



**EFFECT OF PERFORMANCE APPRAISAL ON EMPLOYEES' JOB SATISFACTION**

**THE CASE OF COMMERCIAL BANK OF ETHIOPIA (CBE)**

**BY**

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**A THESIS SUBMITTED TO ADDIS ABABA UNIVERSITY**

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God Bless You All.

## **Declaration**

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of my advisor Fisseha Afework (Asst. Prof.). All sources of material used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institutions for the purpose of earning any degree.

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## **LIST OF ABBREVIATION AND ACRONYMS**

CBE	Commercial Bank of Ethiopia
GTP	Growth and Transformation Plan
HRD	Human Resource Development
HR	Human Resource
HRM	Human Resource Management
JS	Job Satisfaction
PA	performance Appraisal
PAP	Performance Appraisal practice
PM	Performance management
PMS	performance management system
SPSS	Statistical Program for Social Sciences

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## **ABSTRACT**

*Performance Appraisal is one of the key important factor which is practice by human resource management of every successful organization. The purpose of this study is to investigate the effect of performance appraisal on employees' job-satisfaction in the case of CBE. Currently in CBE most of employees not satisfied by the performance appriasal practice. They informally complains bias of the raters, lack of continuous communication, lack of trust in the supervisor, lack of clear performance expectations. The study used a descriptive research design. A stratified random sampling was used to sample 181 respondents from Commercial Bank of Ethiopia(CBE). The study used questionnaires as its data collection instrument qualitatively and quantitatively. Regression Analysis and Correlations were used to analyze the data collected using SPSS version 20. The study revealed that performance appraisal is positively related to job satisfaction and performance appraisal is has positive effect on job satisfaction.*

**Keywords:** *performance appraisal, job satisfaction and organizational commitment*

# CHAPTER ONE

## 1. Introduction

### 1.1 Background of the Study

For an organization to survive in a turbulent and dynamic global work environment, performance ought to be measured especially its human resource. This is based on many researches Ayaz (2010) that most winning organization in the 21st century will be those to focus on integrated HR processes and systems.

Cole(2002) argues that performance appraisal is a process to assign the duties and responsibilities equally for employees. Employee appraisal result obtained by job performance, employee attitude and characteristics. According to Berman (2005) performance appraisal is very essential for succession and career planning for employee jobs and as well as for organization. Effective and fair practice of performance appraisal can bring motivation, employee behavior, and attitude development, align individual goals with organizational goals and this will bring positive relationship between employee and management.

It is well known that organization achieves the desired objective having resources like materials, information, capital and human resources. Among these resources, human resource is one of the most important resource of an organization. Human resource is the only dynamic factor of production. Without human resource other factors of production are useless and idle. The management of Human resource involves recruiting employees developing their skills, and evaluating their performance. Without effective employee, the organization produces its goods and services inefficiently and may even place its survival at risk. As a result any manager is responsible to implement some human resource management activities as there are people performing under him/her. The proper management of human resource in any organization will influence the success of any organization. Today the emphasis on managing the human side of the organization is valuable and all managers are responsible to manage their subordinates. Many scholars believed human resource management is the nervous system of the organization and at a time it is difficult to manage. If you are successful in managing the human side of the organization you will be successful also in managing the other resources.

Therefore, managing the performance of employees will contribute a lot to the overall performance of the organization Armstrong (2006).

For this study performance appraisal and employee job satisfaction are selected from HR practices because performance appraisal is the most commonly used HR practice and if it's not properly handled it will affect the job satisfaction level of employees.

Employees have attitudes or viewpoints about many aspects of their jobs, their careers and their organization. But from the perspective of research and practice the most focal employee attitude is job satisfaction. When evaluation our jobs which are very important to us both thinking and feelings are involved. When employees feel dissatisfied with the way their jobs are being evaluated, then it will affect their attitude towards that job and performance. It is very important to understand the consequences of job satisfaction. It is presumed that "happy employees are productive." One of the most important areas of work situation to influence job satisfaction, that is, the work itself is often overlooked by practitioners when addressing job satisfaction Locke and Lathan (1976).

Locke and Lathan (1976) define job satisfaction as pleasurable or positive emotional state resulting from the appraisal of one's job or job experience. Job satisfaction is a result of employee's perception of how well their job provides those things that are viewed as important. It is generally recognized in the organizational behavior field that job satisfaction is the most important and frequently studied attitude.

Luthan (1998) posited that there are three important dimensions to job satisfaction: job satisfaction is an emotional response to a job situation. As such it cannot be seen, it can only be inferred; job satisfaction is often determined by how well outcome meet or exceed expectations. For instance, if organization participants feel that they are working much harder than others in the department but are receiving fewer rewards they will probably have a negative attitudes towards the work, the boss and or coworkers. On the other hand, if they feel they are being treated very well and are being paid equitably, they are likely to have positive attitudes towards the job.

Job satisfaction causes a series of influences on various aspects of organizational life. The influence of job satisfaction on employee can be seen in increased productivity, loyalty and

reduced absenteeism. The preponderance of research evidence indicates that there is no strong linkage between satisfaction and productivity Locke and Lathan, (1976). contends that job satisfaction is a frequently studied subject in work and organizational literature. This is mainly due to the fact that many experts believe that job satisfaction trends can affect labour market behavior and influence work productivity, work effort, employee absenteeism and staff turnover. Moreover, job satisfaction is considered a strong predictor of overall individual well-being as well as a good predictor of intentions or decisions of employees to leave a job.

Cole (2002) argues that performance appraisal is a review and discussion of an employee's performance of assigned duties and responsibilities. The appraisal is based on results obtained by the employee on the job, not on the employee's personality characteristics. The appraisal measures skills and accomplishments with reasonable accuracy and uniformity. It provides a way to help identify areas for performance enhancement and to help promote professional growth. It should not, however, be considered the supervisor's only communication tool. Open lines of communication throughout the year help to make effective working relationships.

Each employee is entitled to a thoughtful and careful appraisal. The success of the process depends on the supervisor's willingness to complete a constructive and objective appraisal and on the employee's willingness to respond to constructive suggestions and to work with the supervisor to reach future goals Victoria (2012). The appraisal process begins with the establishing of performance standards, and these standards are usually articulated in such a phrase as "A full day's work". Victoria (2012) asserts that, the expectations a manager has in terms of work performance by his or her subordinates must be unambiguous so as to clearly communicate them to the subordinates.

Berman (2005). asserts that performance appraisals are essential for career and succession planning - for individuals, crucial jobs, and for the organization as a whole. Performance appraisals are critical in staff motivation, attitude and behavior development, communicating and aligning individual and organizational aims, and fostering positive relationships between management and staff. They also provide a formal, recorded, regular review of an individual's performance, and a plan for future development. Job performance appraisals - in whatever form they take - are therefore vital for managing the performance of people and organizations.

Commercial Bank of Ethiopia, as the leading Bank in Ethiopia, designing and implementing HR development (HRD) strategy has a rationale that the CBE can realize its vision, mission and strategic objectives only through its qualified, competent, and disciplined employees. With a belief that its employees' capacity and capability is critical for its success, the Bank has designed its HR strategy in consultation with the Frankfurt School of Finance and Management Germany (2011), and started implementing the strategy to establish HRD best practices and to strengthen its capacities to be able to keep track with technological change and growing competition in the fast growing financial sector. The strategy includes succession planning system, engagement and retention strategy, training system, performance management systems and institutional restructuring of the HRD sub process.

## **1.2 Profile of the Commercial Bank of Ethiopia (CBE)**

The history of the Commercial Bank of Ethiopia (CBE) dates back to the establishment of the State Bank of Ethiopia in 1942. CBE was legally established as a share company in 1963. In 1974, CBE merged with the privately owned Addis Ababa Bank. Since then, it has been playing significant roles in the development of the country. Pioneer to introduce modern banking to the country. It has more than 1100 branches stretched across the country. The leading African bank with assets of 359.3 billion Birr as on March 31<sup>th</sup> 2016. It plays a catalytic role in the economic progress & development of the country. The first bank in Ethiopia to introduce ATM service for local users.

Currently CBE has more than 12.4 million account holders and the number of Mobile and Internet Banking users also reached more than 600,000 as of March 31<sup>th</sup> 2016. Active ATM card holders reached more than 1.1 million. It has strong correspondent relationship with more than 50 renowned foreign banks like Commerz Bank A.G., Royal Bank of Canada, City Bank, HSBC Bank,..CBE has a SWIFT bilateral arrangement with more than 700 others banks across the world. CBE combines a wide capital base with more than 25,000 talented and committed employees. Pioneer to introduce Western Union Money Transfer Services in Ethiopia early 1990s and currently working with other 20 money transfer agents like Money Gram, Atlantic International (Bole), Xpress Money,...The bank also operates two branches in South Sudan, and is contemplating opening re-opening a branch in Djibouti, and opening branches in Dubai and

Washington, DC, all to serve the Ethiopian Diaspora. CBE has reliable and long-standing relationships with many internationally acclaimed banks throughout the world.

Commercial Bank of Ethiopia, as the leading bank in Ethiopia as well as to successfully play its role of supporting the country's GTP via financing huge developmental projects, has designed new employee performance management system as one major aspect of its HRD strategy in consultation with the Frankfurt School of Finance and Management consultants since 2011/12 and started to pilot the system as of April, 2013 in few work units, and rolled out all across the bank since July 2014.

Not only the CBE is striving to win the domestic competition which is derived by the establishment of new private banks with emerging technologies in the banking service, it is also on its way to play a cross boundary roles and competitive in the international business arena(CBE's next five years strategy document, June 2015).

The Commercial Bank of Ethiopia (CBE) is the largest commercial bank in Ethiopia. This naturally means it has a large number of employees. CBE has experienced staff leaving the organization for various reasons, the Commercial Bank of Ethiopia, as the leading Bank in Ethiopia, Bank currently operates by aligning HR development strategy with its business strategies. Designing and implementing HR development (HRD) strategy has a rationale that the CBE can realize its vision, mission and strategic objectives only through its qualified, competent, and disciplined employees. With a belief that its employees' capacity and capability is critical for its success.

Since the human resource of CBE plays a significant role not only for the sake of the bank but also for the overall economy of the country. inaccuracies in performance appraisal can demotivate employees forcing them to leave the organizations. This would affect the organizations since employees would sought other opportunities thus no retention. It is Therefore crucial that the researcher motivated to study the effect of performance appraisal practice on employee job satisfaction as regards the employees of CBE.

### **1.3 Statement of the Problem**

CBE is now forced to operate in a dynamic business environment and endeavors to win the stiff competition in the market. Not only it strives to be effective in the domestic market, it also envisages to have cross boundary role and to play in the international market in the long run.

Therefore ,CBE believes that its employees are the primary sources of its competitive advantage. This in fact depends on the effective implementation of its HRD strategy. One of the HRD strategy is performance management system(PMS) and performance appraisal is one of the process of PMS.

Performance appraisal system is applied in the organizations to identify the skilled and best Performers employee of the organization to increase their salary and other benefits and to increase productivity of employee by providing necessary training to fill deficiency gap which ultimately enable employee to be satisfied from the job, but currently in CBE most of employees not satisfied by the performance appriaisal practice. They informally complains bias of the raters, lack of continuous communication, lack of trust in the supervisor, lack of clear performance expectations, This study therefore, seeks to fill this gap by investigating the effect of performance appraisal on employees' job satisfaction the case of CBE. In addition none of the previous researchers has studied performance appraisal with job satisfaction in CBE. Therefore the researcher will add a contribution to the area of interest. This study contributes to the organization to establish Effective performance appraisal practice. and will investigate the relationship between performance appraisal and job satisfaction and its effect on employee job satisfaction in CBE. It makes employees more satisfied and committed to their jobs , this in turn can lead an organization to take strides towards success.

#### **1.4 Research Questions**

1. What is the performance appraisal practice in CBE?
2. What is the relationship between performance appraisal and employee job satisfaction of employees working in CBE.
3. What is the effect of performance appraisal on employees' job satisfaction in CBE ?

#### **1.5 Research Objectives**

##### **1.5.1 General Objective**

The main objective of this study is to examine the effect of performance appraisal on Employee job satisfaction.

### **1.5.2 Specific Objectives**

1. To assess the performance appraisal practice in CBE.
2. To examine the relationship between performance appraisal and employee job satisfaction of employees working in CBE.
3. To examine performance appraisal effect on job satisfaction of employees working in CBE.

### **1.6 Significance of the Study**

The findings of this study will help the organization to understand the effects of performance appraisal on employee job satisfaction. This will improve the employee appraisal process. This study provides guidance to the organization that effective performance appraisal can satisfy their employees and which lead them towards organizational commitments and organization can effectively and efficiently achieve their goals. This study will also contribute to the knowledge base on human resource management in the areas of Performance Appraisal and job satisfaction. In addition, the study will also benefit other organizations (both Public and Private) in coming up with an effective Performance Appraisal System. Anyone who may be interested in the area of Performance Appraisal will also benefit from the study. Finally, the study will help other researchers who might want to undertake research in the area of staff appraisal, performance and job satisfaction.

### **1.7 Scope of the Study**

This research is intended to assess the effect of performance appraisal practice of the Bank on its employees' job satisfaction. The study investigates the effect of performance appraisal practice on employees job satisfaction who are working at CBE Addis Ababa region that is limited to the Head office core and Support process. The research covered the views of management and non-management employees of the Bank excluding non clerical employees.

### **1.8 Limitation of the Study**

A major limitation of the study is, due to resource constraints, the study does 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 findings may not be described as a reflection of the general state of affairs of the CBE and the study failure to incorporate the non-

clerical employees, that is only managerial and clerical employees are included in the sample size. The study is also limited only to the pieces of information that the respondents are willing to disclose the information.

### **1.9 Definition of Terms**

The following definitions are provided to ensure uniformity and understanding of these terms throughout the study.

**Performance** - as per Paul, W. T., & Laurel, J. M. (2010) performance is the way in which someone or something acts. It is any recognized accomplishment; a process or manner of functioning or operating; management execution. In other words, Performance can be defined as efforts along with the ability to put efforts supported with the organizational policies in order to achieve certain objectives.

**Performance Appraisal** - According to Paul, W. T., & Laurel, J. M. (2010) an assessment of the quality of a person's work in a job. Performance Appraisal is the specific and formal evaluation of an employee conducted to determine the degree to which the employee is performing his or her job effectively.

**Job Satisfaction** -Locke and Lathan (1976). define job satisfaction as pleasurable or positive emotional state resulting from the appraisal of one's job or job experience. Job satisfaction is a result of employee's perception of how well their job provides those things that are viewed as important.

**Organizational Commitment:** Allen and Meyer (1990) defined Organizational Commitment as a bond or linking of the individual to the organization. The success, survival and competing power of organizations depend on the commitment of their members, supporting their individual developments and ensure their participations.

### **1.10 Organization of the Study**

The study has five chapters. *Chapter One* presents the introduction of the study. This chapter presents detailed discussion on the background of the study, the problem statement, the research question, the objective of the study, definition of terms, significance of the study, the scope and limitation of the study. *Chapter Two* presents Literature Review where the theoretical

background of the study is presented. Clear discussions to the concept of performance appraisal and job satisfaction, as a tool for Human resource management. *Chapter Three* discusses about the methodology adopted to conduct the research. In the chapter the design and methodology is discusses in detail, the population and sampling, research instrument is used, data collection techniques and data analysis procedures is stated. *Chapter Four* presents Data Analysis and Interpretation, and Discussion of Results. It answer all the research questions. *Chapter Five* delivers the researcher's recommendations, conclusions and summary of the research based on the findings.

## CHAPTER TWO

### 2. LITRATURE REVIEW

#### 2.1.1 What is Performance Management?

According to Armstrong and Baron (2005) Performance Management is defined as; “A strategic and integrated approach to delivering sustained success to organizations by improving the performance of the people who work in them and by developing the capabilities of teams and individual contributors”. They further elaborated that PM is: as strategic in the sense that it is concerned with the broader issues facing the business ,concerned with performance improvement in order to achieve organizational, team and individual effectiveness, and concerned with development, which is perhaps the most important function of performance management.

Cardy and Leonard(2011) have also defined PM as; working in partnership with workers or teams of workers in order to improve future performance. They have also further clarify their definition of PM that; PM seamlessly flows through various interdependent steps ,which are the Performance, diagnosis, evaluation , feedback, dealing with feedback, improving performance, and future performance.

According to Auginis (2007) PM is stated as: “A continuous process of identifying, measuring and developing performance in organizations by linking each individual’s performance and objectives to the organization’s overall mission and goals”.

*As Continuous process,* Performance management is an ongoing process that involves setting goals and objectives, observing performance, and giving and receiving ongoing coaching and feedback.

*Link to mission and goals:* Performance management creates a direct link between employee performance and organizational goals, and makes the employees’ contribution to the organization explicit that requires managers to ensure that employees’ activities and outputs are congruent with the organization’s goals and, consequently, help the organization gain a competitive business advantage.

### **2.1.2 Performance Appraisal as part of the Performance Management System**

Most people think that “performance management” and “Performance appraisal” are one and the same thing. PA is the process by which an individual’s job performance is assessed and evaluated. It answers the question, “How well has the employee performed during the period of time in question?” Thus it is only a part of performance management David and Geoffrey (2009). Thus, it is advisable that organizations exercise performance appraisal as one of these ongoing communication processes so that they can reap the benefits associated with it. It is also when performance appraisal is looked at in this way that employees’ perception of it as a developmental tool, rather than merely an evaluative instrument, can be enhanced. As per David and Geoffrey (2009), performance management involves the setting of corporate, departmental, team and individual objectives (sometimes labeled “policy deployment”, the cascading down of strategic objectives to a meaningful set of targets for every individual involved); the use of performance appraisal systems; appropriate reward strategies and schemes; training and development strategies and plans; feedback, communication, and coaching; individual career planning; mechanisms for monitoring the effectiveness of performance management system and interventions and even culture management. Thus performance management involves the day-to-day management, as well as the support and development of people.

### **2.1.3 Performance appraisal**

The concept of performance has been expressed by Armstrong (2006) as follows: Performance means both behaviors and results. Behaviors emanate from the performer and transform performance from abstraction to action. Not just the instruments for results, behaviors are also outcomes in their own right – the product of mental and physical effort applied to tasks – and can be judged apart from results.

This definition of performance leads to the conclusion that when managing performance both inputs (behavior) and outputs (results) need to be considered. It is not a question of simply considering the achievement of targets, as used to happen in ‘management by objectives’ schemes. Competency factors need to be included in the process. This is the so-called ‘mixed 20

model' of performance management, which covers the achievement of expected levels of competence as well as objective setting and review (Armstrong 2006). Performance appraisal is a formal method for assessing how well an individual employee is doing with respect to assigned goals. Its ultimate purpose is to communicate personal goals, motivate good performance, provide constructive feedback, and set the stage for an effective development plan Harvard (2006). As per Greg and Kenneth (2009) performance appraisal is the process of measuring what employees contribute to the organization. It is the necessary but difficult part of managing others. Indeed, for many managers, performance appraisal is near the top of the list of undesirable duties. What makes this task so tough? One reason managers dislike performance appraisal is the difficulty of capturing all areas of contribution. Employees contribute in a number of different ways, and it is often hard to accurately evaluate their efforts with a numerical score. Another reason is that many employees seem to feel that performance ratings are biased. They see the process as sometimes unfair. A starting point for thinking about performance measure is to consider ways in which evaluations can be inaccurate. Performance appraisal is the specific and formal evaluation of an employee to determine the degree to which the employee is performing his or her job effectively. Some organizations use the term performance appraisal for this process, while others prefer to use different terms such as performance evaluation, performance review, annual review, employee appraisal, or employee evaluation. The outcome of this evaluation is some type of score or rating on a scale. These evaluations are typically conducted once or twice a year Angelo and Ricky (2008). Appraisal practices often include formal review and feedback sessions, and may include procedures for establishing work objectives, conducting PA has increasingly become part of a more strategic approach to integrating HR activities and business policies and is now a generic term covering a variety of activities through which organizations seek to assess employees and develop their competence, enhance performance and distribute rewards.

#### **2.1.4 Performance appraisal process**

According to DeCenzo (2010) performance appraisal process includes the following six steps. 1. Establish performance standards with employees. 2. Communicate expectations. 3. Measure actual performance. 4. Compare actual performance with standards. 5. Discuss the appraisal with the employee. 6. If necessary, initiate corrective action.

### **Establish Performance Standards**

The appraisal process begins with establishment of performance standards in accordance with the organization's strategic goals. These should evolve out of the company's strategic direction and, more specifically, the job analysis and the job description. These performance standards should also be clear and objective enough to be understood and measured. Too often, standards are articulated in ambiguous phrases that tell us little, such as "a full day's work" or "a good job." What is a full day's work or a good job? A supervisor's expectations of employee work performance must be clear enough in her mind so that she will be able to, at some later date, communicate these expectations to her employees, mutually agree to specific job performance measures, and appraise their performance against these established standards.

### **Communicate Expectations**

Once performance standards are established, it is necessary to communicate these expectations; employees should not have to guess what is expected of them. Too many jobs have vague performance standards, and the problem is compounded when these standards are set in isolation and without employee input. Communication is a two way street: mere information transfer from supervisor to employee is not successful communication.

**Measure Actual Performance** The third step in the appraisal process is performance measurement. To determine what actual performance is, we need information about it. We should be concerned with how we measure and what we measure. Four common sources of information frequently used by managers address how to measure actual performance: personal observation, statistical reports, oral reports, and written reports. Each has its strengths and weaknesses; however, a combination of them increases both the number of input sources and the probability of receiving reliable information. What we measure is probably more critical to the evaluation process than how we measure. Selecting the wrong criteria can produce serious, dysfunctional consequences. And what we measure determines, to a great extent, what people in the organization will attempt to excel at. The criteria we measure must represent performance as it was mutually set in the first two steps of the appraisal process.

### **Compare Actual Performance with Standards**

The fourth step in the appraisal process is the comparison of actual performance with standards. This step notes deviations between standard performance and actual performance. The performance appraisal form should include a list and explanation of the performance standards. It should also include an explanation of the different levels of performance and their degree of acceptability against the performance standard. This provides a valuable feedback tool as the manager moves on the next step, discussing the appraisal.

### **Discuss the Appraisal with the Employee**

One of the most challenging tasks facing appraisers is to present an accurate assessment to the employee. Appraising performance may touch on one of the most emotionally charged activities evaluation of another individual's contribution and ability. The impression that employees receive about their assessment has a strong impact on their self-esteem and, importantly, on their subsequent performance. Of course, conveying good news is considerably easier for both the appraiser and the employee than conveying bad news. In this context, the appraisal discussion can have negative as well as positive motivational consequences.

### **Initiate Corrective Action if Necessary**

The final step in the appraisal is the identification of corrective action where necessary. Corrective action can be of two types: one is immediate and deals predominantly with symptoms, and the other is basic and delves into causes. Immediate corrective action is often described as "putting out fires," whereas basic corrective action touches the source of deviation and seeks to adjust the difference permanently. Immediate action corrects problems such as mistakes in procedures and faulty training and gets the employee back on track right away. Basic corrective action asks how and why performance deviated from the expected performance standard and provides training or employee development activities to improve performance. In some instances, appraisers may rationalize that they lack time to take basic corrective action and therefore must be content to perpetually put out fires. Good supervisors recognize that taking a little time to analyze a problem today may prevent the problem from worsening tomorrow.

### 2.1.5 Methods of Performance Appraisal

According to Martin (2010) and Gilley, Gilley, Quatro & Dixon (2009), there is a wide range of methods that can be used separately or in combination to appraise performance including:

1. **Rating scales:** these approaches involve the predetermination of a number of factors against which performance will be evaluated and the identification of a ‘quantity’ measure of performance for each one.

2. **Performance-based appraisal:** the manager rates specific job related requirements associated with an employee’s position. Identifying where an employee falls on a “below expectations” to “exceeds expectations” scale is a quick way to accurately assess performance. It involves filling out a standard rating-scale form, making the process fairly fast and simple. The job-related requirements that are measured must be the same for all employees who hold the same position, to be fair and equitable.

3. **Behaviorally anchored rating scale (BARS):** Similar to standard rating scales but based on factors that reflect behaviors identified as necessary for the achievement of high performance in the job in question.

4. **Ranking and forced distribution methods:** These seek to compare the performance achievement between all the employees being considered. In its simplest form, ranking seeks to provide a list of all employees from the highest performer to the lowest performer. Forced distribution seeks to categories all employees into performance bands based on set proportions in each band.

5. **Critical incidents:** Assessing performance using this approach requires the boss to identify important events (critical incidents) that demonstrate effective and ineffective performance by the individual. These would then form the basis of the discussion about performance during the appraisal review.

6. **Essay approach/Narrative:** This approach simply presents the boss with a blank sheet of paper and requires them to describe in their own words the performance of the subordinate. This would then be discussed with the individual during the appraisal meeting. This can be a very subjective means of evaluation, with the writer often discussing more personality based traits of the individual versus measurable job skills. It can be used as a way to “soften the blow” of a less than favorable appraisal. The effectiveness of a narrative is directly related to the writing

skills of the manager. If used alone, it does not allow for a rating comparison of several employees.

**7. Management by objectives:** This approach involves the identification of key tasks, projects and other objectives that the individual has to achieve during the review period. At the end of that period the achievement of each objective would be used to identify the performance implications.

**8. Top-down:** Several management-level members rate the performance of an employee.

**9. Upward:** The employee rates the performance and effectiveness of the manager.

**10. Peer review:** Peers and team members rate the employee's performance. Care must be taken in choosing unbiased peers, and the manager must decide how much weight is given to each peer's feedback in order to reach a fair result. This method can be used when a manager has limited contact with the employee.

**11. Self-assessment:** Employees rate their own performance. A self-assessment can be implemented into all Performance Appraisal methods.

**12. 360-degree review:** This method relies on feedback gathered from people throughout an organization, and at varying professional levels, who have worked with the employee. This includes the manager, peers, and customers (both internal and external).

**13. Continuous feedback:** The appraisal process is conducted more than once per year (usually 2–4 times). This allows for constant monitoring, communication, feedback, and modification of performance and goals.

**14. Follow-up reviews:** Continuation of the appraisal process when training/development opportunities are scheduled, short-term goals are evaluated/changed, and progress is discussed. These are often conducted within several weeks of the main appraisal meeting.

### **2.1.6 Problems affecting performance appraisal**

The main problems that arise in conducting performance reviews are: 1. Identifying performance measures and criteria for evaluating performance; 2. Collecting factual evidence about performance; 3. The existence of bias on the part of managers; 4. Resolving conflict between reviewers and the people they review; 5. Defensive behavior exhibited by individuals in response to criticism Khulida (2009).

There are no easy answers to these problems, no quick fixes. It is wise never to underestimate how hard it is for even experienced and effective managers to conduct productive performance review meetings. It was the facile assumption that this is a natural and not too difficult process that has bedeviled many performance appraisal schemes over the years. This assumption has certainly resulted in neglecting to provide adequate guidance and training for reviewing managers *and*, importantly, those whom they review Armstrong(2006). Basically, the performance evaluation process is seen as a simple process whereby a supervisor or manager only needs to observe the work performance of their staff and give feedback on their performance from time to time. In reality, this process is not that simple. The supervisor or manager as well as the staff often have different opinions on performance evaluation. Some of the factors that lead to the failure of the performance evaluation process are:

- The standard of measuring performance is not clear.
- The supervisor or manager does not have the skills to evaluate employee performance.
- The supervisor or manager is not prepared to evaluate employee performance, as he or she does not want to be seen as a judge who is giving out an unfair sentence.
- Employees do not receive constant performance feedback.
- The supervisor or manager is not sincere during the performance evaluation process.
- Performance evaluation is not focused on employee development.
- The supervisor or manager uses language that is unclear to the employees during the performance evaluation process.
- Employees feel that the organization does not allocate enough resources for performance rewards.

The explanations above are able to influence the effectiveness of the performance evaluation process and create a gap in the relationship between supervisor and staff. Performance evaluation activities are also often referred to as an annual activity and focus more on employees' annual salary movement. The disagreement that exists and the misunderstanding of performance evaluation have caused the performance evaluation process to fail. Therefore, support from the top management is important in order for performance evaluation to succeed so that the organization will be able to compete in the market Khulida (2009).

According to Greg L. Stewart, K. G. (2009). the following are common problems with performance appraisal measures: rater errors and bias, situational influences, and change over time.

*Rater errors* Research suggests that raters commit a number of errors when they rate employee performance. Rating error occur when raters provide assessments that follow an undesirable pattern or when the rater does not properly account for factors that might influence assessments.

*Central tendency error*: a rating error that occurs when raters give almost all employees scores in the middle of the scale.

*Contrast error*: a rating error that occurs when raters unknowingly allow comparisons among employees to influence ratings.

Similar to me : is the error that the rater make when he/she judge those who are similar to him/her more highly than those who are not Noe (2008). *Halo error*: a rating error that occurs when raters allow a general impression to influence ratings on specific dimensions of performance. *Horns error*: works in the opposite direction to halo error: one negative aspect results in the rater assigning low ratings to all the other aspects.

According to Greg L. Stewart, K. G. (2009), *Recency error*: a rating error that occurs when raters place too much emphasis on performance observed right before the measure is taken.

*Primacy error*: a rating error that occurs when raters place too much emphasis on performance observed at the beginning of the measurement period.

*Frame of reference training*: training that focuses on building consistency in the way different raters observe and evaluate behaviors and outcomes.

*Rater Bias* Substantial problems occur when rater errors operate in such a way that people with certain characteristics are consistently rated lower than others. Consistently providing lower ratings to people with certain characteristics, such as women and minorities is known as rater bias .

*Situational influence* Factors that affect performance but that are outside the control of the employee being rated. Research suggests that subjective ratings are frequently contaminated and deficient because raters fail to account for situational influences. However, it is at least possible for raters to adjust subjective evaluations to control for situational factors. Situational influences present a greater problem for objective, outcome-oriented performance measures.

*Changes over time* Another problem with measurement is that performance may not be consistent across time. Performance can vary over time because of differences in motivation. For example, an incentive such as bonus may motivate employees to achieve high performance for a short period. Measuring this short-term achievement may result in an assessment that is quite different from an assessment that reflects typical performance on most days.

### **2.1.7 Why organizations conduct performance appraisal?**

As just noted, most managers may be unhappy with various facets of the performance appraisal process, but most would agree that they are nevertheless very important Angelo and Ricky (2008). One reason why appraisals are so important to organizations is that they provide a benchmark for assessing the extent to which *recruiting and selection* process are adequate. Performance appraisal is also important because it is-or at least should be fundamentally linked to an organization *compensation* system. In theory, organizations prefer to provide greater rewards to higher-performing employees and lesser rewards to lower-performing employees. To provide this compensation on a fair and equitable basis, however, it is important that the organization can differentiate between its higher and its lower performing employees. Managers want to know that they are giving the appropriate rewards to employees for appropriate reasons. Performance appraisal plays a big role in this process. Performance appraisal is also important for legal reasons. Organizations must be able to demonstrate that their promotions, transfers, terminations, and reward allocations are based on merit (or the lack thereof), as opposed to some discriminatory factor such as gender or race. Performance appraisal, therefore, is the mechanism by which the organization can provide this *documentation*. Managers must be able to rely on performance appraisal information to demonstrate that all of their important employment related decisions have been based on the actual performance of those affected by the decisions. Without proper performance appraisal, an organization is subject to concerns or charges that there is at least the impression that promotions and other rewards may be based in a factor or factors other than actual performance Angelo And Ricky (2008). Performance appraisal also plays an important role in employee *motivation and development*. Most people want to know how well they are doing so that they can correct their deficiencies, capitalize on their strengths, and improve their overall contributions to their jobs.

Again, performance appraisal provides this information to employees. An individual who is told that he or she is doing well on three dimensions of his or her job performance but needs to improve on a fourth dimension recognizes how managers see him or her and knows where to allocate additional developmental work and effort in the future Angelo and Ricky (2008). Finally performance appraisal provides valuable and useful information to the organization's *human resource planning* process. For example knowing the distribution of qualified employees within the organizational system is an important factor for managers to know. And performance appraisal helps provide this information to managers. Condensed such purposes into two general categories: evaluative and developmental. The evaluative category includes:

- i. *Performance measurement*, which establishes the relative value of an individual's contribution to the company and thus provides information that can be used in decisions on layoffs, terminations, and promotions.
- ii. *Compensation*, which determines appropriate pay for performance and equitable salary and bonus incentives based on merit or results.
- iii. *Motivation*, which is the end result of an effective evaluation

The developmental category includes:

- i. *Management development*, which identifies and prepares individuals for increased responsibilities and thus provides a framework for future employee development.
- ii. *Identification of potential*, which identifies candidates for promotion.
- iii. *Feedback*, which informs employees of the organization's standards and how their performance measures up.
- iv. *Human resource planning*, which audits management talent and evaluates the present supply of human resources for replacement planning.
- v. *Communications*, which provides a format for dialogue between superior and subordinate and improves understanding of personal goals and concerns. This can also have the effect of increasing the trust between the rater and ratee.
- vi. *Performance improvement*, which encourages continued successful performance and strengthens individual weaknesses to make employees more effective so that organizations can successfully implement strategies such as quality enhancement.
- vii. *Legal compliance*, which establishes the validity of employment decisions made on the basis of performance based information and provides a defense for management actions such as selection, demotion, or termination Boswell and Boudreau(2002).

### **2.1.8 Performance Appraisal System**

According to Yee and Chen (2010) Performance appraisal is not an event, it is a process. These events happen in a predictable and sequential fashion, with one completed before the next begins. Yee and Chen (2010) defines the process of Performance appraisal as the setting up of standards which will be used as the base to compare the actual performance of the employee's. These steps requires setting up the criteria to judge the performance of the employee's as successful or unsuccessful and the degrees of their contribution to the organizational goals and objectives, these standards should be clear, easily understandable and in measurable terms. Performance appraisal is used by organizations to reward and develop the human resource of the organization so that they can run smoothly. There is a significant amount of agreement that there is an ideal cycle that if followed will produce superior results. An organization's overall performance management system begins with establishing performance standards which is setting up of the standards which will be used as the base to compare the actual performance, then communication of the set standards by management to all the employees, then measuring of the actual Performance that is the work done by the employees during the specified period of time. It is the most difficult part of the performance appraisal process; it is a continuous process which involves monitoring the performance throughout the year. Followed by comparing the actual performance with the desired performance, the actual performance is compared with the desired or the standard performance. The comparison tells the deviations in the performance of the employees from the standards set which in turn is followed by discussing the results and finally decision making is the last step of the process. Decisions are taken either to improve the performance of the employees, take the required corrective actions, or the related HR decisions like rewards, promotions, demotions, transfers etc.

### **2.1.9 Principles of Effective performance Appraisal**

Systematic performance appraisal should be an accurate and reliable one. The reliability and accuracy of performance appraisal is obtained wherever the barriers of performance appraisal are overcome by the management. However, there is no perfect appraisal system in all organizations but there are some systems that posses certain characteristics that can provide a more effective means for achieving the appraisal. Regardless of which method is used an understanding of what an appraisal is supposed to do is critical. The most important thing is not which form or which method of performance appraisal used but whether managers and employees understand its purposes and obtaining the actual result from the evaluation. Brown, Haytt, Benson(2010).

According to Brown, Haytt, Benson(2010), the management may take the following measures to make the appraising more effective. Single employee is rated by two raters. Then, the comparison is made to get accurate rating, a separate department may be created for effective performance appraisal, the plus points of an employee should be recognized, at the same time, the minus points should not be highlighted too much but they may be hinted to him, the standard for each job should be used for performance appraisal to each job according to the nature of the job, Separate printed forms should be used for performance appraisal to each job according to the nature of the job, The measurement should create confidence in the minds of employees and Continuous and personal observation of an employee. The perfect performance appraisal system doesn't exist because all performance appraisal methods have their own limitations and negative impacts.

The following points are the characteristics of effective performance appraisal system:Brown, Haytt, Benson(2010).

**Performance expectations:-** the managers should clearly explain performance expectation to employees in advance of the appraisal period. This enables the employees lead their efforts and emphasis towards the expected performance level.

**Employee access to the result:-** An effective appraisal system should provide feedback to employees on how well or bad they have performed and a continuing basis.

**Qualified appraisals:-** the evaluators should be well trained, should be given instructions and skills about the rating system to provide ideas on evaluating, conducting appraisals interviews and documented approaches.

**Standardization:-** employees in the same job category, under the same supervisor and coordinator should be appraised by the same evaluation instruments, techniques, procedures and work objective.

**Due process:-** A formal procedure should be developed for appraisal process and it is vital to reduce employees' complaint and grievances performance should be job related.

Employees are sensitive to quality variations in performance appraisal as its processes are a powerful determinant of employees' futures such as having promotion, rewards, demotion or even termination of their job within the organization suggested performance appraisal quality variations will generate strong reactions among employees.

In order to create effective performance appraisal system that will create employee job satisfaction any organization shall include the following four principal indicators of the quality of performance appraisal system. Brown, Haytt, Benson(2010).

**1.clarity of performance expectations**, which shows the scope to which employees are familiar with the purpose and role of the performance appraisal. This will involve precision and clearness of the role of performance appraisal that will play in shaping an employee's fate within the organization and the performance appraisal process.

**2.The second indicator is the level of communication** between the employees and their supervisors that specifies the opportunities to evaluate information and acquire supply in combination with clarity about performance appraisal processes provide employees with the chance of exercising a level of process control. In addition providing an employee with the chance to express his or her opinion is appreciated in it and certifies his or her belongings in the organization.

**3.The third indicator is trust in the supervisor employees** who consider their supervisor is capable and has high quality knowledge of their employees' job responsibilities will be more probable to rate their performance appraisal experience positively and trust their supervisor. Also when employees trust their supervisor they grasp positive outlooks about their supervisor's motives, judging that manager will act in their finest interest.

**4.The forth one is fairness** of performance appraisal process employees want to be treated fairly throughout the performance appraisal process as this is considered to have an effect on the quality of the results of the process.

#### **2.1.10 Relationship between Job satisfaction and performance evaluation**

Attempting to understand the nature of job satisfaction and its effects on work performance is not easy. For at least 50 years industrial/organizational psychologists have been wrestling with the question of the relationship between job satisfaction and job performance. Researchers have put a considerable amount of effort into attempts to demonstrate that the two are positively related in a particular fashion: a happy worker is a good worker. Although this sounds like a very appealing idea, the results of empirical literature are too mixed to support the hypothesis that job satisfaction leads to better performance or even that there is a reliable positive correlation

between these two variables. On the other hand some researchers argue that the results are equally inconclusive with respect to the hypothesis that there is no such relationship.

As a result of this ambiguity, this relationship continues to stimulate research and reexamination of previous attempts. This paper strives to describe the relation of job satisfaction and performance, keeping in mind the value this relation has for organizations. Job satisfaction is a complex and multifaceted concept, which can mean different things to different people. Job satisfaction is usually linked with motivation, but the nature of this relationship is not clear. Satisfaction is not the same as motivation. "Job satisfaction is more an attitude, an internal state.

It could, for example, be associated with a personal feeling of achievement, either quantitative or qualitative." In recent years attention to job satisfaction has become more closely associated with broader approaches to improved job design and work organization, and the quality of working life movement. The relationship between job satisfaction and performance is an issue of continuing debate and controversy. One view, associated with the early human relation's approach, is that satisfaction leads to performance. An alternative view is that performance leads to satisfaction. However, a variety of studies suggest that research has found only a limited relationship between satisfaction and work output and offer scant comfort to those seeking to confirm that a satisfied worker is also a productive one. Labor turnover and absenteeism are commonly associated with dissatisfaction, but although there may be some correlation, there are many other possible factors. No universal generalizations about worker dissatisfaction exist, to offer easy management solutions to problems of turnover and absenteeism. The study suggests that it is primarily in the realm of job design, where opportunity resides for a constructive improvement of the worker's satisfaction level. Individual performance is generally determined by three factors. Motivation, the desire to do the job, ability, the capability to do the job, and the work environment, the tools, materials, and information needed to do the job. If an employee lacks ability, the manager can provide training or replace the worker. If there is an environmental problem, the manager can also usually make adjustments to promote higher performance. But if motivation is the problem, the manager's task is more challenging. Individual behavior is a complex phenomenon, and the manager may not be able to figure out why the employee is not motivated and how to change the behavior. Thus, also motivation plays a vital role since it might influence negatively performance and because of its intangible nature. (Mohsin, A., Mehreen, S., and Sanea, H .(2013)

### **2.1.11 Job Satisfaction**

depression, pleasure, positive effect, kindness and anger, which they claim can capture better the subtleties of emotional experience at work.

Locke's (1990). theory is the most famous job satisfaction model. The main premise in this theory is that satisfaction is determined by a discrepancy between what one wants in a job. Further the theory states that how much one values a given facet moderates how satisfied/dissatisfied one becomes when expectations are/aren't met. When a person values a particular facet of a job, his satisfaction is more greatly impacted both positively when expectations are met compared to one who does not value that facet.

According to Jawahar, I. (2006). it is a general theory that suggests that people have innate dispositions that cause them to have tendencies toward a certain level of satisfaction, regardless of one's job. The approach has been a better explanation of job satisfaction in light of the evidence that job satisfaction tends to be stable over time and across careers and jobs. Caroline(2011) argued that there are four core self evaluations that determine one's disposition towards job satisfaction and these are self-esteem, general self efficacy, locus of control and neuroticism. This model states that higher levels of self esteem and general self efficacy lead to higher work satisfaction and having an internal locus of control leads to higher job satisfaction and finally lower levels of neuroticism leads to job satisfaction.

### **2.1.12 Theories of job satisfaction**

Studies show that certain conditions can either bring about job satisfaction or dissatisfaction, and the burgeoning literature on the theories of job satisfaction propose that theories are usually classified according to their nature or chronological arrangement Saifuddin (2012).

#### ***Herzberg's Two-Factor Theory***

Herzberg's theory is said to be the most functional model to study job satisfaction Kim (2004). The Two Factor Theory suggests that there are two factors that could satisfy or dissatisfy workers in carrying out their responsibilities namely job-satisfiers or motivator factors and job dissatisfaction or hygiene factors. Job-satisfiers are aspects of the job that stimulate employees' job satisfaction and it considers aspects of a job such as recognition, achievement, responsibility,

advancement and the work itself. Alternatively, job dissatisfaction or hygiene factors are regarded as contextual factors which are not necessary motivating but their absence at the workplace bring forth dissatisfaction Herzberg (1976). However, this theory has received a lot of critics for its motivator and hygiene contents which disregard individual differences and perceives that individual employees would respond in the same way to changes in motivator and hygiene factors Karimi (2007).

### ***Equity Theory.***

According to Yusof and Shamsuri (2006), this theory has been extensively studied over decades under the title of distributive justice. The proponent of this theory, Adams (1963) proposes that workers consider their input (what they put into a job) in relation to their outcome (what they get from a job) and try to evaluate this ratio with the input-outcome ratio of their colleagues in other organisations. State of equity is said to exist if they realize that their ratio is equivalent to that of their colleagues in other organisations Robbins(2005). Similarly, there is inequity if the ratio is not corresponding. Equity brings forth satisfaction among employees while inequity leads to dissatisfaction. Perry (2006) found those employees' satisfaction increases with rewards only when these rewards are valued and observed as equitable.

### ***Job Design Theory.***

This theory suggests that the job aspects of an employee will show the level of his or responsibility in the organisation. In following Moynihan and Pandey (2007), job transparency causes greater job satisfaction as job clarity generates such employees who are more satisfied with the work, committed to the work and concerned with the work. The theory states five features of a job including skill variety, task identity, task significant and autonomy as factors that affect individual's perception of how important the work is, and eventually affects satisfaction level. Autonomy represents the level of exercising self control, the more independent a worker feels, the more responsibilities he or she assumes.

### ***Vroom's Expectancy Theory.***

Vroom (1964) suggests that the motivations of people to work to realize their dreams depends on assumptions that the objective is worthy, and are certain that what they do will aid them accomplish their goals. Robbins(2005) posits that this theory is founded on three variables namely valance, expectancy and instrumentality.

Valance refers to the strength of individuals' preference for a particular output. Expectancy considers the likelihood that a specific effort will produce a particular first-level outcome. Instrumentality on the other hand, is the extent to which first-level outcome will cause desire for second-level outcome. For instance, employees could be motivated (motivational effort) toward superior performance (first-level output) to gain promotion (second-level output) Luthans(2005). Similarly, Newstrom (2007) explains that satisfaction is as a result of three factors including how much reward is wanted (Valance), the estimate of probability that effort will lead to successful performance (expectancy) and the estimate that performance will result in getting reward (instrumentality). Hence, Satisfaction/Motivation = Valance X Expectancy X Instrumentality.

For this study the researcher chooses Equity theory and the Expectancy theory which motivational theories are invaluable in the explanation of performance appraisal.

*Equity Theory:* It is a theory that explains relational satisfaction in terms of perceptions of fair or unfair distributions of resources within interpersonal relationships. John Stacey Adams, who developed the theory, asserted that employees seek fairness in terms of their contribution to an organization and what they get in return from the organization, particularly in relation to what they think other employees' contributions are and what the organization gives in return to those employees. This borders on the issue of motivation because if an employee holds the view that he is being treated fairly, it causes him to maintain a healthy relationship with his coworkers and his organization. The contributions made by an employee are referred to as inputs and what the organization gives in return are referred to as outcomes. Thus equity theory deals with a ratio of inputs to outcomes. If an employee is over under rewarded, he will seek to restore a balance by increasing or decreasing his contributions respectively. Equity theory typically focuses on ensuring fairness in the distribution of an organizations resources and it is measured by comparing the ratio of inputs and outcomes of relational partners. It can be deduced that the theory typically focuses on rewards and recognition which may be reflected in the form of bonuses or salary increment. The researcher, thus, by juxtaposing the factors from reviewed literature which includes fairness of the appraisal system, reflecting employee performance in rewards such as promotions, providing feedback to all employees, and clarifying work roles to all employees, with employee job satisfaction. Robbins(2005).

*Expectancy theory:* According to Vroom (1964) Expectancy theory involves the preferred rewards an employee expects to get if he undertakes or performs particular actions. It concerns how motivated an employee is to carry out a task because he perceives that carrying out that task will lead to an outcome. It is also concerned with whether the employee prefers the outcome or not. The likelihood that a particular action will bring about preferred reward is at the heart of expectancy theory. In the light of the above, employees have a tendency to weigh the probability of attaining a desired reward by performing different tasks and they will eventually opt to perform the task which they perceive as more successful. Employees are thus motivated to put up positive job related attitudes and subsequently increase their efforts so as to produce better results because of the expected reward. Vroom discusses three components of the theory to include Expectancy, Instrumentality and Valence. Expectancy is about the belief an employee holds with regards to his efforts being sufficient to help him attain his desired performance goals and it is usually determined by the employee's past experiences. Instrumentality, on the other hand, is the belief an employee holds about receiving rewards in the form of promotion or salary increment if he meets performance expectations. Valence represents how an employee values the reward he stands to get if he meets performance expectations. If an employee places a high value on the reward, then he is likely to perform the action to earn the reward.

### **2.1.13 Job satisfaction and organizational commitment**

Organizational commitment is the employees' state of being committed to assist in the achievement of the organization's goals, and involves the employees' levels of identification, involvement, and loyalty Caught & Shadur(2000). It is an emotional response that can be measured through people's behaviors, beliefs, and attitudes and can range anywhere from very low to very high. Allen and Meyer(1996) have identified three types of organizational commitment: affective, continuance, and normative.

Job satisfaction is the only attitude variable studied more than organizational commitment. Job satisfaction is "the degree to which people like their jobs" based on "what they receive from working compared to what they expect, want, or think they deserve" Klinger & Nalbandian (1993). Much debate has focused on the causal relationship between job satisfaction and organizational commitment. While most studies suggest that individuals must be satisfied with

their jobs before they can become committed to the organization, other studies report an inverse relationship that job satisfaction is an outcome of one's level of organizational commitment.

Even more confusing are studies reporting there is no evidence that a relationship exists between employee job satisfaction and organizational commitment Testa(2001). Researchers also differ regarding whether job satisfaction research should be considered globally or in various facets (e.g., supervision, promotion, pay). However, in a meta-analysis study, Mathieu and Zajac (1990) found the correlation between job satisfaction and organizational commitment to be high. Research results indicate that satisfied employees tend to be committed to an organization, and employees who are satisfied and committed are more likely to attend work, stay with an organization, arrive at work on time, perform well and engage in behaviors helpful to the organization.

## **2.2 Empirical Review**

Theoretical literature dictates the positive relationship between the performance appraisal quality and job satisfaction. Empirical literatures from different time are also summarized as follow:

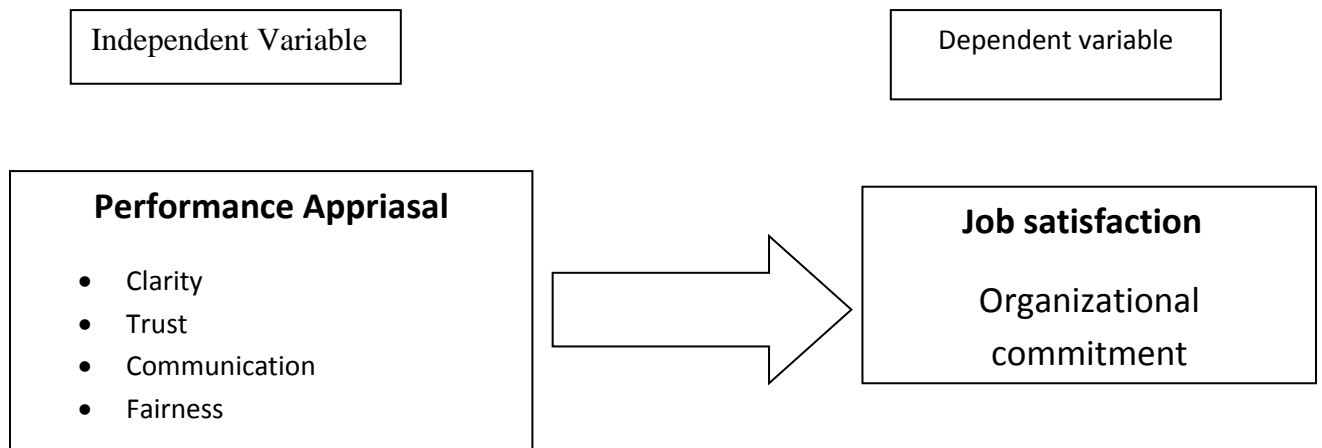
Research has broadly analyzed the impact of the social context of performance appraisals on employee reactions to these appraisals Pichler(2012). For instance, employees' satisfaction with the performance appraisal process as a whole, the performance appraisal feedback, or employees' evaluations of the perceived quality, justice, and fairness of the performance appraisal regime Greenberg(1986); Sommer & Kulkarni,(2012) 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 (1998).

Studies reached different conclusion with regard to the relationship between job satisfaction and organizational commitment. For Benkhoff(1997) job satisfaction and organizational commitment have been shown to be positively related to performance. On the other hand Mathieu & Zajac (1990) concluded that an employee's orientation towards a specific job precede his or her orientation towards the entire organization. Also Lincoln & Kalleberg(1990), and Meyer, J. & Allen, N. (1997)highlighted satisfaction as a cause of commitment.

### 2.3 Conceptual Framework

In this research the dependent variable is job satisfaction and the independent variable is performance appraisal. From the literature review, four indicators of effective performance appraisal system or quality of performance appraisal that will lead to employee job satisfaction have been identified, which are clarity of performance expectations, level of communications between the employee and their supervisor, trust in the supervisor, and the fairness of the performance appraisal process. And in order to measure job satisfaction the researcher takes organizational commitment as measurement of job satisfaction.

#### Conceptual framework of the study



Source: Performance Appraisal Quality by Tang and Sarsfield - Baldwin's (1996), and to measure Job Satisfaction by organizational commitment as outlined by Meyer & Allen (1997).

## **CHAPTER THREE**

### **3. RESEARCH DESIGN AND METHODOLOGY**

This chapter provides the research methodology used in order to achieve the research objective. The research design, population and sampling techniques, types of data and instruments of data collection, procedure of data collection, methods of data analysis, and finally the ethical consideration are the areas presented in this chapter.

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

The CBE has 13 processes of those three are core processes while the remaining ten are support processes. Therefore, the CBE's core processes namely CATS (Customers Accounts and Transaction Service), Credit and TS (Trade Service) have direct contact with external customers and they are the very reason/objective of the establishment of the bank. While the support processes namely Corporate Human Resource Management Department, Information System, Facilities Management, Finance, Business Development , Risk and Compliance management ,Internal Audit, Legal and Loan Recovery, E-payment Center , Office of Strategy Management process which have no direct contact with external customers and they are not mandate driven.

#### **3.2 Research Approach**

This study taken the form of a quantitative and qualitative design. According to Leedy (1993), quantitative research is impersonally experimental, manipulating variables and controlling natural phenomena, by constructing hypotheses and testing them against the hard facts of reality. Christensen (1985) noted that this approach is the most appropriate one to use if the purpose of an investigation is to describe the degree of relationship which exists between the variables. Meanwhile, the researcher used qualitative approach for the open ended questions to get the managerial position subjective assessment of opinions, behavior and attitudes.

#### **3.3 Research Design**

This is a descriptive type of study as its main aim is finding out the effect of performance appraisal on employee job satisfaction . The study adopted a descriptive survey design for data analysis. This design was considered the most appropriate and helpful in determining the perception and attitude of respondents on the variables studied Gay (2003). The study is used a

quantitative and qualitative method to generate descriptive statistics. Questionnaire is used to elicit data from respondents and for analysis purpose. A survey research technique where information is gathered from a given sample through Questionnaire . The study is used a cross-sectional study because data is collected from a cross-section not in different period of time but it is taken once. Both primary data and secondary data are used while describing the data that is gathered through questionnaires.

### 3.4 . Population and Sample

CBE has 28,545 employees (The population of the study) and out of these numbers the target population is the head office employee of the Bank which comprises 2200 employees from Head office Core and support Process with minimum first degree( that is job grade 9 & above) . The population of the study which comprises about 2200 employees as per CBE HR data base (2016).

The research is apply the stratified random sampling technique due to the reason that the sample size in each stratum varies according to the relative importance of the stratum in the population Masuku, M. B., (2014). Therefore, sample size for each stratum is set taking in to consideration the representation of the sample to the population under each stratum.

The preferred method for selecting the sample from each stratum is simple random sampling using the method of proportional allocation under which the sizes of the samples from the different strata are kept proportional to the sizes of the strata (each processes). This proportional allocation is most efficient and an optimal design when the purpose of sampling is to estimate the population value Kotari, (2004).

Sample size determination Kothari (2004):

$$N = \frac{z^2 * p * q * N}{e^2 (N - 1) + z^2 * p * q}$$

$N = 2,200$ ;

$e = 0.02$  (estimate within 2% of true value);

$z = 2.005$  (as per the table of area under normal curve for the given confidence level of 95.5%

$p =$  the estimate proportion of defectives in the population 0.02

$q =$  sample proportion,  $q = 1 - p$

Based on the above formula the sample size is equals 181.

Therefore Proportional sample determination formula from each stratum:

Sample size from strata 1 =  $181(\text{strata } 1 / (\text{total no. of strata}))$   $181(170 / (2200))$  Equals 14 and the remaining strata is done like this . Therefore, the sample size for each strata is summarized on the following table:

**Table 3.1 Population and sample size**

<b>Strata</b>	<b>Total Population</b>	<b>Sample Size proportion</b>
CATS process (CPC)	170	14
Business Development process	182	15
Internal Audit Process	190	16
Legal & Loan recovery Process	245	20
Corporate Human Resource Management Process	160	13
Credit Management Process (CPC)	196	16
E-payment Center	220	18
Facilities Management process	126	10
Finance process	154	13
Information System process	122	10
Risk and Compliance Management Process	141	12
Office of Strategy Management Process	126	10
Trade Service Process (CPC)	168	14
<b>Total</b>	<b>2200</b>	<b>181</b>

Source: CBE's HR database as of Dec 31, 2016

### **3.5 . Data Sources and Types**

In order to achieve the study's objectives both primary and secondary source of data is used. The secondary data is used to assess the existing processes, policies, procedures, forms , published and unpublished documents of the bank and other documents which are linked with the

performance appraisal system. The primary data is collected through questionnaire that include close ended for respondents and some open ended questions for managerial positions.

Questionnaire is selected because it is critical and easy to get direct response and feedback from the respondents and also as the respondents are the main actors in the performance management process. The questionnaire is standard questions and some adaptation made by the researcher. In first section of the questionnaire will focus on demographic information's and in the next part which are to be responded using five alternative of Likert scale to assess the employees attitude towards performance appraisal practice in the organization, the third to measure the level of job satisfaction and the last part of the questionnaire includes open ended type of questions for for managerial postions to write their suggestion.

### 3.6 Reliability and Validity

A standard questioner on quality performance appraisal by Tang and Sarsfield - Baldwin's (1996), job satisfaction Allen and Meyer(1990 & 1997) is used to gather the data. These standard questioners proved to be valid and reliable in measuring the variables intended to measure with a Chronbach's alpha above 0.7.

A total of 10 questionnaires were distributed to the respondents. Then the returned 10 pilot instrument questioners are coded, analyzed, and a Cronobach's Alpha test is identified by SPSS IBM version 20.00. The pilot test result of reliability and validity was strong. However, during the main study based on the comments corrections has been made Finally, the overall reliability of the scale used is enhanced to Cronobach's Alpha .904.

**Table 3.2 : Reliability Statistics for the entire scale**

Cronbach's Alpha	N of Items
.904	32

As indicated in table, the conbach's alpha test reveals that the instrument's internal consistency as 90.4% which is above acceptable value (i.e 70%). Therefore the research instrument is reliable and the forthcoming findings and conclusions are acceptable.

### **3.6 . Data Collection Procedures**

Every employee who will participate in the appraisal practice and who are members of the sample receive a questionnaire deliver to their work departments. A total of 181 questionnaires will be used in the data analysis and also data will be collected through relevant document directly related to performance appraisal.

### **3.7 . Data Analysis**

To analyze the data descriptive and statistical analysis was used to identify the effect of performance appraisal practice on employee job satisfaction of CBE. Information from data analysis was summarized , conclusions and recommendations will be made. The data will collect from both primary and secondary sources will present using tables and descriptive statements and analyzed using descriptive statistics. IBM SPSS Statistics Version 20 is used to analyze the data. The data analysis involves both descriptive and inferential statistics.

#### **3.7.1 Descriptive Statistics**

Descriptive statistics like mean, frequency, and percentage is used to profile sample characteristics and major patterns emerging from the data. As a result the demographic characteristics of the respondents are easily visible to the reader.

#### **3.7.2 Inferential Statistics**

Inferential statistics is used to identify the degree of correlation between the variables using Pearson's Product – Moment Correlation. Further regression analysis is done to determine the degree of relationship between the independent variable (performance appraisal quality) and dependent variables (job satisfaction). The model is tested by Multicollinearity Test, Linearity Test and Normality Test

### **3.8 . Ethical Consideration**

It will not be ethical to access some confidential documents of the organization. Therefore, the organization's code of ethics will be taken in to account without significantly compromising findings of the study.

The researcher will indicate in the questioner at the top of the heading researcher will confirm employees that all will be used for academic purpose and will be analyzed anonymously, the researcher will assure them the data they will give not have any kind of harm.

To avoid any harm on research participants, the researcher has been careful to abide by the general research ethics. This is because questionnaire participants may be harmed with what they express to the researcher. Before directly going into the questionnaire, each participants will be informed about the nature of the research and they gave their consensus either to us.

## Chapter Four

### 4. Data Analysis, Interpretation, and Discussion of Results

This chapter covers all the analysis undertaken with the data collected. Both descriptive and inferential techniques of data analysis are employed to see characteristics of the sample and also identify and discuss the relationship between the independent and dependent variables.

To answer those research questions and to meet the main objectives of the research 181 questionnaires were prepared and distributed to the respondents. Out of these 151 questionnaires were collected that is 83pct response rate.

#### 4.1. Background of Respondents

The demographic characteristics include: Work experience, Educational Background, Current position, Place of assignment. This aspect of the analysis deals with the personal data of respondents. The table below shows the details of background information of the respondents.

**Table 4.1.1 Work experience of the respondents**

Work experience				
	Frequenc y	Percent	Valid Percent	Cumulative Percent
Valid	1-3 years	19	12.6	12.6
	4-5 years	12	7.9	20.5
	6-10 years	27	17.9	38.4
	Above10 years	93	61.6	100.0
	Total	151	100.0	100.0

*(Source: Own Survey, 2017)*

As indicated in the table 4.1.1, 12.6% of the respondents have served their current organization for 1-3 years, 7.9% have been with their employer organization between 4-5 years, 17.9% were working for their organization from 6-10 years and the rest 61.6 % have been with their organization for more than ten years. This result ascertains that respondents have enough experience with the PA practices being undertaken in their respective organizations and this

would allow each to share their experiences, understandings and knowledge of the practices via the questionnaire.

**Table 4.1.2 Educational level of the respondents**

Educational Level				
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Degree	143	94.7	94.7
	MA and above	8	5.3	100.0
	Total	151	100.0	100.0

*(Source: Own Survey, 2017)*

The distribution of educational level of the respondents has been presented in the above table 4.1.2. As shown in the above table 143 respondents i.e. 94.7 pct achieved bachelor's degree.

The rest 5.3 pct masters degree . This indicates all the respondents have at least BA degree, this would have the required capability to effectively respond to the questions provided in the questionnaire.

**Table 4.1.3 Current position of the respondents in the bank**

Current position				
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	associate	25	16.6	16.6
	officer	77	51.0	67.5
	expert	35	23.2	90.7
	manager	13	9.3	100.0
	Total	151	100.0	100.0

*(Source: Own Survey, 2017)*

The above distribution table shows the varied jobs titles of the respondents in each process at CBE., Most of the respondents have a position in the bank as manager, expert, officer, and associate officer. They are account for 9.3 pct, 23.2pct ,51pct , 16.6pct of the total respondents respectively. This shows that all positions have been well represented in the study allowing the results to be all rounded by tapping into the different perspectives of respondents coming from this wide range of positions.

**Table 4.1.4 Place of Assignment of the respondents**

**Place of Assignment**

	Frequency	Percent	Valid Percent	Cumulative Percent
CATS process (CPC)	7	4.6	4.6	4.6
Business Development process	15	9.9	9.9	14.6
Internal Audit Process	16	10.6	10.6	25.2
Legal & Loan recovery Process	17	11.3	11.3	36.4
Corporate Human Resource Management Process	13	8.6	8.6	45.0
Credit Management Process (CPC)	16	10.6	10.6	55.6
Valid E-payment Center	15	9.9	9.9	65.6
Facilities Management process	7	4.6	4.6	70.2
Finance process	10	6.6	6.6	76.8
Information System process	8	5.3	5.3	82.1
Risk and Compliance Management Process	6	4.0	4.0	86.1
Office of Strategy Management Process	7	2.0	5.6	88.1
Trade Service Process (CPC)	14	11.9	8.4	100.0
Total	151	100.0	100.0	

*(Source: Own Survey, 2017)*

The above distribution table shows the current place of assignment of the respondents. 4.6 pct of the respondents came from CATS process (CPC) , 9.9 pct were from Business Development

process, 10.6 pct were from Internal Audit Process , 11.3 pct were from Legal & Loan recovery Process, 8.6 pct were from CHRMP, 10.6 pct were from Credit Management Process (CPC), 9.9 pct were from E-payment Center, 4.6 pct Facilities Management process, 6.6 pct Finance process , 5.3 pct Information System process, 4.0 pct Risk and Compliance Management, 5.6pct Office of Strategy Management, 8.4 pct were from Trade Service Process (CPC). This shows that all processes have been well represented in the study allowing the results to be all rounded by tapping into the different perspectives of respondents coming from different process.

## **4.2 Descriptive Analysis**

### **4.2.1 Results of the questions related to Performance Appraisal Practice**

Summary of responses of all the respondents to the questions on the performance appraisal practice is summarized below. Analysis in this respect is helpful to identify the strongest and weakest contributors of the performance appraisal. It helps to review the performance appraisal system and enhance its contribution.

<b>Ratings</b>				
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Very Low</b>	<b>Low</b>	<b>Medium</b>	<b>High</b>	<b>Very High</b>
<b>Or</b>				
<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>

**Table 4.2.1 The mean value of Responses on the Performance Appraisal**

**Descriptive Statistics**

<b>Clarity</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
The results of my performance evaluation tied to certain personnel actions like bonus, salary increment, etc	151	1.80	.600
I have clear understanding about the performance management process.	151	3.70	.459
My performance periodically evaluated.	151	4.40	.492
Valid N (listwise)	151		

*(Source: Own Survey, 2017)*

The mean of the above first variable of 1.80 indicate that The results of performance evaluation not linked to certain personnel actions like bonus, salary increment. According to Bowling, N. A. (2007) appraisal is likely to be more successful when it is linked with financial and semi-financial incentives like promotion, bonus, increments. This increases the commitment from the parties concerned the appraisal and the appraise. conversely, the mean value of 3.70 prevail that the respondents have clear understanding about the performance management process and the mean of 4.4 indicate that the respondents strongly agree performance is evaluated periodically.

### Descriptive Statistics

Communication	N	Mean	Std. Deviation
My progress toward my goals set in previous appraisal meetings often reviewed by my supervisor with me	151	2.92	1.010
I have received guidance to improve my performance often.	151	2.78	1.013
I was asked for input during the appraisal process by my supervisor.	151	2.70	.915
My supervisor sits down and discuss on the results of my performance evaluation.	151	3.35	.981
The performance appraisal process in my organization often results in specifications of new goals.	151	3.05	.790
I have got the opportunity to express my feelings often when my performance is evaluated.	151	3.13	.998
Valid N (listwise)	151		

*(Source: Own Survey, 2017)*

The mean of the above table 2.92, 2.78, and 2.70 shows below average this indicates that the mean of 2.92 shows the respondents progress toward the goals set in previous appraisal meetings often not reviewed by their supervisor, the mean of 2.78 indicates that the respondents have not received guidance to improve their performance often. And the mean of 2.70 indicates that the respondents not asked for input during the appraisal process by their supervisor. Conversely mean of 3.35, 3.05, and 3.13 indicate that the respondents agree My supervisor

sits down and discuss on the results of my performance evaluation, The performance appraisal process in my organization often results in specifications of new goals, and I have got the opportunity to express my feelings often when my performance is evaluated respectively. According Brown(2010), communication between the employees and their supervisors that specifies the opportunities to evaluate information and acquire supply in combination with clarity about performance appraisal processes provide employees with the chance of exercising a level of process control. In addition providing an employee with the chance to express his or her opinion is appreciated in it and certifies his or her belongings in the organization. This improves employees' job satisfaction.

### Descriptive Statistics

<b>Trust</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
I feel my supervisor is competent to evaluate my job.	151	3.62	.701
My supervisor is familiar with the details and responsibilities that my job entails.	151	3.69	.685
I have confidence and trust in my immediate supervisor regarding his/her general fairness.	151	3.61	.840
I trust my supervisor to accurately report my performance to his/her supervisor.	151	3.81	.680
Valid N (listwise)	151		

*(Source: Own Survey, 2017)*

As shown in the above table mean value of 3.62, 3.69, 3.61 and 3.81 this result indicates above average .this means the respondents agree on they believe the supervisors is competent to evaluate the job, My supervisor is familiar with the details and responsibilities that my job entails, I have confidence and trust in my immediate supervisor regarding his/her general fairness and I trust my supervisor to accurately report my performance to his/her supervisor respectively.

This tells us the respondents have trust on their supervisor. According to Brown(2010) when employees trust their supervisor they grasp positive outlooks about their supervisor’s motives, judging that manager will act in their finest interest this improves employee’s job satisfaction.

### Descriptive Statistics

Fairness	N	Mean	Std. Deviation
Your last performance rating truly represented how well I have performed in my job.	151	3.09	1.016
Your performance has been evaluated accurately.	151	3.01	.956
Your supervisor was justified in his/her last rating of my performance	151	3.15	.985
Your last performance rating was free from bias.	151	3.17	.996
Valid N (listwise)	151		

*(Source: Own Survey, 2017)*

As shown in the above table the mean value of 3.09, 3.01, 3.15, 3.17 respectively the value show that above average .that is the respondents agree on last performance rating truly represented how well I have performed in my job, the performance has been evaluated accurately, the supervisor was justified in his/her last rating of performance, and last performance rating was free from bias respectively. According to Equity theory, if an employee holds the view that he is being treated fairly, it causes him to maintain a healthy relationship with his coworkers and his organization. This leads employees’ satisfaction increases with rewards only when these rewards are valued and observed as equitable.

Regarding performance appraisal practice, in addition to the above quantitative results Based on the open ended question the respondents give their opinion regarding performance appraisal practice.

The organization's appraisal method is using best method, but there is some gaps in the implementation of evaluating the employee. The reason for this gap is employees are not evaluated based on their actual registered performance just for arbitrary. In addition Some of the jobs difficult to measure objectively. It is impossible to implement the same appraisal format to all position. Because there is different job description. And they recommends the performance measurement tool have to design carefully for each position properly.

The performance appraisal criteria is focused on result and less focus to behavior, this means emphasizes what employees produce than how employees do the job this leads employees to find shortcut to achieve results which can negatively affect the organization for lack of certain performance behaviors, for example Some jobs are not evaluated but it is time taking and affect the performance appraisal those jobs like communicating with customers through telephone or physically at office; waiting for office machine like telephone, scanner due to using those office equipment using and sharing with colleagues. In addition there is lack of communication between supervisors and subordinates.

The main big challenge in the Performance appraisal practice in CBE is the performance and the appraisal issues is not linked with employee promotion and compensation/pay, this kind of practice face a challenge to employee and de-motivate the employee working condition and motivation. The respondents put a solution for the above challenges is first implementing performance appraisal seriously both by the employee and managers. At the same time provide promote, reward to the employee at the end of performance appraisal year properly.

#### **4.2.2 Statistical Summary of Responses on Job satisfaction**

Summary of the responses on the job satisfaction that is coming from organizational commitment and presented below. Not to mislead the readers of this thesis, the negatively worded questions in the scale are reversed and marked.

**Table 4.2.2 The mean value of Responses on the Job satisfaction**

**Descriptive Statistics**

	N	Mean	Std. Deviation
I am very happy being a member of this organization	151	3.80	.400
I enjoy discussing my organization with people outside it.	151	3.80	.400
I really feel as if this organization's problems are my own	151	3.80	.400
I think that I could easily become as attached to another organization as I am to this one.(Reversed)	151	1.90	.539
I do not feel like part of the family at my organization. (Reversed)	151	2.00	.000
I do not feel like I am emotionally attached to this organization. (Reversed)	151	2.00	.447
This organization has a great deal of personal meaning for me.	151	4.00	.447
I do not feel a strong sense of belonging to my organization. (Reversed)	151	1.50	.502
I understand how my job contributes to the organization's goals and objectives	151	4.10	.300
I have a good understanding of where the organization is going.	151	4.00	.447
My organization is known as a good employer locally	151	4.30	.641
Valid N (listwise)	151		

*(Source: Own Survey, 2017)*

For all the Job satisfaction questions the responses obtained indicate that above average i.e.3 in a scale of five . This show that above average responses on the organizational commitment scale. Therefore, it is possible to take the responses as indicator of job satisfaction of the respondents.

### 4.3 Model Test

Before applying regression analysis to test effect of performance appraisal on employees' satisfaction, some tests were conducted in order to ensure the appropriateness of data to assumptions regression analysis as follows.

#### Multicollinearity Test

In this section the correlation between employees' job satisfaction and explanatory variables; clarity, communication, trust, and fairness have been presented and analyzed. A correlation matrix is used to ensure the correlation between explanatory variables.

Table 4.3.1: Correlation Matrix (Only Independent Variables)

		clarity	Communication	Trust	Fairness
clarity	Pearson Correlation	1	.042	.057	.044
	Sig. (2-tailed)		.000	.000	.000
	N	151	151	151	151
Communication	Pearson Correlation	.042	1	.344**	.481**
	Sig. (2-tailed)	.000		.000	.000
	N	151	151	151	151
Trust	Pearson Correlation	.057	.244**	1	.458**
	Sig. (2-tailed)	.000	.000		.000
	N	151	151	151	151
Fairness	Pearson Correlation	.044	.481**	.458**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	151	151	151	151

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

(Source: Own Survey, 2017)

According to Lewis-Beck (1993) suggestion in order to find out the multicollinearity problem, the bivariate correlations among the independent variables should be examined and the existence

of correlation of about 0.8 or larger indicates a problem of multicollinearity. The results in the above correlation matrix shows that the highest correlation is 0.48. Since there is no correlation above 0.8 in this study, therefore it can be concluded that there is no problem of multicollinearity, the results show that the problem of multicollinearity did not exist between variables in the model.

### Linearity Test

Linearity refers to the degree to which the change in the dependent variable is related to the change in the independent variables. To determine whether the relationship between the dependent variable employees' job satisfaction and the independent variables; clarity, communication, trust and fairness is linear; plots of the regression residuals through SPSS software had been used.

*Figure 1: Normal Point Plot of Standardized Residual*



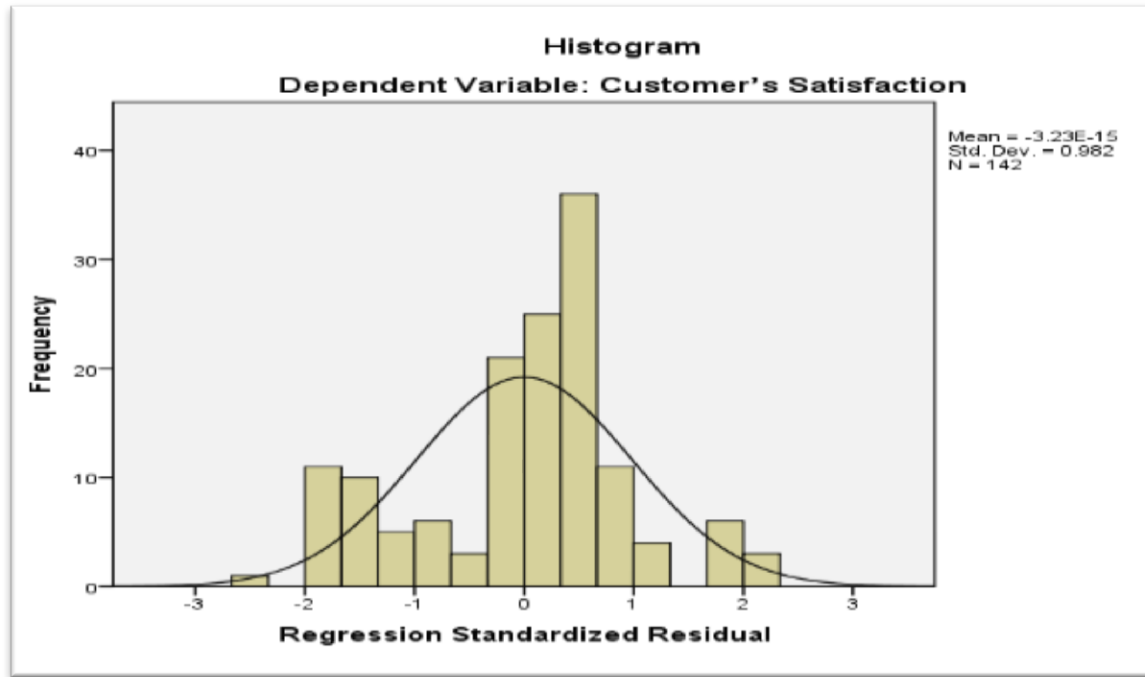
*(Source: Own Survey, 2017)*

### Normality Test

Figure 2 shows the frequency distribution of the standardized residuals compared to a normal distribution. As you can see, although there are some residuals (e.g., those occurring around 0) that are relatively far away from the curve, many of the residuals are fairly close. Moreover, the

histogram is bell shaped which lead to infer that the residual (disturbance or errors) are normally distributed. Thus, no violations of the assumption normally distributed error term.

Figure 2: Frequency Distribution of Standardized Residual



(Source: Own Survey, 2017)

Thus, from an examination of the information presented in all the three tests the researcher conclude that there are no significant data problems that would lead to say the assumptions of classical linear regression have been seriously violated.

#### 4.4 Correlation of the dependent and independent variables

The correlation of the variable is measured by Pearson correlation coefficient. The result of the Pearson correlation is presented on the following table and interpreted by the guideline suggested by Field (2005), he mentioned that the Pearson correlation coefficient is shown the relationship and direction between the predictor and outcome variable. And, their relationship is measured in the range of 0.1 to 0.29 is weak relationship, 0.30 to 0.49 is moderate, above 0.50 show strong relationship; while the positive and negative sign is tell us the direction of their relationship.

**Table 4.3.1 Pearson Product – Moment Correlations between the dependent and independent variables**

		Correlations	
		performanceapprasa	Jobsatisfaction
		1	
performanceapprasal	Pearson Correlation	1	.532
	Sig. (2-tailed)		.004
	N	151	151
Jobsatisfaction	Pearson Correlation	.532	1
	Sig. (2-tailed)	.004	
	N	151	151

*(Source: Own Survey, 2017)*

A strong correlation is observed among each of the variables representing the independent variable (Clarity of the performance appraisal process, Trust in the performance appraisal process, Fairness in the performance appraisal process, and Communication in the performance appraisal process) and the dependent variable (job satisfaction).

The Pearson’s correlation coefficient should be between -1 and 1. The proximity to 1 despite the sign showed the strength of the relationship. Coming to the variables in this study the correlation coefficient between performance appraisal quality and job satisfaction is  $r = .532$  that falls within the range  $r = .50$  to  $1.0$ , a sign of strong relationship. With regard to the direction of the relationship both variables have a positive sign that dictates a positive change in the independent variable can result in a positive change in the dependent variables.

When we assess the level of significance, there is significant relationship between the independent variable and dependent variable. This is witnessed by  $p$  values and  $p = 0.01$  level (2-tailed).

## 4.5 Regression Analysis

Through a correlation analysis it is identified that there is a significant relationship between the performance appraisal quality and the dependent variables (job satisfaction). To what extent the variance in the dependent variables (job satisfaction) will be explained by the independent variable i.e. performance appraisal quality is discussed here.

**Table 4.4.1 Coefficients table for Performance Appraisal and Job Satisfaction(JS)**

Coefficients <sup>a</sup>						
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
	(Constant)	3.206	.172		18.656	.000
1	clarity	.092	.039	.179	2.374	.019
	Communication	.134	.031	.376	4.392	.000
	Trust	.048	.032	.127	1.503	.135
	Fairness	.091	.023	.374	4.011	.000

a. Dependent Variable: Jobsatisfaction  
(Source: Own Survey, 2017)

The results in table 4.4.2 show that the value for clarity is .179. This implies that a 1% increase in fairness in the appraisal practice will result in a 17.9% increase in employees' job satisfaction. Communication has a value of .376 which implies that a 1% increase in Communication will cause a 37.6% increase in employees' job satisfaction. Trust has a value of .127 and also implies that a 1% increase in Trust will cause 12.7% in employees' job satisfaction. Fairness has a value of .374 and implies that a 1% increase in Fairness will bring about an increase of 37.4% in employees' job satisfaction. Even if trust 's value .127 is positive but it is not significant.

**Table 4.4.2**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.668 <sup>a</sup>	.665	.664	.225

a. Predictors: (Constant), Fairness, clarity, Trust, Communication  
(Source: Own Survey, 2017)

Based on the above table the value of adjusted R square indicates that 66.4 pct variation in the dependent variables (job satisfaction) will be explained by the independent variable i.e performance appraisal quality the other 33.6 pct is affected by other factors. To assess the statistical significance of this result or relationship i.e. the 66.4 percent variance in the job satisfaction as a result of performance appraisal.

The R square value obtained for the regression was .664. this shows that the variables of performance appraisal account for 66.4 pct variation in employees' job satisfaction. The variation associated with the independent variables, therefore, have a greater effect since the value of R square is greater than 50 pct. 66.4 pct also implies that there might be other factors which bring about 33.6 pct in the dependent variable. These other factors leave for future researcher.

## Chapter Five

### 5. Summary, Conclusion and Recommendation

#### 5.1 Summary

The data gathered from the respondents analyzed with the purpose of the effect of performance appraisal on job satisfaction. In doing this analysis standard questioner developed by different scholars is used. In order to ensure the reliability and validity of these standard scales pilot test is conducted. A total of 181 respondents are contacted for the study. A stratified random sampling was used to sample the respondents. The study used both qualitative and quantitative approaches. The research revealed that performance appraisal has an effect on job satisfaction of employees.

In relation to performance appraisal practice many responses are above the average response rate. However, weak responses are also observed on some of the questions like : “My progress toward my goals set in previous appraisal meetings often reviewed by my supervisor with me” mean value of 2.92, “I have received guidance to improve my performance often.” mean value of 2.78, “I was asked for input during the appraisal process by my supervisor.” mean value of 2.70, “The results of my performance evaluation would be tied to certain personnel actions like bonus, salary increment,” mean value of 1.80. These weaknesses can be summarized as, lack of communication between the employees & their supervisors, and lack of clarity of performance expectations.

In addition to this, the respondents give their comments on the performance appraisal practice in the bank based on the open ended questions: the same appraisal format/rating standard is used across all process and to all employees irrespective of the type of task they are accomplishing , the appraisal criteria is focused on result and less focus give to behavior, this means emphasizes what employees produce than how employees do the job this leads employees to find shortcut to achieve results which can negatively affect the organization for lack of certain performance behaviors, Some jobs are not evaluated but time taking and affect the performance appraisal those jobs like communicating with customers through telephone or physically at office; waiting for office machine like telephone, scanner due to using those office equipment using by sharing with colleagues, Performance appraisal practice is not linked with promotion and

compensation/pay, lack of effective communication between supervisors and employees, these things make them dissatisfied on their jobs.

With regard to respondents' reaction to the level of job satisfaction out of organizational commitment questions, all the responses were above average. This is an indicator for the presence of job satisfaction that is resulted from organizational commitment.

The correlation analysis result is used to understand the degree of relationship between the independent (performance appraisal) and dependent variables (job satisfaction). The Pearson's correlation coefficient should be between -1 and 1. The proximity to 1 despite the sign showed the strength of the relationship. Coming to the variables in this study the correlation coefficient between performance appraisal quality and job satisfaction is  $r = .532$  that falls within the range  $r = .50$  to 1.0, a sign of strong relationship. With regard to the direction of the relationship both variables have a positive sign that dictates a positive change in the independent variable can result in a positive change in the dependent variables. From this analysis a strong correlation is observed between performance appraisal and job satisfaction. Also the relationship is significant.

Regression analysis is also done in order to identify the extent to which performance appraisal can influence job satisfaction. The significance of performance appraisal for job satisfaction is analyzed and this relationship found to be significant. This is an indicator of a strong positive relationship between the two variables. From the regression model it is identified that the 66.4 percent of the variance in job satisfaction is a result of variance in the performance appraisal. This implies that performance appraisal has an effect on job satisfaction of employees.

## **5.2 Conclusion**

From the finding of the study we can concluded that there performance appraisal is conducted quarterly. The purpose of this study was to show the effect of performance appraisal on employees' job satisfaction. To this end Based on the analysis and the subsequent empirical findings the following points are concluded.

This study presents that when a performance appraisal practice is conducted in an organization but offers employees with a low performance appraisal practice in (clarity, communication, trust and fairness) experience, not only does the method is unsuccessful to create any encouraging HR results, it also brings some negative effects in the form of minor job satisfaction. (2010).

Based on the finding, with regard to performance appraisal practice there are problems observed: the same appraisal format/rating standard is used across all process and to all employees irrespective of the type of task they are accomplishing , Performance appraisal criteria is not measuring quantitatively and qualitatively, lack of communication between supervisors and subordinates and the performance appraisal is not linked with financial and non financial reward, and enough office equipment is not provided. Due to these the employees are not satisfied with their jobs.

Based on the correlation analysis the relationship between performance appraisal and job satisfaction observed strong and positive relationship. And the results of regression analysis observed that performance appraisal has a significant positive effect on the job satisfaction of employees working in CBE .

Employees who have a high commitment will contribute significantly more to the organization, perform better, engage in organizational citizenship behavior, and less likely to engage in behaviors that are not productive or destructive behavior Allen and Meyer (1996). The results of this study support the basic assumption underlying this study that, when employees are satisfied with their work and feel committed to the organization, they tend not to terminate their employment voluntarily. This is because employees who have committed will be able to ensure that they will keep working and stay within their organization.

### **5.3 Recommendation**

The results of performance evaluation not tied to certain personnel actions like bonus, salary increment, etc. Financial and non-financial incentive should be linked to the annual appraisal system so that employees would be motivated to perform better. According to Bowling, N. A. (2007) appraisal is likely to be more successful when it is linked with financial and semi-financial incentives like promotion, bonus, and increments. This increases the commitment from the parties concerned the appraisal and the appraise. The bank should link the performance appraisal with rewards.

The Organizations should encourage more communication between management staff and their subordinates. This regular communication, especially with regards to the performance of

employees, the organization can make employees' satisfied with their jobs and also make them committed to the organization.

The bank should revise the appraisal tool. The bank's appraisal criteria is focused on result and less focus give to behavior this means emphasizes what employees produce than how employees do the job ,this leads employees to find shortcut to achieve results which can negatively affect the organization for lack of certain performance behaviors. The appraisal tool should be measure the qualitative and quantitative based. The bank should revise the appraisal format. Currently the bank using the same appraisal format/rating standard is used across all process and to all employees irrespective of the type of task they are accomplishing.

Training need to be arranged for the supervisors and to employee about performance appraisal to increase their common understanding and to maintain a good relation with the employee so that the employee will be satisfied with their supervisor. Effective communication between supervisors and employees should be promoted. Communication is valued highly by employees and supervisors, so the management must know the value of being able to communicate effectively with employees as this directly influence the job satisfaction of the employee.

Top management and managers of Banks who conduct the performance appraisal should equipped with best methods of motivating employees through the proper performance appraisal policy. And the bank should provide all the necessary office equipment sufficiently.

In general, the above mentioned points strengthening the performance appraisal practice will help to enhance its positive effect on the jobs satisfaction in the future.

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# **Appendix No.1**

**Addis Ababa University School of Commerce**

**Questioner prepared for research of the Effect of Performance Appraisal on employee Job Satisfaction**

## **Purpose of the Questioner**

The purpose of this questioner is to collect data's for thesis work “the Effect of Performance Appraisal on employee job satisfaction” a research to be conduct in partial fulfillment of Master of Art in Human Resource Management. The questioner is to assess the effect of performance appraisal on employee job satisfaction The questioner has four parts; Part - One: General information about the respondents, Part – Two: Question selected about performance appraisal practice, Part – Three: Questions designed to measure job satisfaction and part four open-ended questions for managerial positions. Therefore you are kindly asked to indicate your level of agreement with each statement. I highly appreciate your participation and prompt response on this!

Genet Hailu

Student at Addis Ababa University School of Commerce

Cell Phone : 0913-344915

## I. Demographic Characteristics

(Please put (“√”) to indicate your answer)

1. Years of service or work experience in the CBE:  
 1-3 years (    ) 4-5 years (    ) 6-10 years (    ) more than 10 years (    )
2. Educational Background: MA and above (    ) Degree (    ) Diploma (    )
3. Under which process are you working? \_\_\_\_\_
4. Your present position: \_\_\_\_\_

## II – Performance Appraisal related questions

Please indicate the level of your agreement with the statement below

(Please put (“√”) to indicate your answer)

The response scale for the questions is as below:

1= Strongly Disagree(SD), 2= Disagree(D), 3= Neutral(N), 4= Agree(A), 5 = Strongly Agree(SA)

Measuring of Performance appraisal practice:

NO.	Item	1	2	3	4	5
	Clarity					
1.	the results of my performance evaluation not linked to certain personnel actions like bonus, salary increment, etc					
2.	I have clear understanding about the performance management process.					
3.	My performance would be periodically evaluated.					
	Communication					
1	My progress toward my goals set in previous appraisal meetings often reviewed by my supervisor with me.					
2.	I have received guidance to improve my performance often.					
3.	I was asked for input during the					

	appraisal process by my supervisor.					
4.	My supervisor sits down and discuss on the results of my performance evaluation.					
5	The performance appraisal process in my organization often results in specifications of new goals.					
6.	I have got the opportunity to express my feelings often when my performance is evaluated.					
	Trust					
1.	I feel my supervisor is competent to evaluate my job.					
2.	My supervisor is familiar with the details and responsibilities that my job entails.					
3.	I have confidence and trust in my immediate supervisor regarding his/her general fairness.					
4.	I trust my supervisor to accurately report my performance to his/her supervisor.					
NO.	Item	1	2	3	4	5
	Fairness					
1.	Your last performance rating truly represented how well I have performed in my job.					
2.	Your performance has been evaluated accurately.					
3.	Your supervisor was justified in his/her last rating of my performance?					
4.	Your last performance rating was free from bias.					

### III. Measure of job satisfaction

Organizational Commitment: organizational commitment is a strong belief in and acceptance of the organization's goals and values; a willingness to exert considerable effort on behalf of the organization; and a strong desire to maintain membership in the organization.

The response scale for the questions is as below:

**1= Strongly Disagree(SD), 2= Disagree(D), 3= Neutral(N), 4= Agree(A), 5 = Strongly Agree(SA)**

No	Item	1	2	3	4	5
1	I am very happy being a member of this organization					
2	I enjoy discussing my organization with people outside it.					
3	I really feel as if this organization's problems are my own					
4	I think that I could easily become as attached to another organization as I am to this one.					
5	I do not feel like part of the family at my organization.					
7	This organization has a great deal of personal meaning for me					
8	I do not feel a strong sense of belonging to my organization					
9	I understand how my job contributes to the organization's goals and objectives					
10	I have a good understanding of where the organization is going.					
11	My organization is known as a good employer locally					

**Thank you!!**

**IV. OPEN ENDED QUESTIONS( For managerial position)**

1. Would you say CBE is using the best method of evaluating employees? Reasons for the method being considered the best.
2. How do you see the fact that the same appraisal format/rating standard is used across all process and to all employees irrespective of the type of task they are accomplishing? What do you recommend in this regard?
3. Please state any challenges/weakness with the Bank's performance appraisal practice?
4. What can be done by the Bank to improve performance appraisal practice.
5. If you would like to add any comments regarding performance appraisal practice please write them below.

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Thank you for taking time to complete this Questioner.

**Thank you!!**