.3	40	10.9	139	38.0	160	43.7	4	1.1	366	100
I am confident because the appraiser knows enough about the PA to appraise me.	52	14.2	82	22.4	94	25.7	134	36.6	4	1.1	366	100
The appraiser helps me to understand what need to be done to improve my performance.	50	13.7	72	19.7	92	25.1	133	36.3	19	5.2	366	100
I am satisfied with the way the appraiser conducted my performance review.	56	15.3	60	16.4	102	27.9	122	33.3	26	7.1	366	100
Mean	3.22		2.88				3.00				3.01	
Std. Deviation	.891		1.091				1.148				1.182	

Source: Own Survey 2017

Table 4.4. indicated that majority of the respondents 44.8% strongly agree and agree ,another 17.2 %strongly disagreed or disagreed, 38% were neutral, to PAS is regularly carried by the responsible appraiser. For the question whether they are confident on the appraiser knowledge about the PAS the majority of the respondents 37.7% of the respondents agree and strongly agree, 36.6% were disagree, and 25.7% were neutral. 41.5% the respondents agree with the appraiser helps them to understand what need to be done to improve their performance, while 33.4% of the respondents strongly disagree and disagree. The rest 25.1% were neutral. The last question of this sub section is whether they are satisfied or not with the appraiser who conduct their performance appraisal, and 40.4% agree, 31.75% disagree and 27.9% of the respondents

were neutral. Thus, the findings indicated that majority of the respondents satisfied with their appraisers.

4.2.1.4 Analysis of the Current Ongoing Feedback in CBE

Employees were requested their level of agreement regarding to the following statements about the ongoing feedback the company among the five options given (strongly disagree=1, disagree=2, neutral=3, agree=4, and strongly agree=5)

Table 4.5. Ongoing Feedback Analysis

Questions	S. Disagree		Disagree		Neutral		Agree		Strongly Agree		Total	
	F	%	F	%	F	%	F	%	F	%	F	%
I receive regular and timely performance feedback beside the annual performance review.	20	5.5	64	17.5	97	26.5	156	43.4	20	7.1	366	100
The information provided by my supervisor during my performance feedback is accurate.	25	6.8	53	14.5	117	32.0	129	35.2	42	11.5	366	100
The performance feedback I receive helps me to improving my job performance and to attain my goals.	40	10.9	11	3.0	100	27.3	152	41.5	63	17.2	366	100
The feedback I get helps me to gain insight about my and strength.	21	5.7	49	13.4	96	26.2	156	42.6	44	12.0	366	100
Mean	3.29		3.30		3.51		3.42					
Std. Deviation	1.015		1.069		1.146		1.048					

Source: own survey 2017

As depicted from the above table 4.5., the majority of the respondents 50.5% agreed that, they receive regular and timely performance feedback beside the annual performance review while 23% strongly disagree and disagree and 26.5% were neutral. For question two, 46.7% of respondents have said information provided by my supervisor during my performance feedback is accurate, the other 21.3% of the respondents disagree and strongly disagree, and 32% were neutral. As question 3 response shows majority of the respondents 58.7% agreed that the performance feedback they receive helps them to improving their job performance and to attain their goals and 13.9% of them strongly disagree and disagree. For the fourth question the

majority of the respondent 54.6% explain they are strongly agreed towards the feedback they get helps them to gain insight about their weakness and strength, While 19.4% of the respondents disagreed. Therefore, we can conclude that there is effective ongoing feedback in the bank to help and meet the employee’s needs.

4.2.1.6. Analysis of the Current Performance Rewarding in CBE

Employees were asked their agreement level about the rewarding performance in CBE were effective or not using the following statements.

Table 4.6. Response rate for Performance Rewarding.

Questions	S. Disagree		Disagree		Neutral		Agree		Strongly Agree		Total	
	F	%	F	%	F	%	F	%	F	%	F	%
Performance appraisal is linked with salary increase, promotion and payment of bonus in CBE?	83	22.7	97	26.5	46	12.6	107	29.2	33	9.0	366	100
I rewarded proportional to my individual performance.	74	20.2	101	27.6	90	24.6	89	24.3	12	3.3	366	100
I receive annual bonus based on my performance and it’s really motivated me.	106	29.0	84	23.0	67	18.3	87	23.8	22	6.0	366	100
Hard work is not necessarily recognized or rewarded.	54	14.8	80	21.9	94	25.7	80	21.9	58	15.8	366	100
Mean	2.75		2.63		2.55		2.55		3.02			
Std. Deviation	1.330		1.151		1.291		1.291		1.290			

Source: own survey 2017

Table 4.6. can clearly explain that the existing of rewarding performance using performance appraisal in the bank. Among the respondent, majority of the respondents 49.2% disagree that Performance appraisal is linked with salary increase, promotion and payment of bonus in the bank and, 12% of respondents were neutral and 38.2 % agree with the PAS is linked with reward. For question two also 47.8% of the respondents strongly disagree and disagree with reward is proportional with performance, and 27.6% of them they agreed, the remaining 24.6% are neutral. In addition 52% of the respondents disagree with the annual bonus is based on

performance and it's really motivating the employees. Regarding to hard work is not recognized 37.7% of the respondents agree that hard work is not recognized in the bank, and 36.7% of them disagree with this statement. 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.

4.2.1.7. The Analysis of Employee's Motivation

The section aimed to determine whether the employees were satisfied with the current performance appraisal system in enhancing their motivation from the respondents involved in the study.

Table 4.7. Response summary on level of motivation.

Questions	S. Disagree		Disagree		Neutral		Agree		Strongly Agree		Total	
	F	%	F	%	F	%	F	%	F	%	F	%
I am satisfied with the current rewarding linked to the performance appraisal system in enhancing my motivation.	68	18.6	61	16.7	114	31.1	107	29.2	16	4.4	366	100
I am satisfied with the current appraisers in enhancing my motivation.	63	17.2	59	16.1	98	26.8	130	35.5	16	4.4	366	100
I am motivated by and satisfied with the participation provided in the whole performance appraisal process in the Bank.	72	19.7	99	27.0	70	19.1	101	27.6	24	6.6	366	100
I am satisfied with the current ongoing feedbacks applied in CBE and it helps me to improve my performance.	61	16.7	93	25.4	56	15.3	122	33.3	34	9.3	366	100
I am motivated by the ways of communication between the employees and the management with respect to the appraisal process as well as any other concerns.	72	19.7	103	28.1	58	15.8	103	28.1	30	8.2	366	100
I am satisfied and motivated with the PAS because it is fair.	78	21.3	53	14.5	82	22.4	126	34.4	27	7.4	366	100

Source: own survey 2017

The employee's motivation with regard to the current rewarding performance linked to the PAS in enhancing their motivation the responses indicated in the table 4.7. that the majority of respondents 35.3% were strongly dissatisfied and dissatisfied, 31.1% were neutral and 33.6% were satisfied. With regard to the current appraiser and its significant effect on motivation the respondents rate 33.3% of the respondents were strongly dissatisfied, while 39.9% of the respondents were in the satisfaction level. The rest of 26.8% of respondents was respond that they are neutral. Regarding to the participation level in the current PAS process, 46.7% of respondents were strongly dissatisfied and dissatisfied, while 34.2% of the respondents were in the satisfaction level. The rest of 19.1%of the respondents was neutral. From this the majority of the respondents were dissatisfied with the current participation level in the PAS process. As shown in the table satisfaction level regarding to the ongoing feedback, 4.2.1% of the respondents were strongly dissatisfied and dissatisfied,42.6% of the respondents were in the satisfaction level. The rest of 15.3% of the respondents was neutral. Concerning with the respondents motivation regarding to the current communication 47.8% of the respondents were strongly dissatisfied and dissatisfied, 36.3% of the respondents were in the satisfaction level. The rest of 15.8 %of the respondents was neutral. The response rate of Employees believe that the current PAS in their organization is fair and its motivating 35.8% of the respondents were strongly dissatisfied and dissatisfied,41.8% of the respondents were in the satisfaction level. The rest of 22.4 %of the respondents was neutral.

4.2.1.8. Mean and Standard Deviation of Performance Appraisal System Indicators and Employee Motivation

The objective of this study is to point out the effect of Performance appraisal system on employee motivation in the case Commercial bank of Ethiopia. In order to measure the extent of actual practices 24 items were provided for employees that were selected. Table summarizes the data collected from employees with regard to the Performance appraisal system and employee Motivation.

Table 4.8. Summary of Mean and Standard Deviation of Performance Appraisal system indicators and Employee motivation

		ongoing feedback	Rewarding the performance	Trained appraiser	Continuous communication	Fairness	participation	Level of motivation
N	Valid	366	366	366	366	366	366	366
	Missing	0	0	0	0	0	0	0
Mean		3.40	2.74	3.04	3.23	3.04	3.41	2.86
Std. Deviation		1.015	1.044	.991	.889	.980	.797	1.154

Source: own survey 2017

The above descriptive statistics clearly indicates the corresponding arithmetic mean and standard deviation of every construct totals (total of every individual categorical construct). Thus ongoing feedback categorical total has a mean of 3.40 and a standard deviation of 1.015, Rewarding performance categorical total has a mean of 2.74 and a standard deviation of 1.044, Trained appraiser categorical total has a mean 3.04 and standard deviation 0.991, communication categorical total has a mean 3.23 and standard deviation 0.889, Fairness of performance appraisal system categorical total has a mean of 3.04 and a standard deviation of 0.980, participation in PAS process categorical total has a mean of 3.41 and standard deviation 0.797, and finally level of employees motivation categorical total has a mean of 2.86 and a standard deviation of 1.154.

The finding indicate that a substantial proportion of the respondents claimed that they agreed with the ongoing feedback, Trained appraiser, continuous open communication, fairness of PAS, and participation in PAS process M is greater than the average values except Rewarding performance. This means rewarding performance in the organization is weak. On the other hand employees motivation categorical total has a mean of 2.86 and SD=1.154, it means few employees are satisfied with the current PAS.

4.2.2. Correlation Analysis

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 (Robert and Richard, 2008).

Table 4.9. Pearson Correlation between Factors of Effective Performance Appraisal System and Employee Motivation

		Motivation
participation	Pearson Correlation	.230**
	Sig. (2-tailed)	.000
	N	366
Continuous communication	Pearson Correlation	.638**
	Sig. (2-tailed)	.000
	N	366
fairness	Pearson Correlation	.690**
	Sig. (2-tailed)	.000
	N	366
Trained appraiser	Pearson Correlation	.529**
	Sig. (2-tailed)	.000
	N	366
Ongoing feedback	Pearson Correlation	.375**
	Sig. (2-tailed)	.000
	N	366
Rewarding performance	Pearson Correlation	.297**
	Sig. (2-tailed)	.000
	N	366
Motivation	Pearson Correlation	1
	Sig. (2-tailed)	
	N	366

Source: own survey 2017

Correlation result illustrated in table4. Show that there is significant positive relation between ongoing feedback and employees motivation ($r = .375$, $sig = .000$). There is significantly positive relation between Rewarding performance and employees motivation ($r = .297$, $sig = .000$). There is significant positive relation between Trained appraiser and between employees motivation ($r = .529$, $sig = .000$). There is significant positive relation between continuous open communication

and employees motivation $r = .638$, $sig = .000$). There is significant positive relation between fairness of PAS and employees motivation ($r = .690$, $sig = .000$). There is significant positive relation between Participation in PAS process and employees motivation $r = .230$, $sig = .000$). Table intended to determine the correlation between factors of effective PAS of six variables with employee motivation. The findings in Table 4.10., suggested that there was a strong correlation between the performance appraisal system and employees motivation ($r = .641$, $sig = .000$).

Table 4.10. Correlation between performance Appraisal System and Employees Motivation.

Correlations			
		factors of effective PAS	Motivation
factors of effective PAS	Pearson Correlation	1	.641**
	Sig. (2-tailed)		.000
	N	366	366
Motivation	Pearson Correlation	.641**	1
	Sig. (2-tailed)	.000	
	N	366	366

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

Source: own survey 2017

4.2.3. Regression Analysis

In this study multiple regressions were conducted in order to examine the relationship between ongoing feedback, Rewarding performance, Trained appraiser, continuous open communication, fairness of PAS, and participation in PAS process with another constructs of the conceptual framework; employee motivation. Here, the regression between the components of performance appraisal quality and employee performance in the form of stepwise is analyzed.

R-Square (coefficient of determination) is a commonly used statistic to evaluate model fit. R-square is 1 minus the ratio of residual variability. The adjusted R^2 , also called the coefficient of multiple determinations, is the percent of the variance in the dependent explained uniquely or jointly by the independent variables (Robert and Richard,2008).

Table 4.11. Results of Multiple Regressions between the Combined Effect of the Six Performance Appraisal System Variables and Employee Motivation.

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.749 ^a	.561	.554	.72355

a. Predictors: (Constant), participation, rewarding performance, continuous communication, ongoing feedback, trained appraiser, fairness

b. Dependent Variable: satisfaction

Source: Own Survey, 2017

R Represent the relationship between dependent and all the independent variables.

R² Represent how much of the depend variable can be explained by the independent variable.

From the equation, it was realized that motivation had a moderate relationship with performance appraisal system. The correlation value was 0.749 which is considered a moderate relationship because the value falls greater than 0.70 (Pallant, 2011). The value was also positive indicating that, when the independent variables increase dependent variable also increases and vice versa. The R² indicates that 56.1 % (0.561) of employee motivation could be explain using the independent variables (Performance Appraisal system).

Table 4.12. Regression Coefficients of the Relationship between Employees Motivation and the Six Predictive Variables

Coefficients^a

Model	Unstandardized Coefficients		Sig.
	B	Std. Error	
(Constant)	.651	.340	.056
Ongoing feedback	.170	.060	.005
Rewarding performance	.319	.063	.043
1 Trained appraiser	.234	.062	.000
Continuous communication	.607	.085	.000
fairness	.581	.073	.000
participation	.015	.093	.871

a. Dependent Variable: Motivation

Source: Own Survey, 2017

B Represent 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 $y = 0.651 + 0.170(x_1) + 0.319(x_2) + 0.234(x_3) + 0.607(x_4) + 0.581(x_5) + 0.015(x_6)$

The regression coefficient explain 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.

From the analysis the co-efficient value for ongoing feedback was 0.170. This means that all things being equal, when the other independent variables (rewarding performance, trained appraiser continuous communication, fairness of PAS, and participation in PAS process) are held constant, motivation would increase by 17% if there is 100% improvement in Fairness of PAS. This was statistically significant ($0.00 < 0.05$) i.e. the variable (Fairness of PAS) is making a significant unique contribution to the prediction of the dependent variable (employees motivation).

From the analysis the co-efficient value for Rewarding performance was 0.329. This means that all things being equal, when the other independent variables (ongoing feedback, continuous open communication, fairness of the PAS and participation in PAS process) are held constant, motivation would increase by 32.9% if there is 100% improvement in rewarding performance. This was statistically significant ($0.04 < 0.05$) i.e. the variable (rewarding performance) is making a significant unique contribution to the prediction of the dependent variable (employees motivation).

From the analysis the co-efficient value for Trained appraiser was 0.234. This means that all things being equal, when the other independent variables (ongoing feedback, continuous open communication, rewarding performance, fairness of the PAS, and participation in PAS process) are held constant, motivation would increase by 23.4% if there is 100%

improvement in trained appraiser. This was statistically significant ($0.00 < 0.05$) i.e. the variable (trained appraiser) is making a significant unique contribution to the prediction of the dependent variable (employees motivation).

From the analysis the co-efficient value for continuous open communication was 0.607. This means that all things being equal, when the other independent variables (ongoing feedback, rewarding performance, trained appraiser fairness of the PAS, and participation in PAS process) are held constant, motivation would increase by 60.7 % if there is 100% improvement in continuous communication. This was statistically significant ($0.00 < 0.05$) i.e. the variable (trained appraiser) is making a significant unique contribution to the prediction of the dependent variable (employees motivation).

From the analysis the co-efficient value for Fairness of PAS was 0.581. This means that all things being equal, when the other independent variables (ongoing feedback, rewarding performance, trained appraiser continuous communication and participation in PAS process) are held constant, motivation would increase by 58.1 % if there is 100% improvement in Fairness of PAS. This was statistically significant ($0.00 < 0.05$) i.e. the variable (Fairness of PAS) is making a significant unique contribution to the prediction of the dependent variable (employees motivation).

From the analysis the co-efficient value for participation in PAS process was 0.015. This means that all things being equal, when the other independent variables (ongoing feedback, rewarding performance, trained appraiser continuous communication and Fairness of PAS) are held constant, performance would increase by 1.5 % if there is 100% improvement in participation in pas process. This was statistically insignificant because it has value more than $0.871 > 0.05$ i.e. the variable (participation in PAS process) is not making any unique contribution to the prediction of employees' motivation.

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	240.146	6	40.024	76.451	.000 ^b
	Residual	187.947	359	.524		
	Total	428.092	365			

a. Dependent Variable: satisfaction

b. Predictors: (Constant), participation, rewarding performance, continuous communication, ongoing feedback, trained appraiser, fairness

Source: Own Survey, 2017

From the analysis, it is noted that the probability value of 0.000 ($p < 0.05$) indicates that the regression relationship was highly significant in predicting how ongoing feedback, rewarding performance, trained appraiser, continuous communication, Fairness of PAS and participation in PAS process influenced employee motivation. Further, the findings show that the overall model was significant.

Discussion

This particularly study was oriented onto the effect of performance appraisal system and employees motivation. The study well established that the relationship between PAS and employees motivation is high and stronger. Employee's motivation is strongly affected by the variables of the effective PAS like ongoing feedback, rewarding performance, trained appraiser, continuous open communication, fairness of the PAS, and employee's participation in the PAS. Employee's motivation is the key factor for good performance and good working environment.

Various studies in the effect of PAS and employees motivation have shown that continuous open communication and fairness of the PAS seems to be crucial in influencing employees motivation (Patrick Sackey, 2011; Maimona Jabeen, 2011). The present research finding supports the fact that these two factors is significant factor which influences the motivation of employees. On the other hand, employees want ongoing feedback to reinforce appropriate action and to be in a position to make adjustment when their performance needs improvement (Armstrong, 2006). Ongoing feedback has highly affect employees motivation in the bank. The importance of

ongoing feedback concerning to motivation of the employees is supported by numerous of authors (Armstrong and Baron,1998: Grote,2002: Fletcher,2004). The present research finding is similar with the past researches and its support that the positive influences of ongoing feedbacks on employees motivation in the bank industry.

The present research also established significant correlation between trained appraisers with employee's motivation. Trained appraiser means the appraiser should be trained in the performance appraisal process to help them diligently to overcome errors caused in the appraisal (Piggot, 2003). It is obvious that appraiser must have enough knowledge about the PAS to use the PAS effectively without subjective and unbiased rating. The study also obtained clear findings in relation to rewarding performance and employee's motivation in CBE. The finding indicating that effective rewarding system toward performance implies higher employee's motivation in the organization. For instance Amie farrel (2013) research support that tying rewards to performance is a common strategy across all industries and widely recognized as an effective measures. The research also indicates that rewarding performance and employee's motivation has positive relationship.

CHAPTER FIVE

Findings, Conclusion and Recommendations

This chapter presents the summary of the study, the conclusion and the recommendations comprehensively.

5.1. Summary of Findings

The result obtained from descriptive statistics show that majority of respondents are agrees and satisfied with ongoing feedback (M=3.40), trained appraiser (M=3.04), continuous open communication (M=3.23), fairness of PAS (M=3.04), and participation in PAS (M=3.41), except rewarding performance (M=2.86). The findings of the result have shown that the Performance Appraisal system in the organization does contain many of the important factors that make the system effective. The system could enhance motivation of the staff and improves their performance. While the system has its flaws and needs a lot of improving to get it to where it needs to be, it is going in the right direction and has some positive results.

From the correlation analysis the factors of effective PAS, ongoing feedback ($r=0.375$), rewarding performance($r=0.297$), trained appraiser($r=0.529$), continuous open communication ($r=0.638$), fairness of the PAS($r=0.69$), and participation ($r=0.230$) have positive correlation with employees motivation. Generally the whole six indicators are strongly correlated with employees motivation ($r = 0.641$, P. value .000). Consequently, there is a significant and positive relationship between the performance appraisal system and employee motivation. Multiple regression analysis was conducted to test the influence among predictor variables. The regression analysis results showed that, 56.1% of the changes in the employee motivation could be explain using combined effect of the predictor variables. More over the p-value of the regression coefficient was less than 0.05 for ongoing feedback, rewarding performance, trained appraiser, continuous open communication, and fairness of the PAS. It is noted that ongoing feedback, rewarding performance, trained appraiser, continuous open communication, and fairness of the PAS have significant effect on employees" motivation.

5.2. Conclusions

The main objective of the study was to evaluate the performance appraisal system and its effect on employee's motivation in CBE. The study targeted a total of 384 respondents. However, only 366 respondents responded and returned their questionnaires contributing to 95% response rate. The Data was collected using structured questionnaires. The data was analyzed into frequency distribution, percentages, Pearson correlations, and linear regression using the Statistical Package for Social Sciences (SPSS). The data was presented using tables and charts. Respondent from different age group, educational background, and year of experience are represented in the data collected.

From the summary of the findings and based on the objectives of the study the researcher draw the following conclusion concluded. The current performance appraisal system factors has great impact on employee motivation. This is due to, regular and accurate feedback that could help them to improve their performance by gaining insight about their weakness and strength; trained and well educated appraiser were conduct employees evaluation; there is continuous open communication with the supervisors; and the PAS is unbiased and fair. It is not clear that the performance appraisal system recognize hard work, which is essential for employee motivation. Rewarding performance can be considered as a technique that has a positive effect on employee motivation. There is no clear link between performance appraisal and bank efficiency and profitability. Furthermore employee Performance appraisal has different purposes and from the six purposes, the primary purpose is found to be feedback to employees which indicates how an employee is understood by his/her rater. It gives the sense of accomplishment and fills the gap in expectations. Many systems lack such clear indication. This is a more psychological result than other practical purposes like merit ratings, promotion, training which are also indicated in the study.

To conclude, effective PAS existed in the organization, however there are some problems in the performance appraisal system. And majority employee's response regarding to employees motivation to the current PAS were moderately satisfied. The six indicators or factors of effective PAS, ongoing feedback, rewarding performance, trained appraiser, continuous open communication, fairness of the PAS, and employee's participation in the PAS have strong and significantly positive effect on employee's motivation with significant value lees than 0.05,

except employee's participation in the PAS have insignificant effect on employees motivation. Thus effective PAS implemented in the organization it would affect employees motivation in positive ways.

Performance appraisal rating can be considered as a technique that has a positive effect on work performance and employee motivation. The employees may be motivated if the appraisal process is based on accurate and current job descriptions. The performance appraisal identifies performance problems to improve employee productivity and motivation.

5.3. Recommendations

The findings have revealed numerous potential weaknesses that are preventing the effectiveness of the system that could affect employee's motivation. The organization needs to improve the performance appraisal system accordingly if it is to be successful in carrying out its objective. Based on the results of the study, the following recommendations have been drawn for the organization to make their appraisal system more effective.

- Performance appraisal system should involve an open communication where both managers and employees have clear understanding of nature, purpose and problems of the appraisal, and it helps to identify what improvement need to be done by communicating with employees. This will be done by providing a discussion session, workshops, and other communication methods with employees.
- Employees should participate in the designing of the performance appraisal system; it helps the appraisal to reach its potential and to be benefited to all involved there needs to be a higher level of employee involvement in the system than there is at present. Thus providing various opportunities for employee's to participate in the PAS process and giving training to help them to understand about the PAS, so they have know how in the PAS process.
- Ongoing feedback should be given to employees regularly and must be accurate. Schedule should be developed in the planning stage of the PAS too provide regular feedbacks; it may be weekly or monthly. Performance appraiser should be well trained about how to conduct evaluation accurately.

- The study revealed that there is a problem in the performance rewarding in the system. Therefore the researcher recommended that effective performance rewarding should be applied in the PAS to utilize the PAS effectively and to meet its purpose. The rewarding of performance mechanisms must be carefully studied and find out what type of rewarding mechanism are appropriate in the organization.

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Appendix

ADDIS ABABA UNIVERSITY

SCHOOL OF COMMERCE

GRADUATE PROGRAM IN HUMAN RESOURCE MANAGEMENT

Research Questionnaire

My name is Alemneh Admassu. I am a Master's of Human Resource Management student at Addis Ababa University School of Commerce. The purpose of this questionnaire is to collect data in order to study the effect of performance appraisal system on employees' motivations in Commercial Bank of Ethiopia. Kindly cooperate in filling the questionnaire as your genuine, complete, and timely responses are crucial for the success of my study. Besides, I would like to assure that the data collected using this questionnaire is purely for academic requirement and your responses will be held confidentially and anonymously. Hence, the researcher kindly requests you to respond each item carefully.

Note:

- No need of writing your name
- Please fill the answer by putting “√” mark
- Kindly provide your response attentively and return the completed questionnaire as soon as possible
- PAS means performance appraisal system

Thank you for participating in this questionnaire!

Section I: Background Information

1. Gender 1. Male 2. Female
2. Educational Qualification
1. Diploma 2. Degree 3. Masters 4. Other
3. Age (**in year**) _____
4. Years of experience(**in year**) _____
5. Your current position in the bank 1. Managerial 2. Non-managerial
6. In which district office / branch of the bank you are currently working? _____

Section II: Factors of Effective Performance Appraisal System (PAS) and its effect on Employee Motivation.

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:

Determinant Factors of effective PAS		Measurement scale				
No.	Statement about the determinant factors of effective PAS and the extent of their implementation in the existing performance appraisal system	1	2	3	4	5
Ongoing Feedback						
1	I receive regular and timely performance feedback beside the annual performance review.					
2	The information provided by my supervisor during my performance feedback is accurate.					
3	The performance feedback I receive helps me to improving my job performance and to attain my goals.					
4	The feedback I get helps me to gain insight about my weakness and strength.					
Rewarding Performance		1	2	3	4	5
5	Performance appraisal is linked with salary increase, promotion and payment of bonus in CBE?					
6	I rewarded proportional to my individual performance.					
7	I receive annual bonus based on my performance and it’s really motivated me.					
8	Hard work is not necessarily recognized or rewarded.					
Trained Appraiser		1	2	3	4	5
9	The PAS is regularly carried by the responsible appraiser.					
10	I am confident because the appraiser knows enough about the PA to appraise me.					
11	The appraiser helps me to understand what need to be done to improve my performance.					
12	I am satisfied with the way the appraiser conducted my performance review.					
Continuous Open Communication		1	2	3	4	5
13	The PAS provide an opportunity to communicate with the supervisors to facilitate my job performance.					
14	There is a two way communication with both managers and employees for expressing their views.					
15	I find difficult to discuss work issues with my managers.					
16	The PAS provide a scope for well communication the overall business and plans to the employees.					

Employees Perception about Fairness of PAS		1	2	3	4	5
17	I trust the PAS in my organization is rational and fair.					
18	I feel fairly treated in every way in the PAS.					
19	I get fair feedback from my supervisor and proportion reward to my performance.					
20	I evaluated fairly according to the setting standards without subjectively and biased.					
Employees Participation on PAS process		1	2	3	4	5
21	I personally involved in the process of setting objectives and targets of my future Performance.					
22	Participating in the PAS motivate me, because it make me feel I am part of the organization.					
23	I would prefer my performance to be evaluated by an instrument developed and design with help of employees.					
24	There is no/low involvement in decisions making regarding to PAS process.					

Section 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 satisfied with the current rewarding linked to the performance appraisal system in enhancing my motivation.					
26	I am satisfied with the current appraisers in enhancing my motivation.					
27	I am motivated by and satisfied with the participation provided in the whole performance appraisal process in the Bank.					
28	I am satisfied with the current ongoing feedbacks applied in CBE and it helps me to improve my performance.					
29	I am motivated by the ways of communication between the employees and the management with respect to the appraisal process as well as any other concerns.					
30	I am satisfied and motivated with the PAS because it is fair.					