



**ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**EFFECTS OF PERFORMANCE APPRAISAL QUALITY ON
EMPLOYEE PERFORMANCE: THE CASE OF BERHAN
INTERNATIONAL BANK S.C**

BY

AMANUEL DITA TEFERA

JUNE 2017

ADDIS ABABA, ETHIOPIA

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INTERNATIONAL BANK S.C**

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BY

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ACRONYMS

BARS: Behaviorally Anchored Rating Scale

BOS: Behavioral Observation Scale

BrIB: Berhan International Bank S.C

HRM: Human Resource Management

MBO: Management by Objective

PMS: Performance Management System

ProMES: Productivity Measurement and Evaluation System

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ABSTRACT

The main purpose of this study is to investigate the effect of performance appraisal quality on employee performance in Berhan International Bank S.C. Explanatory research design was used and quantitative and qualitative data were collected from a sample of 125 employees using proportionate stratified sampling technique, and the data were analyzed using descriptive and inferential analysis. The study found out that BrIB follows formal appraisal process and uses graphic rating scales to measure employee performance while HR department takes the ultimate responsibility for appraisal and assistant managers take the lion share by filling appraisal forms for most of the employees. The study also found that 83% of the changes in the employee performance variables could be attributed to the combined effect of performance appraisal quality predictor variables. In general this research revealed that high quality performance appraisal was associated with higher level of employee performance. Possible reasons could be clarity of performance expectation, level of communication between employees and their supervisors, fairness of appraisal process and trust on supervisors.

Keywords: *Performance Appraisal Quality, Performance of Employee*

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

In today's world of business environment, sustainable human resource (HR) factor play a vital role in order to remain competitive. Most winning organization in the 21st century will be those focuses on integrated HR processes and systems (Ayaz, 2010). Performance appraisal is one of the most critical functions that bring global success in human resource management. Formal performance appraisals of employees, which are typically scheduled annually or semiannually, are one of the most important human resource management practices. Performance appraisal is used for a variety of reasons such as promotions, pay raises, detailed and valuable feedback, and career progression.

According to Boswell and Boudreau (2002), performances appraisal frequently consist of both a developmental and an evaluative dimension. Developmental use of performance appraisal focuses on experiences and skills that employees should acquire. Furthermore, performance appraisals are well suited to detect strengths and weaknesses. It has a room for improvement of employee's performance by setting objectives to improve employee performance. Moreover, especially poor performers can be identified and may receive feedback on how to improve in the long run.

According to Cokin (2004), performance appraisal system is important for organizations as it mainly focuses on employees to develop their capabilities. It also helps managers in timely predictions and taking actions promptly to uncertain changes. Assumptions of corporate management show that performance appraisal make people to be really engaged in the business of the organization. The banking industry is one of the organization which employing the performance appraisal to its employees. The banking industry in Ethiopia has been experiencing an intense competition in the past few years. In order to gain competitive advantage over competitors in the industry, the bank must carefully handle its performance appraisal which is sensitive issue of employees. The main purpose of this study is to investigate the effect of performance appraisal quality on employee performance the case of Berhan International Bank S.C.

1.1.1. Background of the Company

Berhan international Bank (BrIB), is one of among 16 privately owned banks and it's the thirteenth Bank to commence its operation before seven years. According to bank's annual bulletin (2014), the bank was incorporated as a Share Company on October 10, 2009 G.C in accordance with the Commercial Code of Ethiopia of 1960 and the Licensing and Supervision of Banking Business Proclamation No. 84/1994 with a paid-up Capital of 95 million birr and a subscribed capital over 300 million birr. With the purpose of enhancing its strength and competitiveness, the Bank has raised its paid-up capital to birr 1.087.2 million as at March 31, 2017.

The Bank exerted relentless effort to expand its branch network. Accordingly, it managed to open 45 new branches, in the metropolis and outlying areas. Hence, the Bank's branch network at the end March 31, 2017 has reached 150.

BrIB, evaluates the employees' performance twice in a year on January and July. The total number of employees in the bank are 2667(i.e. managerial 186, Professional 653, clerical 551 and non-clerical 1,277 as at March 31, 2017(First half year progress report 2017).

1.2. Statement of the Problem

Organizational performance is the synergetic sum total of the performance of all employees in the organization. This being the fact, employee performance has to be closely planned, coached and appraised to ensure that it is in line with the interest of organizations. According to Caruth and Humphreys (2008), a successful performance appraisal system is one that has resulted from hard work, careful thinking, planning and integrated with the strategy and needs of the organization. Inaccuracies in performance appraisal can demotivate employees forcing them to leave the organizations. This would affect the organizations since employees would seek other opportunities and create turnover. Therefore; the implementation of quality performance appraisal for an organization is paramount to enhance individual and organizational effectiveness.

Performance appraisal evaluates employees' present and previous output within the laid down standards, it also provides feedback on employees' performance in order to motivate them to improve on their job performance and encourage them to reduce inefficiencies in their work (Yee and Chen, 2009).Walters (1995) outlined some main performance appraisal challenges in the performance appraisal processes. The major challenges are determining the evaluation criteria

which should be in quantifiable or measurable terms, create a rating instrument, lack of competence of rater or evaluators, errors in rating and evaluation, and employees are not provided with performance feedback on time. There is less communication between the employees and administration and the degree of openness and trust between managers and subordinates. Besides, it is difficult to identify employee training needs based on the result of the performance appraisal.

Performance appraisal quality is considered as a function of both performance appraisal procedures and treatment. The appraisal procedures explained in terms of employees' ability to evaluate the formal organizational procedures that is the way they are enacted. The employee treatment includes how they are treated through the performance appraisal processes. Consequently, the following major performances appraisal quality indicators were identified. They are clarity of performance expectation, communication between employees and supervisors, trust in the supervisor, and fairness of appraisal process. They are standards which help to measure quality of performance appraisal of the organization (Brown, Hyatt and Benson, 2010). Therefore, the study focuses on the four key performance appraisal quality indicators identified.

A number of studies were conducted on the performance appraisal practices. In Ethiopia, some researchers have conducted academic studies on the assessment of performance appraisal system and performance management, performance management practice and its effectiveness on the motivation of employees. These were done at different organizations which engaged in the private business company, banking industry, government organizations and others (Bethlehem Nigatu, 2015, Arega Mudela, 2015, Samson Tesfaye, 2015). However, the effect of performance appraisal quality on employee performance was not fully studied and the gap is not fully addressed.

Besides, the researcher formal and informal observation to the bank also shows that there are some limitations in the process of conducting employees' performance appraisal at Berhan International Bank S.C. This creates discontent among employee who voice that their efforts are unfairly judged and voice their grievance on the criteria used to measure the accomplishment of the intended job. Hence these observed shortcomings of the bank become the basis for the desire to conduct this research. Therefore, this study tried to investigate the effect of performance appraisal quality on employee performance in the case of Berhan International Bank S.C and try to answer the following basic research questions.

1.3. Research Questions

In light of the above discussed points, this research tries to give answer for the following basic question:

1. What does the bank's performance appraisal practice look like?
2. How far is the clarity of performance expectations affect employee performance in the bank?
3. To what extent is the level of communication between employee and their supervisors affect employee performance in the bank?
4. To what extent is the fairness of the performance appraisal process affect employee performance in the bank?
5. To what extent is trust in the supervisor influence employee performance in the bank?

1.4. Objectives of the Study

1.4.1. General Objective

The overall purpose of this study is to investigate how performance appraisal quality affects employee performance in the case of Berhan International Bank S.C.

1.4.2. Specific Objectives

The study intended to achieve the following specific objectives.

1. To assess the current performance appraisal practices in the bank
2. Examine how far the clarity of performance expectations affect performance of employees in the bank
3. Investigate how the level of communication between employees and their supervisor affect performance of employees in the bank.
4. Investigate the effect of fairness of the performance appraisal process on performance of employees in the bank.
5. Determine the extent to which trust in the supervisor influence the employee performance in the bank

1.5. Research Hypothesis

Hypothesis 1:

Clarity of performance expectation is positively related to employee performance in Berhan International Bank

Hypothesis 2:

Level of communication between employee and their supervisor is positively related to employee performance in Berhan International Bank

Hypothesis 3:

Fairness of performance appraisal process is positively related to employee performance in Berhan International Bank.

Hypothesis 4:

Trust in supervisors is positively related to employee performance in Berhan International Bank.

1.6. Definitions of Terms

- ❖ **Performance:** is about behavior or what employees do, not about what employees produce or the outcomes of their work (Aguinis, 2009).
- ❖ **Performance Appraisal Quality:** a function of both performance appraisal procedures and treatment i.e. explained in terms of employees' ability to evaluate the formal organizational procedures (the way they are enacted) and how they are treated through the performance appraisal (Brown, 2010).
- ❖ **Quality:** Establishing and operating processes that promote organizational efficiency (Roberts, 1993). The aim of a quality is to reduce variation in every process in order to obtain greater consistency.
- ❖ **Managerial Employees** – are employees of the bank that work on the position that starts from section head, branch manager, and director up to the president
- ❖ **Professional Employees**-are employees of the bank that work starting from grade VII (7)-grade IX (9) like senior customer service officer, assistant branch manager, loan officer, trade service officer, etc.
- ❖ **Clerical Employees**- are employees of the bank that work starting from grade IV (four)-grade VI (6) like secretary, junior customer service officer, and up to positions below assistant branch managers.

- ❖ **Non clerical Employees-** are employees of the bank that work on positions from grade I-III (one up-to three) like janitors, messengers, securities, drivers, etc.

1.7. Significance of the Study

Performance appraisal is a systematic process of improving organizational performances by developing the performance of individuals and teams. It is a means of getting better results by understanding and managing performance within an agreed framework of planned goals, standards, and competency requirements (Armstrong, 2009).The below stated are some of the benefits that are drawn from this study:

- It helps the organization to pin point the important challenges that exist currently and take remedial actions for suitable positive results.
- It serves us a reference material for both human resource practitioners and academicians.
- All respective organizations can use the result of this study as a benchmark in measuring their performance against the dimensions used in this study and helps to reassess the existing performance appraisal practices.
- It initiates other researchers who might be interested in pursuing research in the same area.

1.8. Delimitation /Scope of the Study

For a reason of time constraint that is fairly expected to occur due to wide geographical coverage of the branches, homogeneity of the contents of the jobs and job description and uniformity of the appraisal format, the study has covered the topic effect of performance appraisal quality on employee performance and covered those employees with at least a minimum of one year of experience working at the head office and six selected branches located at the capital city- Addis Ababa only.

1.9. Organization of the Study

The research consists of five chapters. Chapter one the introductory part contains background of the study, statement of the problem, research questions, research objectives, significance of the study, limitation and scope of the study and Organization of the study. Chapter two provides a review of related literature informing the reader of what is already known in this area of study. Chapter three discusses the methodology employed in the study, including, research design, sample size and sampling technique, data source and collection method, procedure of data

collection and method of data analysis. Chapter four describe the result and discussion containing the introductory, details of the respondent profile, result presentations, description and analyses of data collected via proposed instruments, Finally, chapter five contains summary of major findings, conclusions and recommendations.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

Introduction

In this chapter theoretical and empirical literatures are reviewed with the purpose of providing readers with scientifically proven information about the performance appraisal purpose, its approach, performance appraisal process, methods, findings of the previous studies in the area, and also related theoretical framework underlying the study.

2.1. Theoretical Background

2.1.1. Definition of Performance Appraisal

Performance appraisal is the process of evaluation and an employee of an organization by some qualified persons. Performance appraisal is important to know whitens the selection of an employee was right or wrong, it also help for personnel promotion, transfer, salary increase with their performance. (Gupta, Sharma and Bhala,1988)

Performance appraisal means the systematic evaluation of the performance of an employee by his or her supervisors. It is a tool for discovering, analyzing and classifying the differences among workers in relation to job standards. It refers to the formal system of appraisal in which the individual is compared with others and ranked or rated. Generally appraisal is made by the supervisor or manager once or twice a year.

Performance appraisal is the formal process normally conducted by means of completing an instrument that identifies and documents a job holder's contributions and workplace behaviors. A primary reason for appraising performance is to encourage employees to put forth their best effort so that the organization can reach its mission and goal. Through the appraisal process organizations identifies and recognizes effort and contributions (Henderson, 2006)

According to (Flippo, 1984) performance appraisal is a systematic, periodic and so far as human possible, the impartial rating of an employee's excellence in matters pertaining to his potentialities for a better job. From the above definitions, it is understandable that performance

appraisal is a systematic and orderly process to evaluate the performance of personnel in terms of the requirements of the job.

2.1.2. The purpose of Performance Appraisal

Early literature, best demonstrated by Stewart and Stewart (1987), cites the benefits of appraisal systems, but these were mainly from the organization perspective. They also suggest the overall purpose of performance appraisal is to let an employee know how his or her performance compares with the manager's expectations.

Again, this is a one dimensional view. Fletcher (2006) takes a more balanced view, suggesting that for performance appraisal to be constructive and useful there needs to be something in it for appraiser and appraisee. It is also suggested that the common purpose of performance appraisal tends to be aimed at the measurement of individuals, and consider that this focus is insufficient. From the organization perspective, successful performance management is key to achievement of corporate goals. It is argued above that performance appraisal is the central component of performance management, and so it must be that for an organization, the purpose of performance appraisal is attainment of corporate goals.

Caruth and Humphreys (2008) add to this viewpoint by suggesting it is a business imperative that the performance appraisal system includes characteristics to meet the organizational needs and all of its stakeholders (including management and staff).

However, most of the literature reviewed for this research concentrates on the purpose of Performance Appraisal from the individual perspective, particularly focusing on measurement of individual performance, identifying training and allocating rewards.

Walter (1995) focuses on the individual when citing the purposes of performance appraisal, suggesting it can be used for many reasons, including; reward, discipline, coaching, counseling, raising morale, measuring achievement of targets and outputs, identifying development opportunities , improving upward and downward communication, reinforcing management control and selecting people for promotion or redundancy.

Again, from the individual perspective, Simmons (2002) draws together a range of sources, arguing that a robust, performance enhancing and equitable performance appraisal system, which

gains the commitment of professionals, is a key factor in achieving a good return on an organizations “intellectual capital”.

Murphy and Cleveland (1995) amongst many others, suggest a key purpose of performance appraisal is to determine pay and other financial compensation.

The most obvious reason for appraising an individual is to secure its improvement and it follows that securing performance improvement for all individuals will enhance wider organization performance. Common to almost all purposes of performance appraisal is the concept of improving performance and developing people.

Overall, some commentators focus on organizational goals as the key purpose, many focuses on individual performance improvement.

2.1.3 Performance Appraisal as Part of Performance Management System

Performance management is often conflated with performance appraisal and vice versa. Performance appraisals are concerned with individual performance, whereas performance management looks at individual, team, and organizational performance. The appraisal may be just another HR technique used by an organization, while performance management attempts to link the appraisal process to the wider values and objectives of the firm (Foot and Hook, 2008 as cited on David and Geoffrey 2009). However, appraisals constitute an integral part of the performance management process (David and Geoffrey 2009). As per Armstrong (2009) it is sometimes assumed that performance appraisal is the same thing as performance management. But there are significant differences.

Performance appraisal can be defined as the formal assessment and rating of individuals by their managers at, usually, an annual review meeting. In contrast, performance management is a continuous and much wider, more comprehensive and more natural process of management that clarifies mutual expectations, emphasizes the support role of managers who are expected to act as coaches rather than judges, and focuses on the future. Performance appraisal has been discredited because too often it has been operated as a top-down and largely bureaucratic system owned by the HR department rather than by line managers. It has been perceived by many commentators such as Townley (1989 as cited by Armstrong 2009) as solely a means of exercising managerial control. Performance appraisal tended to be backward looking, concentrating on what had gone wrong, rather than looking forward to future development needs.

Performance appraisal schemes existed in isolation. There was little or no link between them and the needs of the business. Line managers have frequently rejected performance appraisal schemes as being time-consuming and irrelevant. Employees have resented the superficial nature with which appraisals have been conducted by managers who lack the skills required, tend to be biased and are simply going through the motions. As Armstrong (2009) assert, performance appraisal too often degenerated into 'dishonest annual ritual'

2.1.4. Methods of Performance Appraisal

According to Martin (2010) and Gilley, Gilley, Quattro and Dixon (2009), numerous methods have been devised to measure the quantity and quality of performance appraisals. Each of the methods is effective for some purposes for some organizations only. None should be dismissed or accepted as appropriate except as they relate to the particular needs of the organization or an employee. Broadly all methods of appraisals can be divided into two different categories as: past Oriented Methods and future Oriented Methods

1) Past Oriented Methods- Rating Scales, Checklist, Forced Choice Method, Forced Distribution Method, Critical Incidents Method, Behaviorally Anchored Rating Scales, Field Review Method, Performance Tests & Observations, Confidential Records, Essay Method, Cost Accounting Method, Comparative Evaluation Method (Ranking & Paired Comparisons), Ranking Methods, Paired Comparison Methods.

2) Future Oriented Methods- Management by Objectives, Psychological Appraisals, Assessment Centers, 360-Degree Feedback.

2.1.5 Performance appraisal process

As per DeCenzo, Stephen and Robbins (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.

2.1.5.1. 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 (DeCenzo et al. 2010).

2.1.5.2. 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 (DeCenzo et al. 2010)

2.1.5.3. 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 (DeCenzo et al., 2010).

2.1.5.4. 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 (DeCenzo et al., 2010).

2.1.5.5. Discuss the Appraisal with the Employee

As we mentioned previously, 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 (DeCenzo et al. 2010)

2.1.5.6. 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 (DeCenzo et al 2010).

2.1.6. Qualities of Effective Performance Appraisal

In the previously stated purposes of PA all scholars mentioned effective PA provides motivation to employees. According to DelPo (2005), an effective PA system provides to a solid foundation for all aspects of the employer/employee relationship and in his book he has tried to outline some of the basic qualities of an effective PA system:

1. **A fair and communicative environment:** most researches have shown that however majority of employees want to perform well the key is to provide them with the right environment in which to do so. Such environment includes things like support, communication, collaboration, and fair treatment.
2. **Respect for the employee:** Employees who feel respected are more likely to buy into the appraisal system—to participate fully and sincerely in the goal setting and to strive hard to perform to the standards you set.
3. **Future orientation:** The past can inform your ideas about the future, but it shouldn't be the sole focus of the appraisal process. This doesn't mean that looking at past performance has no place in the process; indeed, at each evaluation you should discuss whether and how the employee met the goals set at the previous evaluation. But you should look to the past with the goal of learning from it, so that the look backward is developmental and helpful to the employee, rather than punitive.
4. **Employee Participation:** Bringing employees into the loop, giving them power and responsibility for directing and assessing their own performance will increase their job satisfaction and engender their trust in the appraisal system. This satisfaction and trust leads employees to accept the company's appraisal process and make a commitment to their own development. Research has shown that when employees are involved in goal setting, the goals they set are higher and more demanding than goals that managers set alone.
5. **Ongoing Feedback:** Studies have shown that without feedback, a Performance Appraisal system alone will not improve employee performance. Positive feedback, often particularly neglected, is important: Providing positive feedback whenever appropriate gives employees a sense of accomplishment and appreciation, while highlighting standards for how they should continue to perform.
6. **Documentation:** Documentation spanning the entire appraisal period ensures that your review will be fair and accurate and gives you rock solid support in case of a lawsuit. In addition,

good documentation provides continuity should the employee change departments or managers.

2.1.7. 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.

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, 2009). 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, according to Bohlander,(2010), are:

- The supervisor or manager does not have enough information on employees' real work performance.
- 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.

As per Stewart (2009) common problems with performance appraisal measures are rater errors and bias, situational influences, and change over time

2.1.8. Approaches for measuring performance of employees

Organizations can use different strategies and approaches for the purpose of measuring performance of their employees. The five major approaches are: (“Approaches for measuring performance of employees”, 2017).

1. Comparative approach,
2. Attribute approach,
3. Behavioral approach,
4. Result Approach and
5. Quality approach.

Each of these approaches differs in characteristics and suitability. A firm can select any one or a combination of these approaches on the basis of their business goals and management type.

2.1.8.1 Comparative Approach of Measuring Performance

Comparative approach involves ranking an employee's performance with respect to that of others' in the group. Individuals are ranked on the basis of highest to the lowest performer. There are several techniques for comparative approach such as forced distribution technique, paired comparison and graphic rating scale (Noe 2008). Forced Distribution technique involves ranking employees in groups.

This ensures reward for the top performers. Given proper training and guidance these top performers can be promoted to higher managerial positions. While the poor performers are given chance for further improvisation or dismissed, if their performance does not meet the standard requirements.

The system ranks the employees on the basis of categorization rules rather than on their performance. In such cases employees with higher rankings would get better pay than those with lower rankings though they may not deserve it.

In Paired Comparison Technique the organization compares one performer with the other and assigns a score of 1 for the higher performer. The final performance score is the summation of all the winning points.

Comparative approach is undertaken in case of firms with a small group of employees with similar job profiles. Therefore, the disadvantage is that it is unsuitable in case of firms with a large number of employees or a firm with different job profiles. Also, since the scale is based on subjective judgment, there is a high chance of bias (Taylor et al., 2007).

2.1.8.2. Attribute Approach of Measuring Performance

In this system, the employees are rated on the basis of a specific set of parameters such as:

- Problem solving skills,
- Teamwork, communication,
- Judgment, creativity and
- Innovation.

Graphic Rating Scale entails rating the employee on a scale of 1 to 5 (lowest to highest). Mixed rating scale is a more layered form of measurement. In the first step, the employee is rated as high, medium or low on a given set of parameters. Each parameter is then broken down and scaled as above (+), equal (0) or below (-) (Shaout and Yousif 2014).

The major disadvantage with attribute approach of performance measurement is that of subjectivity. In other words it may be heavily reliant on the nature of the evaluator. Another limitation of this method is that it is accurate at identifying only the best and the worst performers. However, the advantage of this method is its simplicity, because of which most organizations go with it (Landy and Conte 2007).

2.1.8.3 Behavioral Approach of Measuring Performance

This is one of the oldest performance measurement techniques. The behavioral approach consists of a series of vertical scales for different dimensions of the job. This can be done using BARS technique or BOS technique. The Behaviorally Anchored Rating Scale (BARS) technique consists of five to ten vertical scales. These scales are based on parameters (called “anchors”) which are decided consensually from all employees. Employees are then ranked on each of the anchors according to their performance.

On the other hand, Behavioral Observation Scale (BOS) is a recent version of BARS. It provides a more specific description along with frequency in regards to the employee behavior for an effective performance. The overall score is the average of all these frequencies. Although the Behavioral approach is suitable for the reliability and accuracy, the major drawback in this approach is the voluminous data that the managers have to remember. Supervisors tend to remember only those behaviors’ that define closely to the performance scale which leads to a biased rating (Bohlander and Snell 2010).

2.1.8.4 Result Approach of Measuring Performance

This approach is a simple and straight-forward concept, wherein organization rate employees on the basis of employee performance results. The first type of result approach is the Balanced Scorecard technique. This technique focuses on four perspectives namely: (“Approaches for measuring performance of employees”, 2017).

1. Financial,
2. Customer,
3. Internal& operations and
4. Learning & growth.

The second approach is Productivity Measurement and Evaluation System (ProMES). It is very effective in motivating employees for enhanced productivity and measuring the feedback. It consists of four steps. The first step is to identify the objectives which the organization wants to achieve. The second step measures how well these objectives are made. While the third step involves how effective are they in evaluating the employee performance. Finally, the last step gives feedback to the employees. Organizations calculate an overall productivity score as a summation of the performance scores of all these factors.

The main advantage of result-based approach of performance measurement is that it converts strategy into operations with a more holistic view. It takes into consideration the external environment of the job such as like customers and learning and growth. It does not simply rely on financial indicators of job performance. However the disadvantages are the lack of focus on human resource aspect, and absence of certain key stakeholders in the indicators (Gomes and Romao, 2014).

2.1.8.5 Quality Approach of Measuring Performance

This approach focuses on improving customer satisfaction by reducing errors and achieving continuous service improvisation. This approach takes into consideration both person and system factors. Also employers take regular feedback on the personal and professional traits of the employee from managers, peers and clients to resolve performance issues. The Quality Approach mainly focuses on the use of Kaizen process in order to continuously improve the business processes (Noe 2008). The advantages of this approach include:

- Assessment of both employee and system,
- Problem solving through teamwork,
- Use of multiple sources to evaluate performance and
- Involvement of both internal and external factors

However practitioners of this approach believe that this approach does not correspond with quality philosophy of an organization.

2.1.9. Performance Appraisal Quality

Performance appraisal quality is a function of both performance appraisal procedures and treatment i.e. explained in terms of employees' ability to evaluate the formal organizational procedures (the way they are enacted) and how they are treated through the performance appraisal (Brown et al., 2010). Consequently he identified clarity of the performance expectation, level of communication, trust, and fairness of performance appraisal as indicators of quality performance appraisal process. Each of these indicators is briefly explained as follows: Based on Brown et al., (2010) research;

2.1.9.1. Clarity of Performance Expectations

Clarity of Performance Expectations– refers to 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 (Brown et al. 2010). According to Aguinis (2009), managers and employees should agree on performance expectations in advance of the performance appraisal period. Employees cannot function effectively if they do not know what they are being measured against. On the other hand, if employees clearly understand the expectations, they can evaluate their performance and make timely adjustments as they perform their jobs without having to wait for the formal evaluation review.

If the expectations are not clear, they may ultimately affect the employee outcome i.e. motivation and satisfaction of the performance appraisal. Clarity of performance expectations affect the job performance by motivating staff by clarifying objectives and setting clear future objectives with provision for training and development needs to establish the performance objective (Brown et al. 2010). Clarifying employee performance expectations is one step to creating an effective performance appraisal quality. As a result of non-awareness of the employee performance expectations, employee efforts could be wasted or unrecognized.

2.1.9.2 Level of Communication

Communication – refers to the information flow between the employee and supervisor. Further, it refers to the opportunity to acquire, supply and evaluates information, provide employees to process control, express his/her view point, validate his/her belongingness in the organization, etc. According to Kuvaas (2006), communication and motivation are key elements to employee performance. Moreover, performance appraisal quality creates a learning experience that motivates employees to develop themselves and improve their performance. Aguinis (2009) highlight that performance appraisal fulfills an important communicative function by reinforcing and entrenching the organization’s core values and competencies. According to Mani (2002), performance appraisal policy should constitute an open communication, where both manager and employee state what is done well and what needs improvement.

Tyson and York (2000) state that performance appraisal forms a vehicle for management and employees to develop a mutual understanding of responsibilities and goals. Level of

communication changes the attitudes and behaviors of employees. Therefore, it is of essence to identify and measure factors for instance what was changed, was there more or less behavior, what is different after the communication and so on.

2.1.9.3 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. Employee perceptions of the fairness of various organizational decision making processes such as performance appraisal have been shown to be related to individual and organizational outcomes (Colquitt et al. 2005).

2.1.9.4 Trust in the Supervisor

Trust is the perception of one about others, decision to act based on speech, behavior and their decision (Hassan, Marsden, and French.S. 2010). Also it is the level of trust the employees have on their supervisor. This refers to their supervisor's competency, knowledge, etc about the job. Mani's (2002) study suggests that trust in supervisors is important for determining satisfaction with the appraisal system. When employees trust their supervisor, they grasp positive outlooks about their supervisor's motives, judging that their manager will act in their finest attention.

The degree to which employees trust their direct supervisor is correlated with job satisfaction, job performance, and exercising discretionary effort.

In this regard, argue that trust is a key factor in the management of the supervisor-employee relationship. Trust includes expectations that the parties with an ethical sense and involved in the relationship demonstrate by treating the other equitably (Pichler, 2012).

2.1.10. Concept of Performance appraisal Quality and Employee Performance

According to Anderson (2002), for an organization to be effective for its goals, it is very important to monitor or measure its employee performance on a regular basis. Effective monitoring and measuring also includes providing timely feedback and reviews of the employees for their work and performance according to the pre-determined goals and solving the problems faced (Mani, 2002). Rudman (2003) highlights that timely recognition of the accomplishment also motivates and helps to improve the performance of employees.

The Performance appraisal seeks to improve performance from individuals, groups, teams and the entire company. Ideally, an efficient Performance appraisal process should provide enough information to managers for them to know what to do to ensure the desired performance on behalf of employees (Armstrong, 2009).

According to Kuvaas (2006), communication and motivation are key elements to employee performance. Moreover, performance appraisal policy creates a learning experience that motivates employees to develop themselves and improve their performance. Kuvaas(2002), highlight that performance appraisal fulfills an important communicative function by reinforcing and entrenching the organization's core values and competencies. According to Mani (2002), performance appraisal policy should constitute an open communication, where both manager and employee state what is done well and what needs improvement.

Tyson and York (2000) state that performance appraisal forms a vehicle for management and employees to develop a mutual understanding of responsibilities and goals. Rudman (2003) highlights that performance appraisal frequently have performance goals (e.g. to motivate or improve employee performance) and interpersonal goals (e.g. to maintain a workgroup climate) as specific performance appraisal policy objectives.

In general, the above mentioned theories and others have explained the stronger influence that a high quality Performance appraisal can have on employee performance. Therefore, we can say that enhancing the quality of performance appraisal is highly likely to enhance employee's performance. High Quality performance appraisal is therefore likely to generate higher level of employee performance. As the individual staff will have trust on the system, clarity about the system, believe on its fairness and good communication in the process. On the contrary a low quality performance appraisal may result in a lower level of employee performance. The employees are likely to feel that their contributions are not valued, loss the sense of achievement, be in confusion about the performance expectations, and finally dissatisfied (Lorna & James, 2014).

2.2. Empirical Literature Review

Performance appraisal sounds simple but researches tell us that it is commonly used in performance feedback and identify individual employee's strengths and weaknesses (Rudman, 2003).For example, studies were done using a direct effects model to investigate communication

openness based on different samples, perceptions of 133 employees of multinational companies in Malaysia (Darehzereshki, 2013). Outcomes of these studies found that perceived value of outcome and perceived fair treatment had increased when the appraisers able to clearly giving explanations about the appraisal system goals, policies and procedures, as well as adequately providing feedback in determining employee performance scores.

Also another research has broadly analyzed the impact of the social context of performance appraisals on employee reactions to these appraisals (Pichler, 2012). For instance, employees' satisfaction with the performance appraisal process as a whole, the performance appraisal feedback, or employees' evaluations of the perceived quality, justice, and fairness of the performance appraisal regime (Gupta, 1988).

Furthermore, employee participation in the performance appraisal process is positively related to the satisfaction with the performance appraisal system, perceived fairness, and acceptance of such a practice (Cawley et al., 1998).

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

Furthermore, (Lorna and James, 2014) found that clarity of performance expectations affected the job performance to a great extent. Feedback mechanism and open door policy affected job perform to a great extent. Integrity and reliability/dependability affected job perform to a great extent. In addition, distributive fairness affected job performance to a moderate extent. The study found that ideas and innovations, absenteeism/tardiness and timeliness had improved for the last five years. The study found that appraisal motivates staff by clarifying objectives and setting clear future objectives with provision for training and development needs to establish the performance objective. Communication provides employees with the chance of exercising a level of process control. Trust in supervisors is important for determining satisfaction with the appraisal system. Appraisals based on personal traits have little value for providing diagnostic

feedback to employees or for designing training and development programs to ameliorate identified skill deficiencies.

Contemporary research studies have also linked performance appraisal to performance of employees as (Nadeem, Naveed, Zeeshan, Yumna Batool and Qurat, 2013) revealed that performance evaluation practices have a significant and positive impact on the performance of employees. Jabeen (2011) studied Performance Appraisal in Habib Bank Limited and concluded that transparent appraisal system is vital to an organization and the results of the appraisal affect the performance of any employee heavily.

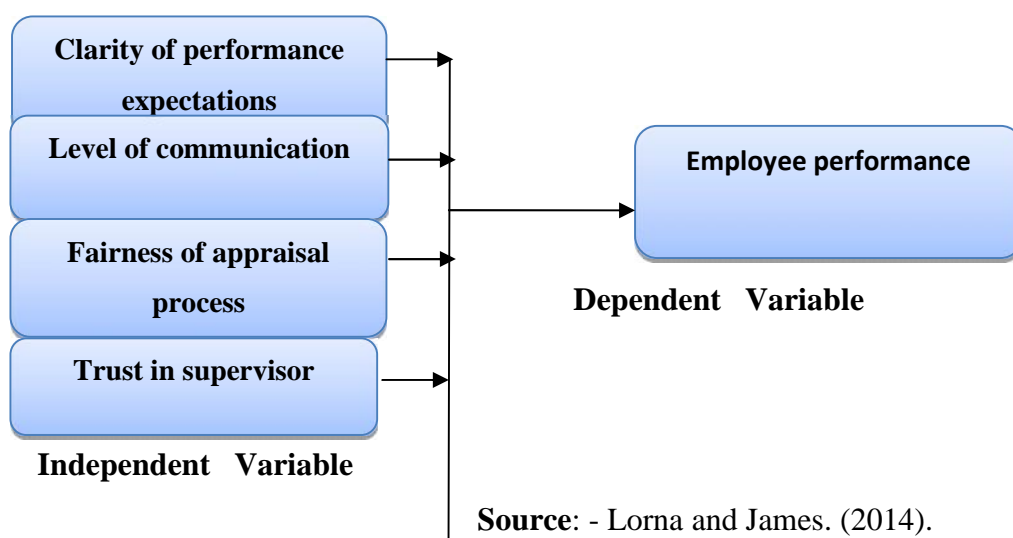
2.3. Conceptual Framework

Measuring performance appraisal quality requires having a quality standard. Brown et al., (2010) defined performance appraisal quality as a function of both performance appraisal procedures and treatment i.e. explained in terms of employees' ability to evaluate the formal organizational procedures (the way they are enacted) and how they are treated through the performance appraisal. Consequently he identified clarity of the performance expectation, level of communication, trust, and fairness of performance appraisal as indicators of quality performance appraisal process (Brown et al., 2010)

Therefore, the independent variable is Performance Appraisal Quality. The indicators of performance appraisal quality are clarity of performance expectations, level of communication between the employee and their supervisor, trust in the supervisor, and the fairness of the performance appraisal process. The dependent variable is Employee performance.

Fig 2.3 Conceptual Framework

Performance Appraisal Quality



Source: - Lorna and James. (2014).

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

Introduction

This chapter discusses the research design and methodology used in the study. This includes the research design, sample size and sampling technique, data source, procedure for data collection, instrument for data collection and method of data analysis is presented.

3.1. Research Design

The study follows explanatory research design. As a result to analyze this relationship the researcher deployed quantitative and qualitative type of research design. The quantitative research approach employ measurement that can be quantifiable and collect data in the form of numbers and use statistical tools for data analysis while qualitative cannot be measured in numerical terms (Bryman and Bell, 2007).The study is cross-sectional in the sense that relevant data collected at one point in time.

3.2. Population and Sampling Techniques

The target population of this study was managerial, Professional, and clerical employees of the bank who have experience of more than or equal to one year. These employees were selected as respondents because they at least face performance appraisal two times in BrIB and it is believed that they have enough knowledge about appraisal practice of the bank. Thus, the study excluded those employees who are non-clerical positions and below one year of experience in the bank. In addition, staffs of outlying branches were not considered because of the remoteness of data access.

According to HR data collected from the bank as of March 31, 2017, BrIB had a total of 2,667 permanent employees (i.e. Managerial 186, professional 653, clerical 551 and non-clerical 1,277). From these employees 1,437 of them work in Addis Ababa out of which 640 employees found to be non-clerical. Hence the target population of the study becomes 590. For this study the researcher has taken samples from the total population due to shortage of time, resource and for proper organization of data. Since the scope was delimited to Addis Ababa and samples from

head office and six branches in Addis Ababa (Bole, Teklehaymanot, Hayahulet Mazoria, Megenagna, Genet, and Piasa), these six branches were selected randomly.

In order to provide equal chance for the heterogeneous groups and proportionality allocated between clerical, professional and management employees, questionnaires have been distributed to staff members in head office and six selected branches using proportionate stratified sampling method. 49, 59 and 17 questionnaires were distributed among clerical, professional and management employees respectively.

As to the sample size determination, from the different methods available, the one, which was developed by (Carvalho, 2005) was used in this study. As per the suggestion of Carvalho a population size in the range of 501 to 1200 could be represented by 125. Since the population size for the current study was 590 a sample size of 125 was considered.

The numbers of employees who are under the above category were depicted as follows.

Table 3.1 Sample Size Determination

<i>Location</i>	<i>Sample Size</i>			
	<i>Managerial</i>	<i>Professional</i>	<i>Clerical</i>	<i>Total</i>
<i>Bole</i>	2	9	10	21
<i>Teklehaimanot</i>	2	6	9	17
<i>HayahuletMazoria</i>	1	6	8	15
<i>Megenagna</i>	1	6	7	14
<i>Genet</i>	1	6	6	13
<i>Piasa</i>	2	7	6	15
<i>Head Office</i>	8	19	3	30
Total	17	59	49	125

3.3. Sources of Data

The study used both primary and secondary data sources. Questionnaire and in depth interviews were used as primary data collection tools. Secondary sources such as, published books, company appraisal forms, and various scholarly written journals and articles were consulted extensively.

3.4. Instruments for Data Collection

There are standardized instruments (questionnaires) to study the effect of performance appraisal quality on employee performance and adapted by the researcher in the way it suits this study. For this reason, the researcher preferred to use a standard questionnaire on performance appraisal quality by (Tang and Sarsfield - Baldwin's 1996), and employee performance by (Lorna and James , 2014) is used to gather the data. These standard questionnaires proved to be valid and reliable in measuring the variables intended to measure with a Chronbach's alpha above 0.7 (Pallant, 2005). Direct questionnaires with closed-ended question items are administered to employees at head office and six branches of Berhan International bank S.C.

The independent variable in the study is performance appraisal quality and dependent variable is employee performance. The independent variable is measured using the four quality indicators (clarity, communication, fairness and trust) of Tang and Sarsfield - Baldwin's (1996) 16 items standard questionnaires with five point likert Scale. The dependent variable i.e. employee performance is measured with a standard questioner of 5 items and five point likert Scale (Lorna and James, 2014).

Interview was used as one tool for collecting data regarding performance appraisal methods, process, problems and responsibilities. For the interview the researcher has contacted human resource personnel that were found at the head office. Since interview is the best way to gate depth insight about the issue and help to gate answers for questions that are not suitable to gate through questionnaire, it helps the researcher very much. Interview is also suitable to raise counter question with regard to the answers that are general, vague, and needs further explanation. Therefore interview was used as one of the major source for collecting data in this study.

3.5. Procedures for Data Collection

The questionnaire is administered using a drop and pick method to the sampled respondents. Care and control is exercised to ensure all questionnaires issued to the respondents are received. To achieve this, a register of questionnaires sent, and received is maintained.

For the data that was collected through interview with HR personnel regarding performance appraisal methods, process, problems and responsibilities. Before the interview the researcher read background information about the topic area. And also the researcher asked the respondents about the time place and condition of making interview. During the interview the interviewer must follow up the respondent, take the response in the form of note and recorder. After the interview the interviewer had thanked the interviewee for his/her time and cooperation.

3.6. Methods for Data Analysis

Statistical Package for Social Science (SPSS) software version 20.0 was employed to analyze and present the data through the statistical tools, namely descriptive and inferential analysis.

3.6.1. Descriptive Analysis

The descriptive statistical results were presented by tables, frequency distributions and percentages to give a condensed picture of the data. This was achieved through summary statistics, which includes the means, standard deviations values.

The data collected through interview and different organizational documents were also summarized, coded and presented in a way that communicates the finding of the study

3.6.2. Inferential Analysis

Pearson's correlation coefficient was used to determine the relationships between performance appraisal quality indicators and employee performance. Regression analysis was used to investigate the effect of performance appraisal quality on employee performance.

3.6.3. Reliability and Validity

A standard questioner on performance appraisal quality by (Tang and Sarsfield - Baldwin's 1996) and employee performance by (Lorna and James, 2014) 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 (Pallant, 2005).

However, to confirm whether the adapted instrument is understood by the respondents or not and ensure if it works in this research context a pilot test was conducted. A total of 20 questionnaires were distributed to the respondents from head office, based on their easily accessibility. Then the returned 20 pilot instrument questioners are coded, analyzed, and a Cronbach's Alpha test is identified by SPSS IBM version 20.00.

Table 3.2 Reliability Statistics

	Cronbach's Alpha	N of Items
Clarity of performance expectations	.897	4
Level of communication	.839	5
fairness about performance appraisal process	.845	4
Trust in the supervisor	.861	3
Employee performance	.858	5

Source: Own survey, 2017

The reliability of the questionnaire was evaluated through Cronbach's Alpha which measures the internal consistency. The Alpha measures internal consistency by establishing if certain item measures the same construct. Cronbach's Alpha was established for every objective in order to determine if each scale (objective) would produce consistent results should the research be done later on. The findings of the pilot study shows that all the four scales were reliable as their reliability values exceeded the prescribed threshold of 0.7 (Pallant, 2005).

Validity is the most critical criterion and indicates the degree to which an instrument measures what it is supposed to measure (Kothari, 2004). In order to ensure the validness of this study the instruments were checked and evaluated by professionals in the subject matter area. Moreover my advisor had evaluated and commented on the instruments before they are distributed to the respondents.

3.7. Ethical Issues

Before the research is conducted, permission from Berhan International Bank S.C was obtained to conduct the study in the organizations. Saint Marys University School of Graduates also introduced the researcher to conduct this research in organizations. BrIB also approved their acceptance. No name of the source of information was mentioned within the research. There was no victimization in the process of data collection. The researcher was not put participants at risk, respect vulnerable populations, and participants will remain confidential.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

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.

The study targeted a total of 125 respondents. However, only 116 respondents responded and returned their questionnaires contributing to 93% response rate. According to (Pallant, 2005) a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent; therefore, this response rate is adequate for analysis and reporting.

4.1. Descriptive Analysis

4.1.1 Demographic Profile of Respondents

This aspect of the analysis deals with the personal data of the study participants which include: gender, age, level of education and year of working experience. The table below shows the details of background information of the respondents.

Table 4.1 Demographic characteristics of respondents

Employees			
Demographic Variables		Frequency	Percentage
Sex	Male	65	56
	Female	51	44
	Total	116	100
Age	20-30	69	59.5
	31-45	39	33.6
	46 and above	8	6.9
	Total	116	100.0
Education	Diploma	20	17.2
	BA/BSC	68	58.6
	MA/MSC	28	24.1
	Total	116	100.0
Year of Experience	1-5	51	44
	6-10	59	51
	11-15	6	5
	Total	116	100.0

Source: own survey, 2017

Analyzing the data obtained from the questionnaire, table 4.1 reveals that most of the sample employees who had participated in this study are male with total of 65(56%) while the remaining 51(44%) were female. Table 4.1 also shows the age composition of the respondents. Out of 116 samples participant 69 employee were between 20-30 years representing the majority which is 59.5%. While the remaining 39 employee were in the category of 31-45 which represents 33.6% from the total employee participant of this study.

This implies that Employees are mature enough to provide accurate data which improve the quality of the study and it is possible to say that respondents from different age group have participated in this study. Regarding educational qualification, Majority of the employee sample group were BA/BSC holders with total number of 68 which represents 58.6% from the total employee participant of this study. While 28(24.1%) of the sample employee respondents were MA/MSc. The remaining 20(17.2%) were Diploma holder. With regard to the respondents educational background it shows that majority of them are literate enough in order to understand and answer the research instruments correctly and respondents with different educational background are represented in the study.

Out of the total sample of Employees, 59(51%) of them have an experience of 6-10 years. While 51(44%) of them have an experience of 1-5 years, 6(5%) of them have 11-15 years of experiences. Most of the respondents have a lot of working experience which provides them with the ability to view the subject matter under consideration in detailed and elaborated manner.

4.1.2. Performance appraisal practices of the bank

To assess the overall performance appraisal practices of the bank the student researcher has prepared a set of structured interview questions that has been administered face to face with key HR personnel of Berhan international bank at head office. The interview report is narrated hereunder.

Interview question one: What performance appraisal method is the bank currently using?

As per interview response from HR personnel the bank currently uses graphic rating scale for evaluating employee's performance. The appraisal form contain a list of traits evaluated by five points rating scale in which appraisal consisted of number of dimensions such as quality of work, customer service, team work, punctuality and attendance, etc.

Interview question two: how the performance appraisal process is undertaken in the bank?

The result of interview with the HR personnel was as follows. The appraisal process begins with establishing clear performance standards. Then human resource department notify heads of departments and branches one month before the final submission date. Assistant managers would fill the evaluation form and get it approved by the manager then it will be given to the staffs to look the result, put his/her comment and sign on it. Then branches and departments send filled appraisal forms to human resource department. Finally the human resource department looks and accepts any grievances from employees

Interview question three: what are the major problems that affect employee’s performance appraisal in the bank?

As per the response from the interview major problems that affect performance appraisal practice of the bank are subjectivity, raters focus on recent actions, raters conduct appraisal for formality only and the raters does not have direct knowledge about the appraisal. This implies that even if the bank has policy or guideline regarding appraisal practice the real practice faces the aforementioned problems.

Interview question four: who is responsible in appraising employee’s performance in the bank?

The interview result revealed that first of all the responsible organ in the appraisal practice is the human resource department of the bank. Assistant branch managers are those who fill appraisal results for employees in branches and it is approved by branch managers. Employees also participate in the process by looking their results, describing their grievance on the form and putting their signature on the appraisal form.

4.1.3. Summary statistics of performance appraisal indicators and employee performance in Berhan Bank

The objective of this study is to point out the effect of performance appraisal quality on employee performance in case of Berhan Bank. In order to measure the extent of actual practices 21 items were provided for employees that were selected. Table 4.2 summarizes the data collected from employees with regard to their Performance appraisal quality and employee performance.

Table 4.2 Summary statistics of performance appraisal indicators and employee performance in Berhan Bank

	N	Mean	Std. Deviation
Clarity of Performance Expectations	116	2.05	.662
Level of communication	116	2.31	.531
Fairness of appraisal process	116	3.24	.854
Trust in supervisors	116	2.89	.987
Employee performance	116	2.02	.571

Source: Own Survey, 2017

The above descriptive statistics clearly indicates the corresponding arithmetic mean and standard deviation of every construct totals (total of every individual categorical construct). Thus, clarity of performance expectations categorical total has a mean of 2.05 and a standard deviation of 0.662, Level of communication categorical total has a mean of 2.31 and a standard deviation of 0.531, Fairness of appraisal process categorical total has a mean of 3.24 and a standard deviation of 0.854 and finally Trust in supervisors categorical total has a mean of 2.89 and a standard deviation of 0.987 which shows that fairness of appraisal process in Berhan International Bank is above the average cut-off point of three.

This analysis of mean of categorical constructs showed that with the exception of fairness of appraisal process, all other constructs such as, Clarity of Performance expectations; Level of communication between employees and supervisors in performance appraisal process and trust in supervisor has a mean value less than the average standard. This implies that the Clarity of Performance expectations, Level of communication between employees and supervisors in performance appraisal process and trust in supervisor is weak and employees are not happy with performance appraisal quality indicators in the organization. While employee performance categorical total has a mean of 2.02 and a standard deviation of 0.571, this implies that the performance appraisal quality affected employee performance in the organization and it is revealed that clarity of performance expectations in performance appraisal, level of communication between employees and supervisors in performance appraisal process, fairness of appraisal process and trust in supervisors had a greater influence on employee performance.

4.2. Correlation between Variables

According to Pallant (2005), correlation analysis is used to describe the strength and direction of the linear relationship between two variables. In this analysis, Bivariate Pearson Product-Moment Coefficient (r) has been used to see the relationship between the dependent and independent variables. Correlation analysis, in this study determines the strengths of relationship between (Performance appraisal quality and Employee Performance).

In the hypothesis testing, the item that should be noticed is the probability (p) value. If $p > 0.05$, it means that independent variable does not influence the dependent variable. If $p < 0.05$ it means that independent variable influences the dependent variable (Pallant, 2005). The test also indicates the strength of a relationship between variables by a value that can range from -1.00 to 1.00;

when 0 indicates no relationship, -1.00 indicates a negative correlation, and 1.00 indicates a perfect positive correlation (Pallant, 2005).

In the hypothesis testing, the item that should be noticed is the probability (p) value. If $p > 0.05$, it means that independent variable does not influence the dependent variable. If $p < 0.05$ it means that independent variable influences the dependent variable (Pallant, 2005). All basic construct were included into the correlation analysis. The result tabulated in Table 4.3 below.

Table 4.3: Pearson Correlation between Performance Appraisal Quality Indicators and Employee performance

Performance appraisal Quality indicators		Employee performance
The clarity of performance Expectation	Pearson Correlation	.750**
	Sig. (2-tailed)	.000
	N	116
Level of communication	Pearson Correlation	.226**
	Sig. (2-tailed)	.007
	N	116
Fairness in appraisal process	Pearson Correlation	.134**
	Sig. (2-tailed)	.076
	N	116
Trust in supervisors	Pearson Correlation	.798**
	Sig. (2-tailed)	.000
	N	116
**. Correlation is significant at the 0.05 level (2-tailed).		

Source: Own Survey, 2017

Correlation results presented in Table 4.3 above shows that there is significant positive relation between clarity of performance expectation in performance appraisal process and employee's performance (sig=.000, $r = .750$).

There is significant positive relation between level of communication and employee performance (sig=.007, $r = .226$).

There is insignificant positive relation between Fairness in appraisal process and employee performance (sig=.076, $r = .134$).

There is significant and positive relation between trust in supervisors and employee performance (sig=.000, r=.798).

As shown in table 4.3 above, of the total of four explanatory variables tested in this study, there is a significant correlation between three of the independent variables (clarity of performance expectation, level of communication and Trust in Supervisor) and the dependent variable i.e. Employee performance of Berhan International Bank. The correlation between fairness of appraisal process and employee performance has a very weak value. Based on the results in table 4.3 above there are positive relationships between Employee performance and most of the independent variables, these shows that most of the hypotheses are supported.

4.3 Regression analysis

This section reports the results of multiple regressions conducted. Multiple regression analysis is “an analysis of association in which the effects of two or more independent variables on a single, interval scaled dependent variable are investigated simultaneously” (Zikmund et al., 2010).

In examining the factors that could affect employee performance, the researcher used a regression analysis to test the effect of four independent variables on the dependent variable i.e. employee performance. Thus, in this study the researcher used multiple regression analysis, in which tests have been made to examine whether one or more independent variables influence the variation on dependent variable.

To show how well the model containing those of four explanatory variables actually explains the variations in the dependent variable, i.e. employee performance, it is necessary to test it through goodness of fit statistic.

Table 4.4 Model Summary of Performance Appraisal Quality and Employee performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.913	.833	.827	.237	.833	138.763	4	111	.000

a. Dependent Variable: Employee Performance
b. Predictors: (Constant), Trust in supervisors, Level of communication, Fairness of appraisal process, Clarity of performance expectations

Source: Own Survey, 2017.

As shown in the table 4.4 above, both R^2 and adjusted R^2 measure the fitness of the model i.e. they measure the proportion of the variation in dependent variable explained by the model. But since adjusted R^2 is the modification for the limitation of R^2 the value of the adjusted R^2 is considered to measure the fitness of the model. Thus, as it is shown on table 4.4 above, the value of adjusted R^2 is 0.827, indicating that the independent variables in the model are explaining 83% variation on the dependent variables. Thus, we can understand that the model of the study is providing a good fit to the data. This outcome empirically indicates that the independent variables in this study are the major determinants of employee performance.

Table 4.5 ANOVA on Performance Appraisal Quality and Employee Performance
ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.(p-value)
1 Regression	31.277	4	7.819	138.763	.000b
Residual	6.255	111	.056		
Total	37.532	115			
a. Dependent Variable: Employee Performance					
b. Predictors: (Constant), Trust in supervisors, Level of communication, Fairness of appraisal process, Clarity of performance expectations					

Source: Own Survey, 2017

Table 4.5 above summarizes the information about the variation of the dependent variable explained by the existing model used for this study and the residual that indicates the variation of the dependent variable that are not captured by the model. It is observed that the independent variables give a significant effect on the dependent variable, where F-value is 138.763 with a p-value of less than 0.05 (i.e. p value 0.000) indicating that, over all, the model used for the study is significantly good enough in explaining the variation on the dependent variable.

To ensure the statistical adequacy of the model, the goodness of fit can also be measured by the square of the correlation coefficient also called R^2

Table 4.6: Regression coefficients of Performance Appraisal Quality and Employee Performance

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig(p-value)
	B	Std. Error	Beta		
(Constant)	-.395	.149		-2.650	.009
Clarity of performance expectations	.441	.042	.512	10.577	.000
Level of communication	.284	.043	.264	6.623	.000
Fairness of appraisal process	.011	.026	.017	.433	.666
Trust in supervisors	.281	.028	.486	10.018	.000
a. Dependent Variable: Employee Performance					

Source :Own Survey, 2017

As shown in table 4.6 above, of the total four explanatory variables tested in this study, clarity of performance expectation (p-value= 0.000), level of communication (p-value=0.000), and trust in supervisor (p-value=0.000) were statistically significant at 5 percent or lower. In this study, there is insignificant positive relationship between fairness of appraisal process and employee performance with a regression coefficient of 0.017, and P-value of 0.666. The result also reveals that there is a positive relationship between all the independent variables and employee performance.

The Model of the regression is stated as follow:

$$EMP_i = 0 + 1CLP_i + 2LCM_i + 3FAP_i + 4TR_i$$

$$= -0.395 + 0.512CLP + 0.264LCM + 0.17FAP + 0.486TR$$

Where;

EMP: Employee Performance

CLP: Clarity of performance Expectation

LCM: Level of communication

FAP: Fairness of appraisal process

TR: Trust in supervisor

4.4. Hypothesis Testing

This particular section presents the results of the study indicated by statistics, using correlation and regression analysis. The correlation and regression between independent variables and employee performance were compared against the hypotheses tested in the investigation. The results show that there are significant relationship between independent variables such as clarity of performance expectation, level of communication and trust in supervisor, and the dependent variable i.e. employee performance. Even though most of the hypotheses are supported, the study found that there is a weak relationship between fairness of appraisal process and employee performance.

In the next section the effect of each independent variable tested under this study is discussed and analyzed based on the theoretical predictions, prior empirical studies and hypothesis formulated

Ho1: There is no significant positive relationship between clarity of performance expectation and employee performance in Berhan International Bank S.C.

As it is presented on table 4.3 &4.6, both the correlation and the regression result shows there is a significant positive relationship between clarity of performance expectation and employee performance. As it is presented on table 4.3, the Pearson correlation result shows a significant positive correlation between clarity of performance expectation and employee performance with correlation coefficient of $r = 0.750$ and significant at 0.005 (P value 0.000). The regression result also shows a significant relationship between clarity of performance expectation and employee performance, with a regression coefficient of $.512$, t-statistic of 10.577 and P-value of 0.000 . Thus, from the result it can be concluded that clarity of performance expectation significantly affect employee performance. Hence, it is concluded that the null hypothesis (Ho) which states that there is no significant positive relationship between clarity of performance expectation and employee performance in Berhan International Bank S.C is rejected.

Consistent with the result of this study prior empirical evidence found significant relationship between clarity of performance expectation and employee performance (Lorna and James, 2014).

Ho2: There is no significant positive relationship between level of communication between employee and their supervisor and employee performance in Berhan International Bank S.C

As it is presented on table 4.3 & 4.6, there is a positive correlation between employee performance and level of communication with a correlation coefficient of 0.226 and significant at $P < 0.05$. The correlation between level of communication and employee performance has a very good value. Similarly the regression result shows a significant positive relationship between employee performance and level of communication, with a regression coefficient of 0.264, t-statistic of 6.623 and P-value of 0.000. This indicates that level of communication between employee and their supervisor affect employee performance significantly. Hence, it is concluded that the null hypothesis (H_0) which states that there is no significant positive relationship between level of communication between employee and their supervisor and employee performance in Berhan International Bank S.C is rejected

The finding of this study is supported by the conclusions forwarded by (Lorna and James, 2014). According to (Lorna and James, 2014) communication increases the likelihood that employees will accept the appraisal system as a legitimate and constructive means of gauging their performance contributions. They also concluded that Level of communication between employee and their supervisor affected the job performance to a great extent.

H₀₃: There is no significant positive relationship between fairness of appraisal process and employee performance in Berhan International Bank S.C.

As it is presented on table 4.3 & 4.6 both the Pearson correlation and regression results indicate that there is insignificant relationship between fairness of appraisal process and employee performance. The results of the Pearson correlation indicate that the value for the correlation coefficient (r) is 0.134 and insignificant at 0.05 (P-value of 0.076). On the other hand the results of the regression analysis shows there is a weak relationship between fairness of appraisal process and employee performance, with a regression coefficient of 0.017, t-statistic of 0.433 and P-value of 0.666. This indicates that this value is insignificant to further the relationship with employee performance. Hence, it is concluded that the null hypothesis (H_0) which states that there is no significant positive relationship between fairness of appraisal process and employee performance in Berhan International Bank S.C. is accepted.

The result is inconsistent with the findings of (Lorna and James, 2014), states that fairness of appraisal process affected employee performance to a great extent.

Ho4: There is no significant positive relationship between trust in supervisor and employee performance in Berhan International Bank S.C.

As it is presented on table 4.3 &4.6, there is a positive correlation between employee performance and Trust in supervisor with a correlation coefficient of 0.798 and significant at 0.05(p value 0.000). The correlation between trust in supervisor and employee performance has a very good value. Similarly the regression result shows a significant positive relationship between trust in supervisor and employee performance, with a regression coefficient of 0.486, t-statistic of 10.018 and P-value of 0.000. Therefore, it is concluded that the null hypothesis (Ho) which states that there is no significant positive relationship between trust in supervisor and employee performance in Berhan International Bank S.C is rejected.

Both the regression and Pearson correlation analysis results show that there is significant relationship between trust in supervisor and employee performance. Consistent with the result of the study by (Lorna and James, 2014) found similar result.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter provides summary, conclusions, and recommendations based on the main findings discussed in the preceding chapter.

5.1. Summary of Major Findings

In line with the objective of this research to investigate how performance appraisal quality affect employee performance in Berhan Bank, the researcher has adopted questionnaires and in depth interview to gather firsthand information from the employees of the bank. The collected data from the respondents was analyzed using SPSS.

According to the regression output clarity of performance expectation, level of communication between employees and their supervisors, fairness of appraisal process and level of trust in supervisor positively contributed to employee performance. Therefore, BrIB should give emphasis to these factor variables to enhance employee performance. Moreover clarity of performance expectation, communication between employees and their supervisors and trust in supervisor were the major factor affecting employee performance in the bank. Furthermore, in this research, it is revealed that clarity of performance expectations in performance appraisal had a greater influence on the performance of the employees. However, fairness of appraisal process was not significantly important for employee performance at BrIB. This study finds that the composite measure of clarity of performance expectation, communication between employees and their supervisors, fairness of appraisal process and trust in supervisor accounts for 83% ($R^2 = 0.827$). That means, the impact of these four independent variables contributed for the dependent variable employee performance were 83%, and the remaining 7% were other variables that are not included in this study.

5.2. Conclusion

The purpose of this study was to show the effect of performance appraisal quality on employee performance. Based on the analysis and the subsequent empirical findings the following points are concluded.

- The Regression analysis conducted on the effect of performance appraisal quality on employee performance revealed a positive and significant correlation between these two variables. This signified that performance appraisal if conducted well in an organization leads to improved employee performance.
- Strong effects of the performance appraisal quality are witnessed in the area of clarity of performance expectation and trust in supervisor. These implied clarifying objectives and setting clear future objectives needs to be established to enhance employee performance and trust plays a significant role so it should always be preserved to ensure an organizations existence and to enhance employee's performance as well.
- In addition, the analysis shows fairness of appraisal process, was statistically not significant enough at 5% sig. level to affect employee performance of Berhan International Bank. Therefore, this conclusion requires future research should consider for finding the effect of this variables on employee performance.
- In addition, the performance appraisal method currently practiced in Berhan Bank is the graphic rating scales method and the ultimate responsibility of conducting performance appraisal falls on the shoulder of the human resource department of the bank. Supervisors like assistant branch managers take the lion share of filling appraisal forms for each employee in branches.
- Employees of the bank have access to results, allowed to appeal unfair appraisal results and there is standardization in using appraisal forms, Even if the bank's performance appraisal practices have some strength in absence of rater bias, but there are lots of problems like subjectivity, situational influence, raters focus on recent actions, and raters conduct appraisal for formality only.

5.3. Limitations of the Study

The sample size was limited, and, thereby, could not take into account all the employees in the organization into the study. This study employed the cross sectional data and it is difficult to determine the time series link across variables. Hence, the research result may differ if it is conducted in other time. Therefore, future researchers have option of expanding the scope of study by using the large and diverse sample.

5.4. Recommendations

Based on the research findings and objective of this study to investigate how performance appraisal quality affects employee performance in Berhan International Bank, the researcher provides the following recommendations to the bank

- Since weaknesses are observed in the areas of clarity of performance expectation and trust in supervisor. The bank needs to put in place quality performance appraisal process. They need to establish objectives at the beginning of the assessment cycle which brings employees with obvious performance goals view, also the supervising of performance during the assessment cycle. Employees need to be familiar with the purpose and role of the performance appraisal process and Appraisal should be set in a way that it clarifies objectives and sets clear future objectives with provision for training and development needs to establish the performance objective.
- Performance appraisal policy should constitute an open communication, where both manager and employee state what is done well and what needs improvement. It has to provide employees with the chance to express his or her opinion is appreciated in it and certifies his or her belongings in the organization.
- Trust plays a significant role so it should always be preserved to ensure an organizations existence and to enhance employees' performance. Trust in supervisors is important for determining satisfaction with the appraisal system. When employees trust their supervisor, they grasp positive outlooks about their supervisor's motives, judging that their manager will act in their finest attention.
- The company, especially the human resource department should arrange continuous training and development program for managers/ supervisors who conduct performance appraisal periodically to alleviate problems associated with appraisal of employee performance pointed on the findings.

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APPENDIX

Questionnaire

Saint Mary's University School of Graduate Studies

Department of General Management

Dear Respondents,

Dear Participants, I am an MBA student at Saint Mary's University College, School of Graduate Studies and I am collecting data for my thesis. The purpose of this questionnaire is to collect primary data for conducting a study on the topic **“Effect of Performance Appraisal quality on Employee Performance the case of Berhan International Bank S.C.”** as partial fulfillment to the completion of MBA program in General Management at St Mary's University College.

I kindly requesting you to provide me reliable information that is to the best of your knowledge & experience you have while working in this bank. Your responses are strictly confidential and will be used only for the academic purpose of this study.

Thank you in advance for your great assistance and cooperation!

Directions

- No need to write your name.
- Answer by making a or 'X' mark
- The response scale for the questions is as below:

5= Strongly Agree, 4= Agree, 3= Uncertain, 2= Disagree, 1= Strongly Disagree

Part I: General Information

1. Gender

Male Female

2. In which age Group you belong

20-30 31-40 41-50 51 and above

3. Educational Background

Diploma BA/BSC MA/MSc PHD

4. Year of Experience

<1 1-5 6-10 11-15 16-20 >20

	Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
		1	2	3	4	5
Clarity of performance expectations						
1	The objective and process of Performance appraisal were described clearly to you.					
2	Employees take part in the formulation of the performance appraisal system.					
3	Your Manager/Supervisor set targets more clearly?					
4	When I took up my current position I knew how my performance would be periodically evaluated.					
Level of communication						
5	Your Manager/supervisor communicates with you frequently about your performance?					
6	The result of the evaluation are openly explained and discussed to the employee concerned.					
7	When your performance has not met minimum standards, your manager/supervisor discusses with you the reasons?					
8	Do you have opportunity to express your feelings when your performance is evaluated?					
9	Do you get feedback of your evaluation to enhance performance?					
Fairness of appraisal process						
10	The performance appraisal system recognizes employee achievement and Performance objectively.					
11	The performance appraisal of the company is fair and objective.					
12	Appraisers treat you fairly during Performance appraisal process.					
13	My last performance appraisal was fair.					

		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Trust in supervisor						
14	I have confidence and trust in my immediate manger/team leader regarding his/her general fairness.					
15	All the information obtained from Performance appraisal is confidential.					
16	Do you feel your manger/supervisor is competent to evaluate your job?					
Employee Performance						
17	Performance appraisal has provided opportunity to improve your performance.					
18	Performance appraisal is used in assessing employees' commitment to organizational goals and objectives.					
19	The performance appraisal has provided Opportunity to improve personnel skill.					
20	The appraisal system is effective in encouraging employees to work hard.					
21	Appraisal outcomes have given you opportunity to eliminate weak areas in performance.					

This is End of the Questionnaire

Thank you again for your genuine and honest response

Interview Questions

1. What employee performance appraisal method is the bank currently using?
2. How the performance appraisal process is undertaken in the bank?
3. What are the major problems that affect employee's performance appraisal in the bank?
4. Who is responsible in appraising employee's performance in the bank?

DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Chalachew Getahun (PhD). All sources of materials 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 institution for the purpose of earning any degree.

Amanuel Dita
Name

Signature & Date

ENDORSEMENT

This is to certify that Amanuel DitaTefera has carried out his research work on the topic entitled **“Effects of Performance Appraisal Quality on Employee performance: The Case of Berhan International Bank S.C”** The work is original in nature and is suitable for submission for the reward of the MBA Degree in General Business Administration.

Advisor Chalachew Getahun (PhD)