



**THE EFFECT OF PERFORMANCE APPRAISAL ON
EMPLOYEE PERFORMANCE:
THE CASE OF UNITED BANK S.CO**

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**“Effect of Performance Appraisal on Employee Performance:
in the case of United Bank S.C”**

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Letter of Certification

This is to certify that, this Study “Effect of Performance Appraisal on Employee Performance: in the case of United Bank S.C”, undertaken by Birhanu Fantu for the partial fulfillment of Masters of Art in Human Resource Management at Addis Ababa University School of Commerce, is an original work and not submitted earlier for any degree either at this university or any other university.

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Letter of Declaration

I, **Birhanu Fantu**, declare that this study entitled “Effect of Performance Appraisal on Employee Performance: in the case of United bank S.C” is carried out by me and only me independently except for the guidance and suggestions of the research advisor. The paper was not submitted for any other degree or diploma in this or other university by any other person so far. It is offered for the partial fulfillment of the degree of MA in Human Resources Management.

Birhanu Fantu

Signature: _____

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ACRONYMS

PA- Performance appraisal

PAM- Performance Appraisal Method

PAS- Performance Appraisal System

UB- United Bank S.C

Abstract

This study was designed to assess the 'Effect of Performance Appraisal on Employee Performance in United Bank'. Data were collected through questionnaire with five point likert scale. The validity of the instrument was checked and commented by professionals and my advisor. Besides, internal consistency of the instrument was measured using Cronbach Alpha and the result of the four independent variables and one dependent variable items were above 0.7Alpha value. For data collection 311 questionnaires were distributed to the sample respondents who are located in Addis Ababa city branches and the head quarter. Of the total distributed questionnaires 281 usable questionnaires were returned which is about 90.3% response rate. Interpretation is made by comparing the mean, standard deviations of the variables. To determine the significance and relationship magnitude of independent and dependent variables Pearson correlation coefficient were deployed. On the other hand multiple leaner regressions was adopted in order to understand the effect of independent variable over the dependent variable. The result implied that employees of the bank have a good understanding of the purposefulness the performance appraisal. On the other hand the result revealed that they did not agree on the current method of performance appraisal that evaluates employee's actual performance. Besides, it also depicts that employees lack receiving a consistent feedback and constructive follow up from their manager. In the mean time performance appraisal has a positive and significant relationship with employee performance and also has an impact on it. Finally, it has been suggested that the bank should deal with on reviewing method of performance appraisal, continuous communication of performance feedback and training on overall performance appraisal system for the entire employees of the bank.

Key words: *Performance, Performance appraisal, Employee performance & Feedback*

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Organizations devote much of their effort in performance related issues by coordinating and supervising the work of employees to make sure whether it has been done efficiently and effectively. The performance that exhibited by the employees is matters the successful achievement of the organization's goal. The success of an organization is directly linked to the performance of those who work for that business (Gilley, Gilley, Quatro, & Dixon 2009). Due to this that organizations highly concerned about performance appraisal of its employees.

According to (Dessler & Varkkey 2010) Performance appraisal is defined as any procedure that involves setting work standards, assessing the employees actual performance relevant to those standards & providing feedback to the employee with the aim of motivating him or her to eliminate performance deficiencies or to continue to perform above par.

With every passing day organizations are expected to improve productivity, performance, and work quality of their employees in order to maintain their competitive advantage. One of the most important ways used to ascertain this is conducting regular (monthly, quarterly, semiannual, or annual) performance appraisals with every employee, giving managers the opportunity to judge the adequacy and quality of employees' performance. Performance Appraisal is also assumes that the employee knew what the performance standards were and received the feedback required to remove any performance deficiencies. The aim should always be to improve the employee's and, thereby, the company's performance (Dessler.G & B.Varkkey, 2010).

At the core of every Performance Appraisal lie the concept of feedback, and defined as the sharing of observations about job performance or work-related behaviors (Gilley, Gilley, Quatro, & Dixon, 2009). Armstrong and Appelbaum (2003) argued that among others one of the reasons to conducting a PA is to provide a two-way performance feedback. In addition, Armstrong (2009) stated that among the objectives of PA is communication which serves as a two-way

channel for communication about roles, expectations (objectives and competency requirements), relationships, work problems and aspirations.

According to Rudman in (Akindowale, Melanie & Dinesh, 2013), performance appraisal has a positive and negative impact. Employees who receive a good score on his/her appraisal are generally motivated to perform well and maintain his/her performance. Positive feedback on appraisals gives employee a feeling of worth and value, especially when accompanied by salary increases. If a supervisor gives an employee a poor score on his/her appraisal, the employee may feel a loss of motivation in the workplace. Consequently, this can impact on the employee's performance Cook and Crossman in (Akindowale, Melanie & Dinesh 2013).

As per De Cenzo & Robbins (2005) a completely error free performance appraisal is only an ideal we can aim for. There are many possible sources of error in the performance appraisal process. One of the major sources is mistakes made by the rater. This is due to lack of knowledge, experience and sometimes behavioral problems. Most appraisals fall short, often through one or more actions that can significantly impede objective evaluation De Cenzo & Robbins (2005).

In general Performance Appraisal is one of the most important components in the rational and systematic process of human resource management. The information obtained through performance appraisal helps to identify employees performance gap in there activates and it is a good indicator of employee's performance. Therefore, this study investigates the effects of performance appraisal on employee performance in United Bank.

1.2 Background of the Organization

United Bank S.C was incorporated as Share Company on 10th September 1998 in accordance with the commercial code of Ethiopia of 1960 and the licensing and Supervision of Banking Business proclamation no.84/1994. The Bank obtained a banking service license from National Bank of Ethiopia and is registered with the Trade, Industry & Tourism Bureau of the Addis Ababa City Administration.

Over the years united Bank built itself into a progressive and modern banking institution, endowed with a strong financial structure and strong management, as well as a large and ever-increasing customers and correspondent base. Today, United Bank is a full service Bank that offers its customers a wide range of commercial banking services with a network of 136 Branches and 27 sub-Branches, and a number of Additional outlets on the pipeline.

United Bank's priority in the coming years is to strengthen its capital base, maximizing its return on equity and benefiting from the latest technology in order to keep abreast with the latest developments in the local and international financial services industry.

1.3 Statement of the Problem

Performance management is a systematic process for improving organizational performance by developing the performance of individuals and teams. It is a means of getting better results from the organization, teams and individuals by understanding and managing performance within an agreed framework of planned goals, standards and competence requirements (Armstrong 2006). A performance appraisal is the process by which an organization assesses the job related performance and development of its employees. The process is twofold, rating performance against company-set standards, and providing feedback as to quality of work performed (Gilley, Scott & Dixon 2009).

In many organizations appraisal will take place formally at predetermined intervals and will involve a discussion or interview between a manager and an individual employee. The purposes of the discussions is at one hand for making of administrative decisions concerning pay, promotions and careers, work responsibilities and in the other for making improvement of performance through the discussion of development needs, identifying training opportunities and the planning of action.(Bratton & Jeffrey,2000)

According to Mackey and Johnson in (Akindowale, Melanie & Dinesh 2013), where the performance appraisal improves the work performance and employee satisfaction, it can also demotivate employees and leaves a bad impression on the good employees. Bond and Fox (Akindowale, Melanie & Dinesh 2013) contend that an organization should seek an accurate assessment of performance that permits the development of a policy to improve employee performance. In order to, measure the employees Performance Company's should use a comprehensive performance appraisal methods that will best fit their company's situation.

The researcher was made a preliminary survey to understand how employees of the bank perceive and feel about the entire practice of performance appraisal. With this regard discussion has been made informally with some employees and had observed problems like; employees do not communicated what performance is expected from them weakness of the evaluation method to identify the performance gaps of the employee and failure of raters to deliver appropriate feedback are the major once.

On top of that, over the years, several researches had been conducted in assessing the Performance appraisal practices of organizations in business, public and private sectors. Also different senior student researcher of Addis Ababa University School of Commerce studied on the issue. However, no study has been conducted on United Bank except that of Arega Mudale (2015) on the Assessment of performance appraisal practice in united bank. Therefore, in this study the researcher was aimed to investigate the Effect of Performance Appraisal on Employee Performance in United Bank S.co in some selected Addis Ababa city Branches and Head Office employees.

1.4 Research Question

Based on the above stated problems the study tried to address the following research questions:-

1. What extent that purpose of performance appraisal meets its objectives in United Bank?
2. How Performance Appraisal Process affects employee performance in United Bank?
3. How do employees weigh the method of performance appraisal in United Bank?
4. How do employees weigh the feedback received from their supervisors in United Bank?
5. What is the effect of performance appraisal on employee performance in United Bank?

1.5 Research Objectives

1.5.1 General Objectives

The main objective of this study was to analyze the effect of Performance Appraisal on employee's performance of United Bank S.co.

1.5.2 Specific Objectives

In addition to the aforementioned general objective, the research was entails the following specific objectives:

1. To assess to what extent that purpose of performance appraisal meets its objective in United Bank.

2. To evaluate Performance Appraisal Process affects employee performance in United Bank
3. To assess how employees weigh the performance appraisal method in United Bank.
4. To assess how employees weigh the feedback received from their supervisor in United Bank.
5. To investigate the effect of performance appraisal on employee performance in United Bank.

1.6 Significance of the Study

The study is generating the following three benefits.

1. The study finding contributes to the current knowledge in the practice of Performance Appraisal in the business sector particularly for United Bank s.co,
2. Masters of Arts in Human Resource Management, the researcher has benefited from the challenges of research work,
3. Also it has been used as an input for researchers who want to make further improvement in this area of study

1.7 Delimitations/Scope of the Study

Conducting research on the practice of performance appraisal and their effect on employees' performance throughout Ethiopia has been very complex and time consuming. As a result, the researcher has focused on one private commercial bank namely; United Bank S.C. Hence, the study was carried out in some selected branches found in Addis Ababa and departments found at the head office only.

1.8 Limitation of the Study

Everything has got its own limitations. In the same manner, this study has also faced some confines. The main problem experienced by the researcher was the refusal by some respondents to complete the questionnaire. Some respondents were not willing to cooperate even after they were shown a letter that gave permission to the researcher to conduct the study at the bank. The process of collecting the questionnaire proved to be challenging because some respondents failed to complete the questionnaire on time and the researcher spent a considerable amount of time visiting employees work areas to follow up on the collection of the questionnaires. Despite, these adequate numbers of questionnaires were returned to make the study valid.

1.9 Organization of the Study

The study consists of five chapters. The first chapter is introductory part of the study. The second chapter deals about review of related literature. In this chapter, other scholars work had been reviewed and presented with proper acknowledgment. Chapter three is concerned about research design and methodology. In this chapter, the design of the study, the sample size, instrument used, data source and so on are discussed. Chapter four covers discussions about data presentation, analysis, and interpretation. The last chapter contains conclusions and recommendations.

1.10 Definition of Terms

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

Performance - as per Ivanovic and Collins (2003) performance is the way in which someone or something acts. It is any recognized accomplishment; a process or manner of functioning or operating; management execution. In other words, Performance can be defined as efforts along with the ability to put efforts supported with the organizational policies in order to achieve certain objectives.

Performance appraisal is a formal structured system designed to measure the actual job performance of an employee compared to designed performance standards Plunkett & Attner(1983).

Feedback - Ivanovic & Collins (2003) define feedback as information especially about the result of an activity which allows adjustments to be made to the way it is done in future. Armstrong M. (2009) also defined feedback as positive or negative information provided to an organization or individual that is used to shape behaviors and that should closely follow an action for maximum result.

CHAPTER TWO LITERATURE REVIEW

2.1 Concepts of Employee Performance

According to Armstrong (2009) there are different views on what performance is. It can be regarded as simply the record of outcomes achieved. On an individual basis, it can be a record of the person's accomplishments. Most organizations assessed only how well employees performed the task listed on a job description. However Robbins and Timothy (2013) recognize three major types of behavior that constitutes performance at work.

- *Task performance*: Performing the duties and responsibilities that contribute to the production of a good or service or to administrative tasks. This includes most of the tasks in a conventional job description.
- *Citizenship*: Actions that contribute to the psychological environment of the organization, such as helping others when not required, supporting organizational objectives, treating co-workers with respect, making constructive suggestions, and saying positive things about the workplace.
- *Counterproductively*: Actions that actively damage the organization. These behaviors include stealing, damaging company property, behaving aggressively toward co-workers, and taking avoidable absences.

Most managers believe good performance means doing well on the first two dimensions and avoiding the third. According to Borman and Motowidlo in (Sonnentag & Frese, 2002) Performance is a multi-dimensional concept. On the most basic level distinguish between task and contextual performance. Task performance refers to an individual's proficiency with which he or she performs activities which contribute to the organization's 'technical core'. This contribution can be both direct (e.g., in the case of production workers), or indirect (e.g., in the case of managers or staff personnel). Contextual performance refers to activities which do not contribute to the technical core but which support the organizational, social, and psychological environment in which organizational goals are pursued. Contextual performance includes not

only behaviors such as helping coworkers or being a reliable member of the organization, but also making suggestions about how to improve work procedures.

Motowidlo & Schmit in (Sonnentag & Frese, 2002) pinpoints three basic assumptions which are associated with the differentiation between task and contextual performance,

- Activities relevant for task performance vary between jobs whereas contextual performance activities are relatively similar across jobs;
- Task performance is related to ability, whereas contextual performance is related to personality and motivation;
- Task performance is more prescribed and constitutes in-role behavior, whereas contextual performance is more discretionary and extra-role.

TASK PERFORMANCE

Task performance in itself is multi-dimensional. There are five factors which refer to task performance job-specific task proficiency, non-job-specific task proficiency, written and oral communication proficiency, supervision in the case of a supervisory or leadership position and partly management/administration. Each of these factors comprises a number of sub factors which may vary between different jobs. For example, the management/administration factor comprises sub dimensions such as planning and organizing, guiding, directing, and motivating subordinates and providing feedback, training, coaching, and developing subordinates, communication effectively and keeping others informed (Borman & Brush, 1993).

CONTEXTUAL PERFORMANCE

Researchers have developed a number of contextual performance concepts which aim primarily at the smooth functioning of the organization as it is at the present moment, and proactive behaviors which aim at changing and improving work procedures and organizational processes. The 'stabilizing' contextual performance behaviors include organizational citizenship behavior with its five components altruism, conscientiousness, civic virtue, courtesy, and sportsmanship some aspects of organizational spontaneity e.g., helping coworkers, protecting the organization, and of prosocial organizational behavior. Thus, contextual performance is not a single set of uniform behaviors, but is in itself a multidimensional concept (Sonntag & Frese, 2002).

2.2.1. Perspectives on Performance

- **Individual differences Perspective:** The individual differences perspective focuses on performance differences between individuals and seeks to identify the underlying factors. The core question to be answered by this perspective is: Which individuals perform best? The basic idea is that differences in performance between individuals can be explained by individual differences in abilities, personality and/or motivation.
- **The situational perspective:** it refers to factors in the individuals' environment which stimulate and support or hinder performance. The core question to be answered is: In which situations do individuals perform best? The situational perspective encompasses approaches which focus on workplace factors but also specific motivational approaches which aim at improving performance by reward systems or by establishing perceptions of equity and fairness.
- **The performance regulation perspective:** in this perspective takes has a different look at individual performance and is less interested in person or situational predictors of performance. Rather, this perspective focuses on the performance process itself and conceptualizes it as an action process. It addresses as its core questions: 'How does the performance process look like?' and "What is happening when someone is 'performing'?"

2.2 What is Performance Appraisal?

Performance appraisal is a mechanism of assessing employees work performance against prescribed criteria. The out come of the appraisal gives an insight to the management to haw and what extent an employee is performing a given tasks and exhibit behaviors. In this regard scholars has defined performance appraisal from different perspectives.

Performance appraisal can be defined as the formal assessment and rating of individuals by their managers at, usually, an annual review meeting Armstrong (2009).

Performance appraisal is a measure of personality traits that were felt to be important to the job. These included traits such as resourcefulness, enthusiasm, drive, application and other traits such as intelligence. (Torrington, Laura & Taylor 2005)

Performance Appraisal is the process of evaluating how well employees do their jobs compared with the set of standards and communicating that information to employees. (Mathis & Jackson 1991)

Performance appraisal refers to a formal, structured system for measuring, evaluating and influencing an employee's job-related attributes, behaviors and outcomes. (Susan & Schuler 2000)

2.3 Performance Appraisal as part of Performance Management System

Managers need to know whether their employees are performing their jobs efficiently and effectively or whether there is need for improvement. Evaluating employee performance is part of a performance management system, which is a process of establishing performance standards and appraising employee performance in order to arrive at objective human resource decisions as well as to provide documentation to support those decisions. The performance appraisal is a critical part of a performance management system Robbins & Coulter (2002). More over as stated in Susan & Schuler (2001), performance management involves the setting of corporate, departmental, team and individual objectives (sometimes labeled "policy deployment", the cascading down of strategic objectives to a meaningful set of targets for every individual involved); the use of performance appraisal systems; appropriate reward strategies and schemes; training and development strategies and plans; feedback, communication, and coaching; individual career planning; mechanisms for monitoring the effectiveness of performance management system and interventions and even culture management. Thus performance management involves the day-to-day management, as well as the support and development of people.

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.

2.4 Purpose of Performance Appraisal

As per Gilley, Gilley, Quatro, & Dixon (2009) Performance Appraisal is defined as the evaluation of an individual's work performance in order to arrive at objective personnel decisions where employees and their supervisors interact to examine the performance of the former by the latter to identify strengths and weaknesses with the view to improving future performance.

According to Gilley, Gilley, Quatro, & Dixon (2009), the purpose of Performance Appraisal is to maximize employee performance. By assessing the strengths and weaknesses of its employees, an organization can create goals to develop the most effective, highly skilled, productive, and satisfied workforce. In same token Mathis and Jackson (1991) described the aims of Performance appraisal as clarifying the employees work expectation, improving employee development, linking pay with performance and assessing workforce development.

In the other way Robbins & Timothy (2013) has mentioned a number of purposes of performance evaluation. One is to help management make general human resource decisions about promotions, transfers, and terminations. Evaluations also identify training and development needs. They pinpoint employee skills and competencies for which remedial programs can be developed. Finally, they provide feedback to employees on how the organization views their performance and are often the basis for reward allocations, including merit pay increases. And hence Armstrong (2009) stated that it is the basis for providing and generating feedback, it identifies where things are going well to provide the foundations for building further success, and it indicates where things are not going so well, so that corrective action can be taken.

2.5 Benefits of Performance Appraisal

There are many benefits to conducting performance appraisals for managers and individual employees, as well as their departments and the organization as a whole. If it is carried out properly and the employees realize that management intends to be equitable in its reward system, personnel moral will be high and team works can be both developed and nurtured by the enterprise Hodgetts and Hegar (2007). Some of the benefits of performance appraisal are identified by Gilley, Gilley, Quatro, & Dixon (2009) as follow:

- Improved communication between managers and employees,
- Motivated employees who perform/produce at a higher level,
- Creation of short- and long Validation for rewards/pay increases,
- term goals (individual, department- and company-wide) and monitoring of progress toward previously set goals,
- Identification of training needs,
- Heightened sense of accountability, empowerment, teamwork, and loyalty,
- Increased promotion and retention rates,
- Documentation of ongoing performance issues for legal reasons.

2.6 Criteria's for Performance Appraisal

According to Robbins & Timothy (2013) stated that the criteria management chooses to evaluate will have a major influence on what employees do. The three most popular sets of criteria outlined by Robbins & Timothy (2013) are:

- Individual Task Outcomes: If ends count rather than means, management should evaluate an employee's task on outcomes such as quantity produced, scrap generated, and cost per unit of production for a plant manager or on overall sales volume in the territory, dollar increase in sales, and number of new accounts established for a salesperson.

- Behaviors: It is difficult to attribute specific outcomes to the actions of employees in advisory or support positions or employees whose work assignments are part of a group effort.
- Traits: The weakest criteria, because they're furthest removed from actual job performance, are individual traits. Having a good attitude, showing confidence, being dependable, looking busy, or possessing a wealth of experience may or may not be highly correlated with positive task outcomes, but it's naïve to ignore the reality that organizations still use such traits to assess job performance.

In the other way Armstrong (2009) proposed that the criteria for reviewing performance should be balanced between achievements in relation to objectives; the level of knowledge and skills possessed and applied (competences or technical competencies); behavior in the job as it affects performance (competencies); the degree to which behavior upholds the core values of the organization and day-to-day effectiveness.

2.7 Performance Appraisal Process

Performance appraisal as it is one of HRM practices it has its own process which provides the primary basis for any appraisal program. According to De Cenzo & Robbins (1994) performance appraisal has six basic processes of performance appraisal.

Established performance standards with employees- it is the establishment of performance standard in accordance with the organization's strategic goals. These should have evolved out of the company's strategic direction, the job analysis and the job description.

Method of determining individual performance- an employee does a good job or he/she is an asset to the department is not sufficient measure of individuals result. The organization needs appraisal instruments that measure desired performance.

Measure actual performance- to determine what actual performance is, it is necessary to acquire information about how and what we measure. For common source information are frequently

used by managers regarding how to measure actual performance: personal observation, statistical reports, oral reports, and written reports. Each has its strengths and weaknesses; however, a combination of the increases both the number of input sources and the probability of receiving reliable information. In the other way, what we measure is probably more critical to the evaluation process. The selection of wrong criteria can result in serious dysfunctional consequences. And it determines, to a great extent, what people in the organization will attempt to excel at.

Comparison of performance with standards- at some point, usually once annually, the individual's work record should be compared with the standards set for the job.

*Discussion of the appraisal with the employee-*it is one of the most challenging tasks facing managers is to present an accurate appraisal to the employee. The impression that employees receive about their assessment has a strong impact on their self-esteem and very importantly, on their subsequent performance. The discussion of performance appraisal can have negative as well as positive motivational consequences.

Initiate corrective action- it can be of two types: one is immediate and deals predominantly with symptoms, and the other is basic and delves in to causes. Immediate corrective action is often described as "putting out fires," whereas basic corrective action gets to the source of deviation and seeks to adjust the difference permanently.

2.8 Performance Appraisal Methods

Many different approaches to conducting performance appraisals exist. The size and culture of an organization affect what type of appraisal system is used and how often an appraisal is done (most often once a year). The resources necessary to implement a formal system can be extensive; creation of forms, analysis and dissemination of information, filing, etc., can be time consuming and costly. However, once in place, a process can be maintained with little manpower. The appraisal can take an informal or formal approach. Informally, performance is casually discussed and documentation is kept to a minimum. In a formal approach, performance is discussed in an appraisal meeting in which key performance indicators are thoroughly

documented (usually on a standard form). Dessler 1994 and Gilley, Gilley, Quatro, & Dixon (2009) have recognized the following most common performance appraisal method.

- 360-degree review—this method relies on feedback gathered from people throughout an organization, and at varying professional levels, who have worked with the employee. This includes the manager, peers, and customers (both internal and external)
- Alternation Ranking- this method ranks employee from best to worst on some trait. First, list all subordinates to be rated and then cross out the names of any not known well enough to rank. Then the employee who is the highest on the characteristics being measured and also the one who is the lowest. It will continue until all employees to be rated have been ranked.
- Continuous feedback—the appraisal process is conducted more than once per year (usually 2–4 times). This allows for constant monitoring, communication, feedback, and modification of performance and goals.
- Critical Incident- the supervisor keeps record of uncommonly good or undesirable examples or incidents of each subordinate’s work related behavior and reviewing it with the employee at predetermined times. It is used to supplement another appraisal technique such as ranking techniques. Each employee’s name has been written on a separate index card, then for each trait being appraised (quality of work, creativity, and so on), place the employee’s card in one of the appropriate performance categories.
- Follow-up reviews—continuation of the appraisal process when training/development opportunities are scheduled, short-term goals are evaluated changed, and progress is discussed. Follow-up reviews are often conducted within several weeks of the main appraisal meeting.
- Forced Distribution Method- similar to grading on a curve, predetermined percentages of rates are placed in performance categories. It may decide to distribute employees as follows:

- 15% high performers,
 - 20% high-average performers,
 - 30% average Performers,
 - 20% low average performers,
 - 15% low performers.
- Graphic rating scale- is the simplest and most popular techniques for appraising performance. It lists traits (such as quality and quantity) and a range of performance from unsatisfactory to outstanding for each traits. Each subordinate is rated by circling and checking the scores that describes his/her performance for each traits. The assigned values for the traits are then totaled.
- Management by Objectives- involves setting specific measurable goals with each employees and then periodically discussing his/her progress towards these goals. It engages subordinates by anticipatively setting goals and periodically providing feedback. It also consist six steps: set the organization's goal, set departmental goal, discuss departmental goals, define expected results, performance review and provide feedback.
- Narrative—an essay-type evaluation of performance is written by the manager. This can be used alone, but is most often used to supplement the standard rating form. This can be a very subjective means of evaluation, with the writer often discussing more personality based traits of the individual versus measurable job skills. It can be used as a way to “soften the blow” of a less than favorable appraisal. The effectiveness of a narrative is directly related to the writing skills of the manager. If used alone, it does not allow for a rating comparison of several employees.
- Paired Comparison Method- it makes the ranking method more effective. In this method ranking employees by making a chart of all possible pairs of the employees for each trait and indicating which the better employee of the pair is. For every trait (quantity of work, quality of work, and so on), every subordinate is compared to every other subordinate in pairs.

- Peer review—peers and team members rate the employee’s performance. Care must be taken in choosing unbiased peers, and the manager must decide how much weight is given to each peer’s feedback in order to reach a fair result. Choosing someone in competition for a promotion or pay raise may lead to flawed feedback. This method can be used when a manager has limited contact with the employee.
- Performance-based—the manager rates specific job related requirements associated with an employee’s position. Identifying where an employee falls on a “below expectations” to “exceeds expectations” scale is a quick way to accurately assess performance. This method involves filling out a standard rating-scale form, which can make the process fairly fast and simple. In order to be fair and equitable, the job-related requirements that are measured must be the same for all employees who hold the same position.
- Self-assessment—employees rate their own performance. A self-assessment can be implemented into all performance appraisal methods.
- Top-down—several management-level members rate the performance of an employee.
- Upward—the employee rates the performance and effectiveness of the manager.

According to DeCenzo & Robbins (1994) the above methods of appraisal are grouped in to three. These are absolute standards, relative standards and objectives. In the first group of appraisal methods subjects are not compared with any other person. The methods are essay appraisal, the critical incident appraisal, the checklist, the graphic rating scale, forced choice and behaviorally anchored rating scales. In the second general category of appraisal methods, individuals are compared against other individuals. These methods are relative standards rather than absolute measuring devices. The most popular of the relative methods are group order ranking, individual ranking and paired comparison. The third approach to appraisal makes use of objectives. Employees are evaluated by how well they accomplish a specific set of objectives that have been determined to be critical in the successful completion of their job. This approach is frequently referred to as management by objectives (MBO)

2.9 Performance Appraisal Forms

While the specific design and construction of the form varies from one organization to another, five elements should appear in every performance appraisal form (Grote, 2002):

- **Organizational core competencies-** should include specific competencies that the organization expects all of its members to display.
- **Job family competencies-** consists of competencies needed for different job families (e.g. professional/ technical, managerial/supervisory job families)
- **Key job responsibilities-** The key job responsibilities section of the appraisal form focuses more specifically on what the individual is expected to do.
- **Projects and goals-** These are the individuals activities that are beyond the specific tasks and duties outlined on a job description.
- **Major achievements-** help the manager to identify the major accomplishments that the individual was responsible for over the course of the year.

2.10 Problems in Performance Appraisal

Many Performance Appraisal methods have been severely criticized. According to Torrington, Laura & Taylor (2005) Performance appraisals which are seen to have a negative and positive effect on organizations, there are several challenges of performance appraisals because the activity seems to be very stressful. Raters, therefore, are often unsure of what they are rating, leaving more scope for bias and prejudice. Another problem is that since the same scales are often used for many different jobs, traits that are irrelevant to an appraisee's job may still be measured. A further problem with such systems is the lack of clarity of purpose.

Most of the problems commonly mentioned are not inherent in the method but, rather, reflect improper usage and improper design of the appraisal form and the raters biasness. Hodgetts and Hegar (2007) and De Cenzo (2005) have identified the common problems of appraisal are:

- a) *Clarity of the Appraisal Form:* one of the most common appraisal problems relates to the clarity of the form. If every appraiser does not have an identical interpretation of

what the factors and their ratings mean, performance evaluations will not be uniform thought the organization.

- b) *The Halo Effect*: it occurs when the appraisers gives a worker the same rating on all factors, regarding less of actual performance.
- c) *Central Tendency*: everyone receives an average rating, regardless of how effective he or she has been.
- d) *Leniency*: in which managers give all their subordinates the highest of lowest possible ratings.
- e) *Similarity error*: when evaluators rate other people in the same way that the evaluators perceive themselves, they make a similarity error. That is, they project self-perception on others.
- f) *Lower appraiser motivation*: if the evaluator knows that a poor appraisal could significantly hurt the employee's future-particularly opportunities for promotion or a salary increase the evaluator may be reluctant to give a realistic appraisal.
- g) *Personal Bias*: Supervisors doing performance appraisals may have biases related to their employees' personal characteristics such as race, religion, gender, disability, or age group.
- h) *Lack of Objectivity*: A potential weakness of traditional methods of Performance Appraisal is that they lack objectivity. Some subjectivity will always exist in appraisal methods. However, the use of job-related factors does increase objectivity.

2.11 Feedback

Feedback is the sharing of observations about job performance or work-related behaviors. The goal is to achieve work objectives by reinforcing or changing behavior (Gilley, Gilley, Quatro, & Dixon, 2009). Feedback can be given upward, downward, and laterally, by an employee to his/her manager, direct reports, or peers. One of a manager's most important responsibilities is to provide actionable feedback to his/her direct reports to enable them to build on their strengths,

address areas in need of development, and achieves their performance goals (Gilley, Gilley, Quatro, & Dixon, 2009).

According to Armstrong (2006) feedback transmits information on performance from one part of a system to an earlier part of the system in order to generate corrective action or to initiate new action. In the other way, Torrington, Laura & Taylor (2005) stated that feedback is collected from every angle on the way that the individual carries out their job: from immediate line manager; peers; subordinates; more senior managers; internal customers; external customers; and from individuals themselves refers to the use of the whole range of sources from which feedback can be collected about any individual.

According to Armstrong (2006) feedback provides information to people on their performance, which helps them to understand how well they have been doing and how effective their behavior has been. The aim is to promote this understanding so that appropriate action can be taken. In same token Mathis & Jackson (1991) explained that when supervisors identify the weakness, potentials, and training needs and tell them what skills they need to develop to become eligible for promotions transfer and other HR actions.

2.11.1 Benefits of Feedback

Providing timely and actionable feedback to the employee has many benefits (Gilley, Gilley, Quatro, & Dixon, 2009). Feedback:

1. Reinforces appropriate behaviors;
2. Aids an employee in correcting inappropriate or ineffective behaviors;
3. ensures the employee has a clear understanding of his/her manager's expectations;
4. Provides clear direction to the employee for improving his/her work performance;
5. Encourages and supports employee development;
6. Promotes constructive communication between the manager and the employee.

2.11.2 Aspects of Effective Feedback

According to Martin (2010), in order for feedback to have a meaningful and positive impact on the recipient, it is important that the giver of the feedback follow some general guidelines.

1. Provide feedback as close to the performance event as possible.
2. Feedback focused on behaviors and actions, not personality and where good is balanced with bad.
3. Ensuring the intent of feedback is towards improvement and not of punitive nature.
4. Specific, concrete and actionable feedback.
5. Provide feedback with appropriate performance examples and avoid making sweeping generalizations.
6. Review the downside of continuous poor performance.
7. Check for agreement/understanding and establish a commitment for next steps.
8. Express confidence in the employee's ability to improve.

2.12 Theory and Concepts

Expectancy theory argues that the strength of our tendency to act a certain way depends on the strength of our expectation of a given outcome and its attractiveness. In more practical terms, employees will be motivated to exert a high level of effort when they believe it will lead to a good performance appraisal; that a good appraisal will lead to organizational rewards such as bonuses, salary increases, or promotions; and that the rewards will satisfy the employees' personal goals (Stephen & Timoty, 2013).

According to (Stephen & Timoty, 2013) Expectancy theory helps explain why a lot of workers aren't motivated on their jobs and do only the minimum necessary to get by. Let's frame the

theory's three relationships as questions employees need to answer in the affirmative if their motivation is to be maximized.

First, *if I give a maximum effort, will it be recognized in my performance appraisal?* For many employees, the answer is “no.” Why? Their skill level may be deficient, which means no matter how hard they try, they're not likely to be high performers. The organization's performance appraisal system may be designed to assess nonperformance factors such as loyalty, initiative, or courage, which means more effort won't necessarily result in a higher evaluation. Another possibility is that employees, rightly or wrongly, perceive the boss doesn't like them. As a result, they expect a poor appraisal, regardless of effort. These examples suggest one possible source of low motivation is employees' belief that, no matter how hard they work, the likelihood of getting a good performance appraisal is low.

Second, *if I get a good performance appraisal, will it lead to organizational rewards?* Many organizations reward things besides performance. When pay is based on factors such as having seniority, being cooperative, or “kissing up” to the boss, employees are likely to see the performance–reward relationship as weak and demotivating.

Finally, *if I'm rewarded, are the rewards attractive to me?* The employee works hard in the hope of getting a promotion but gets a pay raise instead. Or the employee wants a more interesting and challenging job but receives only a few words of praise. Unfortunately, many managers are limited in the reward they can distribute, which makes it difficult to tailor rewards to individual employee needs.

In light of this, this research incorporates the thinking and perceptions of employees regarding components of performance appraisal as which expecting to have a clear understanding of the purpose why it is performed, the goodness of the method in identifying the performance gap of employees, the entire process of performance appraisal and the feedback received regarding their performance. Employee's knowledge of the above performance appraisal components will trigger them to achieve their personal goals through producing the desired performance outcome. Therefore, there are four independent variables such as performance appraisal purpose, methods process and feedback and the dependent variable. The study will investigate the effect of the independent variables on the dependent.

2.13 Empirical Review

Asamu (2013) explored that the relationship of performance appraisal and worker's performance. In his research finding he showed that there is a significant relationship between performance appraisal and worker's performance. Similarly Onyije (2015) confirms that performance appraisal has a great impact on employee productivity. Based on the analysis that he made, performance appraisal and employee productivity has a direct relationship. This is due to Performance Evaluation results are normally used to identify the strength and weaknesses of employees. This implies that one of the major factors that affect the worker's performance in an organization is the performance appraisal conducted over time.

Asuma (2013) aimed to examine whether there is a relationship between performance appraisal and promotion and salary increments. The results showed that performance appraisal is related to the promotion exercise carried out in the organization as well as it is a means for salary increment or distribution of rewards. This particular finding highlights the importance of performance appraisal for the determination of reward and employee's advancement. From this one can conclude that Performance appraisal is a yardstick for employment decisions which helps organizations in determining promotions, terminations and transfer of employees, determining wages and salary administration.

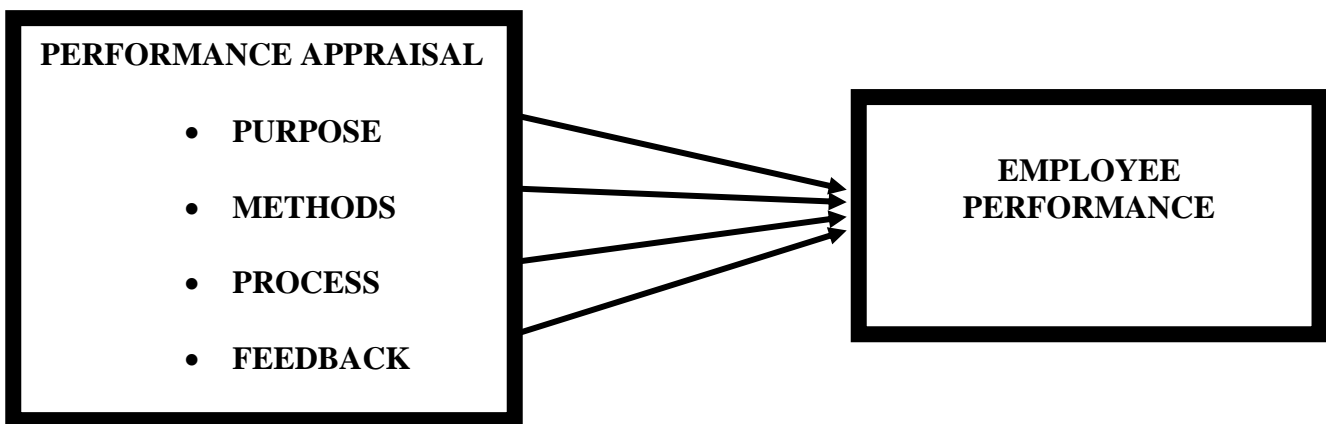
Onyije (2015) from the analysis made on Impact of Performance Criteria in Relation to Performance Evaluation and Employee Productivity, the obtained result indicates that there is a significant relationship between performance appraisal criteria and employee productivity. This outcome is supported by Lawrence (2014) cited by Onyije (2015) which reveals that severity error occurs when individuals are given ratings that are lower than actual performance warrants. Severe ratings may be assigned out of a dislike for an individual, perhaps due to personal bias. A performance appraisal criterion which is seen as an evaluative statement indicates what is to be assessed and the required level of performance. It is very important that when assessing an employee, ensure the evidence provided by the employee is sufficient enough to show competence in all of the performance criteria.

Performance appraisal has several purposes in an organization among which provision of feedback is the major one. As it has been discussed in Gichuhi, Abaja & Ochieng (2013) their research finding confirmed that most appraisers does not provide feedback promptly and also failed to discuss on strengths, weaknesses and development need of the appraisee. This has significant effect on the productivity of employees who need to be trained on their weaknesses. In that case the researchers suggested that after the completion of every performance appraisal it has to be backed by the provision of periodic and formal feedback to individual staff members.

2.14 Conceptual Framework

To answer, the research questions of this study a conceptual framework is being build that also show possible variables, and relationships between these variables and using previous literature. Based on the overall review of related literatures and empirical studies, the researcher proposed to develop the following conceptual framework for the study. The research study was analyzed the relationship between performance appraisal and employee performance. In this regard how the independent variables such as purpose, methods, process and feedback of performance appraisal influence the dependent variable employees performance.

Fig. 2.1 conceptual framework



Source: conceptual framework of the study, based on the Literature Review, 2017

CHAPTER THREE

METHODOLOGY

This chapter discusses the research design and methodology used in the study. This includes the research design, population and sample size, the data sources and types, and data collection instrument. At the end the method of data analysis is presented.

3.1 Research Design

Research design stands for advance planning of the methods to be adopted for collecting the relevant data and the techniques to be used in their analysis (Kothari 2004). It is the general plan of how you will go about answering your research question(s) (Suanders, Lewies & Thornhill 2009). The purpose of this research is to investigate the effect of performance appraisal on employee performance in United Bank S.C. Therefore, the appropriate types of research to achieve the objective of this study are explanatory types of study. According to (Suanders, Lewies & Thornhill 2009) the emphasis of explanatory study is on studying a situation or a problem in order to explain the relationships between variable. Thus, this study gives stress to analyze the effects and the relationship of the variables such as performance appraisal methods, process of performance appraisal and appraisal feedback on employee performance. Also, the description of respondent's personal characteristics and their reactions for five point likert scale has been made in sufficient detail.

3.2 Population and Sample Size

The total population for this study consists of the United Bank staffs at the Head Office and city & outlying branches. As in June 30, 2016 report indicated 402 are employees at Head office which constitutes 12.5% of the total number of employees of the bank, the other are employees of city branches and their total number is 1,559 it covers 48.5% of the total number of employees. The remaining 1,252 are employees of outlying branches and constitute 39% of the total number of the employees.

3.2.1 Target Population

The target populations of this study are employees of the Bank at Head office and City Branches. Though, irrespective of the geographical disparity the tasks, activities and responsibilities of employees of the bank are one and the same. In addition the appraisal forms, delivery method and timing are similar over the entire branches. In the other way due to the remoteness of data access employees of the outlying branches will not be included in the study. Moreover, all non-clerical employees of the Bank also excluded from this study. Hence due to the above captioned reasons the researcher believes that, taking a sample from employees who are working in city branches can be sufficiently representative.

3.2.2 Sampling Techniques

According to Kotari (2004), a sample design is a definite plan for obtaining a sample from a given population. For all research questions where it would be impracticable to collect data from the entire population, it needs to select a sample Suanders, Lewies & Thornhill (2009). Since there are many limitations such as time, budget and other factors to include the total population in the study, it is necessary to take sample from the total population under study. For this purpose, the researcher used optimal sample size that is not too large sample size to be in line with available resource and time and too small sample size, which may not represent the total population. Therefore, appropriate sample size has been applied in order to get good representative data.

With this respect to select sample respondents stratified sampling was used. According to Catherine (2002) Stratified sampling is a method by which the researcher stratifies his sample by subject area. If the population is believed to be heterogeneous in some characteristics, using stratified sampling results in more reliable and detailed information Kothari (2004). Thus, the researcher selects this method to insure the representativeness of the respondents from two categories; Head office and City Branch employees, of the Bank in the sample. In order to determine the sample size the researcher has used the formal of Taro Yamane (1967).

$$n = \frac{N}{1 + Ne^2}$$

$$n = \frac{1407}{1 + (1407 * 0.005^2)}$$

$$n = 311$$

Where:

“n” is the sample size,

“N” is the population size and

“e” is the level of precision.

Therefore, 311 employees of the bank have been used as a sample size for this study. The obtained sample size also proportionated to each study group as follow;

Table 3.1 sample Size proportion

Stratum	Number of Employees	Sample size proportion
Head Office Staff	292	$(292/1407)*311=65$
Addis Ababa City branches Staff	1115	$(1115/1407)*311=246$
Total	1407	311

Source: Human Resource Dep't, 2017

3.3 Data Sources and Types

For the purpose of this study, relevant information gathered from primary and secondary sources. The primary data is obtained through questionnaire and employees of the bank have served as the main sources of primary data. Secondary data gathered by reviewing documents such as books, reputable journals, and other pertinent sources which are relevant to this study.

3.4 Data Collection Instrument

Self-administered questionnaires were designed to gather data from Head Office and city branches employees of United Bank S.C. The questionnaire design of the study was very simple and easy to understand. The questionnaire of this research was adopted from different researchers work such as Asuma (2013), Onyije (2015) and Gichuhi, Abaja & Ochiong, (2013) and modified by the researcher in order to relate it with the specific objective of the research. The main research instrument utilized in this study is questionnaire.

The questionnaire contains two parts. The first part is about demographic characteristics of respondents. This part consists of four items such as sex, age, educational background, year of service in united Bank. The second part is related to the research questions. 31 items were developed on a five-point Likert Scale. Respondents were requested to choose their level of agreement on a given item as follows. 1“Strongly Disagree”, 2 “Disagree” 3 “neutral” 4 “Agree,” 5 “Strongly Agree,”, and. The 31 items were divided in to 5 categories.

Questionnaires were administered by the researcher and finally of the total distributed 311 questionnaires, 281 were returned in time. It implies response rate of 90.35%.

3.5 Data Analysis

The respondents' data has been statistically analyzed using Statistical Package for Social Science (SPSS) version 20. The descriptive statistics analysis was presented in tables. In this the respondents demographic characteristics and there level of reactions for questions were summarized and analyzed by comparing Mean and Standard deviations score of each variable. To determine the significance and relationship magnitude of independent and dependent variables Pearson correlation coefficient were deployed. On the other hand multiple leaner regressions was adopted in order to understand the effect of independent variable over the dependent variable

3.6 Reliability and Validity

As per Kothari (2004), reliability refers to consistency, where internal consistency involves correlating the responses to each question in the questionnaire with those other questions in the questionnaire. To test the reliability of the questionnaire the researcher conduct internal survey on 30 employees of United Bank. The student researcher used Cronbach's alpha to calculate the internal consistency of the instrument where alpha was computed for purpose of performance appraisal, methods of performance appraisal, process of performance appraisal, and performance appraisal feedback and employee performance as below:

Table 3.2 Result of the Reliability Analysis

Items for	Cronbach's Alpha	No. of Items
PA purpose	.755	6
PA Methods	.784	5
PA Process	.738	6
PA feedbacks	.836	6
Employee Performance	.885	8

* Source SPSS output, 2017

According to Robert & Richard (2008), Acceptable levels of Cronbach Alpha for attitude scales is 0.7 and above. Therefore, the scale used in this study has internal reliability because the alpha values exceed the minimum accepted level of (0.7). This also confirms that the questionnaire were credible.

The questionnaire's internal validity refers to its ability to measure what we intend it to measure. In other words what we find with our questionnaire actually represents the reality of what we are measuring Kothari (2004). In order to ensure the validity of this study, the instrument were checked and evaluated by professionals in the subject matter area. Moreover, my advisor also had evaluated and commented on the instrument before it has been distributed to the respondents.

3.7 Ethical Consideration

As the beginning of work, the management of the Bank was provided with a letter clarifying the purpose of the study and that information gathered was kept in confidence. Once the researcher gets the permission from the management to let the researcher contact, the respondents then the survey continue. Hard copies of the questionnaires were delivered to sample employees of United Bank who contained in the sample. Then, after a reasonable time the distributed questionnaires were collected from the respondents and the obtained responses made ready for the subsequent data analysis.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Descriptive Analysis

4.1.1. Demographic Characteristics of Respondents

The first part of the questionnaire consists of four items about demographic information of the respondents. It covers the personal data of respondents, such as sex, age, educational background, and year of service in the bank. The following table will reveal the total demographic characteristics of the respondents.

Table 4.1 the frequency and percentage distribution of Demographic characteristics

Respondent Background	Category	Frequency	Percent
Sex of Respondents	Male	167	59.4
	Female	114	40.6
	Total	281	100
Age of Respondents	Below 25 years old	43	15.3
	26-35 years old	171	60.9
	36-45 years old	61	21.7
	Above 45 years old	6	2.1
	Total	281	100
Educational Qualification of Respondents	Diploma	43	15.3
	BA degree	213	75.8
	MA Degree	25	8.9
	Total	281	100
Respondents Service Year in current org.	Below 2 Years	29	10.3
	2-4 years	92	32.7
	5-7 years	74	26.3
	8-10 years	66	23.5
	Above 10 years	20	7.1
	Total	281	100.0

Source: Own Survey, 2017

As shown in table 4-1, of the total respondents 59.4% (167) were male and the remaining 40.6% (114) were females. This shows that male respondents were participated in the study more in number than female respondents. With regard to respondents' age category, the highest group of respondents i.e. 171 (60.9%) fall under age category of 26-35. The next higher group 61 (21.7%) and 43 (15.3%) fall under age category of 36-45 and below the age of 25 respectively. The remaining 6 (2.1%) are above the age of 45. This implies that about 76.2% of the respondents are below 35 years of age. From this figure it is possible to say that employees of the Bank are almost youngsters.

The above table also demonstrates educational background of the respondents. As indicated in the table, 213 (75.8%) of the total respondent are holder of BA/BSC followed by diploma holders 43 (15.3%). The remaining 25 (8.9%) have MA/MSc. This implied that the company has fairly educated employees.

Respondents service year in the Bank indicated that 92 (32.7%) of them have 2-4 years of service, 74(26.3%), of them have been with the Bank between 5-7 years, and also 66(23.5%) of respondents have served the Bank for 8-10 years. the remaining 29(10.3) and 20(7.1) of them are served the bank below 2 and above 10 years respectively. This result ascertains that respondents have enough experience with the Performance Appraisal practices being undertaken in their respective organization and this would allow each to share their experiences, understandings and knowledge of the practices via the questionnaire.

4.1.2. Mean and Standard Deviation of Performance Appraisal and Employee Performance

In this section, based on the responses of respondents the descriptive analysis was performed to compare the components of performance appraisal (such as purpose of performance appraisal, method of performance appraisal, process and feedback of performance appraisal) with employee performance using mean and standard deviation. In the analysis (Zaidatol, 2009) comparison bases of mean score for five point Likert scale instruments is used to compare the mean value.

Table 4.2: Mean score measurement.

Mean Score	Description
< 3.39	Low
3.40 - 3.79	Moderate
> 3.80	High

Source: Zaidation (2009)

According to (Zaidation, 2009), the mean score below 3.39 is considered as low; the mean score from 3.40 up to 3.79 is considered as moderate and mean score above 3.8 is considered as high.

Table 4.3 Summary of respondents' opinion on purpose of performance appraisal

PA statement	N	Mean	Std. Deviation
PAS of the Bank has purpose	281	3.81	1.08
The Bank Collect info. Through PA & uses it to make personnel decisions such as promotion, suspension & termination.	281	3.21	1.05
PA date are used to differentiate b/n high & low performers	281	3.41	1.10
The purpose of PA in UB focuses on employee development	281	3.00	1.04
The purpose of PA in UB is basically to identify & prepare individuals for increase responsibility.	281	3.22	1.05
Appreciation & being praised for successful employee is effective to increase their performance.	281	3.68	1.12
PA purpose	281	3.3903	0.74

* Source: Own Survey, 2017

Table 4.3 above, describes the mean and standard deviation of the purpose of performance appraisal considered in this study. The aggregate mean for the overall purpose of performance appraisal is 3.39. The standard deviation ranges between 1.04 and 1.12. The result of the aggregate mean is inclines to the moderate scale of (Zaidatol, 2009) mean score comparison basis. This implies that respondents have a moderate level of feeling towards the entire purpose of performance appraisal.

Table 4.4 Summary of respondents' opinion on Performance Appraisal Method

PA statement	N	Mean	Std. Deviation
PAM covers no of dimension such as volume & quality of work job knowledge, dependability & cooperation. etc	281	3.76	1.08
The Bank use behavioral oriented statements representing good, average & poor performers along each dimension.	281	3.41	0.95
The method requires the manager to keep records of specific incidents of effective and ineffective performance on the part of each employee.	278	3.22	1.00
In my opinion PAM can evaluate employee performance properly	281	3.02	1.14
I am satisfied with the current PAM of the Bank	279	3.06	1.15
PA method	281	3.2948	0.75

* Source: Own Survey, 2017

As it is stated in the table 4.4 above, the overall mean result of the five statements regarding methods of performance appraisal shows 3.29. The standard deviation lies between 0.95 -1.15. When the mean value is compared with (Zaidatol, 2009) mean score comparison range, i.e 3.39 it is found in the lower range. This implies that the bank's performance appraisal method, in the eyes of the respondents, does not measure their performance as it has to measure and week in identifying their performance gap.

Table 4.5 Summary of respondents' opinion on Process of Performance Appraisal

PA statement	N	Mean	Std. Deviation
The PA process Communicates performance expectations of the Bank to employee before measuring the actual performance.	281	2.94	1.02
Measure employee actual performance using personal observation, statistical report, oral & written report.	281	3.14	1.02
The manager has a skill to evaluate employee performance.	281	3.20	1.04
The manager has enough information on my real work performance.	280	3.29	1.06
The manager consistently provides lower rating to people with certain characteristics, such as women and minorities.	279	3.42	1.07
I feel that the manager take in to consideration my performance throughout the evaluation period rather than looking the short term achievement or failure	281	3.25	1.07
PA process	281	3.20	0.62

* Source: Own Survey, 2017

From the table 4.5 above, we can see the overall average response of respondents about Process of Performance Appraisal. The aggregate mean results of the six statements are 3.20, with the range of standard deviation 1.02-1.07. In this case, according to (Zaidatol, 2009) mean score comparison; the mean score is below 3.39. In general, respondents don't think that the entire process that the bank follows in performance appraisal practice is not well organized.

Table 4.6 Summary of respondents' opinion on Performance Appraisal Feedback

PA statement	N	Mean	Std. Deviation
The feedback I have received helps me to improve my work.	281	3.65	0.99
I believe the PA report reflects my true performance.	281	3.05	1.08
When my performance not met minimum standards, my manager discusses with me the reasons.	279	3.05	1.04
The manager provides me with clear direction for improving my work performance.	281	3.23	1.03
The manager communicates with me frequently about my performance.	281	2.83	1.02
The manager tries to understand my point of view when discusses problems or projects with me.	280	3.22	1.04
PA feedback	281	3.1708	0.78

* Source: Own Survey, 2017

As illustrated in table 4.6 above, the overall mean result of the six statements regarding feedback of performance appraisal shows 3.17. The standard deviation lies between 0.99 -1.08. When the mean value is compared with (Zaidatol, 2009) mean score comparison basis, the mean result indicates that the feeling of respondents for the statements are lower. This indicates that the feedback relationship among the supervisor and subordinate in the bank is weak.

Table 4.7 Summary of respondents' opinion on Employee Performance

PA statement	N	Mean	Std. Deviation
I perform well in my overall job carrying out tasks as expected.	281	3.80	0.95
I could manage more responsibility in my job than assigned to me.	281	3.89	0.93
I always reach my performance target	281	3.67	0.96
I am able to perform my work well with minimal time & effort.	278	3.86	0.90
I do my job independently.	281	3.80	0.98
Compared to last year, I judge the quality of my work in the past six month to be much better.	281	3.83	0.92
I am able & willing to work in collaboration with others.	281	4.09	0.94
I actively looked for ways to improve my performance at work.	281	4.10	0.89
Employee Performance	281	3.88	0.74

* Source: Own Survey, 2017

As illustrated in table 4.7 above, the overall mean result of the eight statements regarding employee performance that employees are agree is 3.88 and the standard deviation ranges between 0.89-0.98. When the mean value is compared with (Zaidatol, 2009) mean score comparison basis it is above 3.80. The obtained mean score is high and this denotes that employees have a positive feeling towards their current performance and they believe that they are demonstrating good performance.

4.2 Correlation Analysis between Variable

In this part of the analysis bivariate Pearson correlation coefficient (r) has been used to see the relationship between the dependent and independent variable. Correlation analysis, in this study determines the strength and direction of the relationship between (performance appraisal and employee performance)

According to (Robert & Richard, 2008), Pearson correlation coefficients ranges between -1 and +1, when 0 indicates no relationship between, -1.00 indicates a perfect negative relationship and +1.00 indicates a perfect positive relationship. For intermediary values the study uses (Pallant, 2010) guideline to determine the strength of the correlation, less than 0.1 indicate weak correlation, small correlation for value 0.1 to 0.29; medium/moderate for 0.3 to 0.49; and large for 0.50 to 1.00).

Table 4.8 Correlations of PA components with Employees performance

Correlations						
	PA Purpose	PA Method	PA Process	PA Feedback	Employee Performance	PA Overall
PA purpose	1					
PA method	.599**	1				
PA process	.556**	.655**	1			
PA feedback	.504**	.598**	.564**	1		
Employee Performance	.588**	.530**	.456**	.487**	1	
PA Overall	.806**	.864**	.821**	.816**	.625**	1
** . Correlation is significant at the 0.01 level (2-tailed).						

* Source: Own Survey, 2017

As it is showed in table 4.8 above, the result of Pearson's correlation coefficient $r=.588$ and $sig=0.000$. From this analysis it can be noted that, performance appraisal purpose has significant and positive relationship ($r=.588$, $p<0.01$) with employee performance. The significant level of 0.000 shows the relationship is significant at $p<0.01$, 2-tailed. Thus, the correlation coefficient $r=.588$ is within the strong correlation range of (Pallant, 2010). Therefore, purpose of performance appraisal is positively correlated and has strong association with employee performance.

From the same table, it is seen that the method of performance appraisal is positively and significantly correlated ($r=.530$, $P<0.01$) with employee performance. The significant level of 0.000 confirms the relationship is significant at $P<0.01$, 2-tailed. According to (Pallant 2010), $r=.530$ is lies in the strong correlation range. Hence, the method of performance appraisal is positively correlated and has strong association with performance appraisal.

From the above table, the correlation analysis can be understood that performance appraisal process is positively and significantly correlated ($r=.456$, $p<0.01$) with employee performance. Thus, performance appraisal process is positively correlated and has a moderate association with employee performance ($r=.456$, $P<0.01$, 2-tailed). Hence, $r=.456$ is within the moderate correlation range of (Pallant 2010). This outcome point out that performance appraisal process has a moderate and positive correlation with employee performance.

Similarly in the above table, it is noted that performance appraisal feedback is positively and significantly correlated ($r=.487$, $p<0.05$) with employee performance. Therefore, performance appraisal feedback is positively correlated and has a moderate association with employee performance ($r=.487$, $p<0.01$, 2-tailed). Thus, $r=.487$ is within the moderate range of (Pallant 2010). This finding indicates that performance appraisal feedback have moderate and positive correlation with employee performance.

Correlation result presented in the above table also demonstrate, the correlation between employee performance and the total four components of performance appraisal. This illustrates that the entire performance appraisal components are positively correlated and has high/strong correlation with employee performance ($r=.625$, $p<0.01$, 2 tailed). According to (Pallant, 2010) $r=.625$ is with the range of strong correlation. Therefore, the overall performance appraisal components have strong and positive correlation with employee performance.

4.3 Regression Analysis

The performance of employees is seen to have significantly positively correlated with all the four components of the performance appraisal system in the Bank. As a result of the existing relationship, the performance of employees may have been affected by the performance appraisal. In order to assess the impact a linear regression analysis was conducted including all

the four predictor variables (PA components) in the model. The regression analysis result is presented below. The R square value, known as the coefficient of determination, computed is 0.406. This indicates that 40.6% of the variation in employee's performance is explained by the performance appraisal components.

Table 4.9 Regressions Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t-value	p-value	Collinearity Statistics		R	R Square	Adjusted R Square
		B	Std. Error	Beta			Tolerance	VIF			
1	(Constant)	1.381	.195		7.097	.000			0.644	.415	.406
	PA_purpose	.374	.060	.375	6.193	.000	.579	1.727			
	PA_method	.180	.068	.182	2.641	.009	.449	2.229			
	PA_process	.038	.077	.032	.487	.626	.499	2.003			
	PA_feedback	.163	.058	.172	2.835	.005	.575	1.739			

a. Dependent Variable Employee Performance

Source: Own Survey 2017

In the regression analysis above, the four predictor variables have an issue of multicollinearity. That is, they are highly correlated with one-another. Collinearity (or multicollinearity) is the undesirable situation in regression analysis when one independent variable is a linear function of other independent variables. The variance inflation factor (VIF), displayed along the predictor variables, and helps to tell the existence of multicollinearity when the value of VIF is above 2.

In order to tackle the issue of multicolleniarity, and to see the individual impacts of the predictors a stepwise regression analysis is performed. The resulting regression is presented in the table below. The regression analysis is performed in three steps where three of the variables (namely: purpose, method and feedback) are used in the regression.

These variables are included in each step giving the highest correlated component preference over others. The 1st step, using purpose as predictor, has resulted with $R^2=0.343$. This indicates that, the purpose component of the appraisal system have 34.3% impact on employees performance.

Second variable used in the regression was the method component of the appraisal. The inclusion of the method component in the regression raises the R^2 value to 0.39. This is an increase of 5.3% in the impact of employee's performance.

Thirdly, the feedback component used in the regression, which further raises the impact on employee performance; an increase of 1.8%.

The fourth component, the process component, is not included in the regression because of its relationship with other three components; that its impact is implicitly explained by the other three. As can be seen in the values of VIF (variance inflation factor) in the collinearity statistics, all are below the value 2. This indicates that the effect of multi collinearity is removed in the regression analysis.

Overall, the performance appraisal components can explain about 40.8% of the variability on employees' performance. That is 40.8% of the employees performance is impacted by these components of the performance appraisal.

Table 4.10 Regression Analysis with Collinearity Statistics

Model		Unstandardized Coefficients		Standardized Coefficients	t-value	p-value	Collinearity Statistics		R	R Square	Adjusted R Square
		B	Std. Error	Beta			Tolerance	VIF			
1	(Constant)	1.891	.168		11.267	.000			0.588	.345	.343
	PA_purpose	.587	.048	.588	12.135	.000	1.000	1.000			
2	(Constant)	1.549	.177		8.753	.000			0.628	.395	.390
	PA_purpose	.421	.058	.422	7.244	.000	.642	1.558			
	PA_method	.274	.058	.277	4.755	.000	.642	1.558			
3	(Constant)	1.418	.180		7.892	.000			0.644	.414	.408
	PA_purpose	.381	.059	.381	6.468	.000	.609	1.643			
	PA_method	.192	.063	.194	3.058	.002	.524	1.908			
	PA_feedback	.170	.056	.179	3.042	.003	.610	1.641			

a. Dependent Variable: Employee Performance

Source: Own Survey, 2017

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1 Conclusion

The primary objective of this study was to investigate the effect of performance appraisal on employee performance in the case of United Bank S.C. Such studies are very important since performance appraisal components such as purpose, method, process and feedback has been issues of major concern with its impact on employee performance which intern directly affect the overall organizational performance. Generally, by emphasizing on the findings of the following conclusions were drawn.

The explanatory analysis was performed to assess the components of performance appraisal by using mean and standard deviation. The result obtained from the analysis demonstrates that, the level of agreement of employees of United Bank with regard to the four components of performance appraisal.

Regarding the purpose of performance appraisal from the finding it has been concluded that, employees understanding regarding the purposes of having a performance appraisal to evaluate and assess the performance of employees in the bank possess a good understanding.

As per the responses of the respondents regarding the current method that the bank using for appraising employees performance not evaluative enough and has a limitation in measuring the tasks which employees under taking. From this it is concluded that the method is weak and does not show employees current performance gap as intended.

With regard to the process of performance appraisal based on the responses of the respondents it has been concluded that the entire performance appraisal process lacks objectivity and fairness due to this it opens a loophole for miss interpretation biasness and conflict which intern affects employee performance.

With respect to feedback of performance appraisal when employees get appropriate and timely feedback will plays a vital role in improving their performance. As indicated by (Gilley, Gilley, Quatro, & Dixon, 2009) one of a manager's most important responsibilities is to provide

actionable feedback to his/her direct reports to enable them to build on their strengths, address areas in need of development, and achieves their performance goals. Though, the practice in United Bank is differs; employees don't receive a consistent and also lacks constructive feedback to their performance.

The researcher has also attempted to investigate the degree of relationship between the independent variables (performance appraisal components) and dependent variables (employee performance). Based on the correlation analysis result it is concluded that the purpose and method of performance appraisals have a positive and strong relationship or association with employee performance. The other, process and feedback of performance appraisal have a positive and moderate relationship with employee performance.

Based on the analysis the performance appraisal components (such as Purpose, method or feedback) had an effect on employee performance. By comparing the regression coefficient result the student researcher has reached on a conclusion that purpose of performance appraisal has a larger effect on employee performance than method of performance appraisal and performance appraisal feedback.

5.2 Recommendation

The very beginning purpose of performance appraisal system should improve the employee performance that will lead towards the realization of the organization objectives and goals. So a properly geared performance appraisal system needs to be in place. Hence, based on the findings and conclusion of the study, the following recommendations have been forwarded.

- The study findings showed that employees have positive opinions towards the purpose of having a performance appraisal system in United Bank. Hence, it is recommended that the bank should ascertain that every employee of the organization has a clear understanding of the purpose of having a performance appraisal process by using the result to make administrative and developmental decisions and allocating resources for training sessions and inductions for new hires as well. As per (DeCenzo, & Robbins, 2005), new employee orientation covers the activities involved in introducing a new employee to the organization where this particular session covers introducing of

organization's objectives, history, philosophy, procedures, and rules as well as communicate relevant HRM policies and procedures. Hence, having this orientation system in place will ensure that employees are well aware of the organization's goals, objectives, HRM policies and procedures at the time of joining.

- The existing performance appraisal method should be changed and adopt an appropriate method of performance appraisal which can able to evaluate employee's performance from different dimensions. According to Torrington, Laura & Stephen (2005) 360 feedback is the use of the whole range of sources from which feedback can be collected about any individual. Thus feedback is collected from every angle on the way that the individual carries out their job: from immediate line manager; peers; subordinates; more senior managers; internal customers; external customers; and from individuals themselves. As indicated by the finding and respondents opinion the existing performance appraisal method needs to be changed. In this regard the student researcher recommended possible performance appraisal methods is 360 appraisal method, it is suitable to appraise the performance of the employee and identify their true performance. In addition appraisers also should hold incidence recording log book to take notes regarding employees exhibiting major positive and negative incidents and use it for the time of performance appraisal to support the recommended method.

- Management and HR practitioners should pay due attention towards insuring the effectiveness of their respective Performance Appraisal Processes being used in the bank. Through arranging training to raters on the process of performance appraisal so as to help them in implementing the system objectively and fairly. This would go a long way to prevent conflict situations and create a healthy atmosphere for team work in United Bank. On top of that, the bank should prepare detailed and transparent performance expectation of the organization which coincide with employee's job description by letting employees to take part in the preparation so as employee can produce better performance.

- Armstrong & Appelbaum (2003) argued that among others one of the reasons to conducting a Performance Appraisal is to provide a two-way performance feedback. Continuous feedback is vitally important to improve performance deficiency. In this regard both raters and ratees should hold frequent meetings aimed at developing action plans. During these meetings, matters such as performance expectations should be discussed as well as reviewing employee performance on tasks that have been adequately accomplished and any areas that need improvement.

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Appendix

Addis Ababa University
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Dear respondent,

This questionnaire is designed to collect information about **Effect of Performance Appraisal on Employees Performance in United Bank SC**. Your participation in this survey is very critical for addressing the research question. The questionnaire has been designed in such a way, that minimum time is required for the completion. Your response will be treated as strictly confidential and will be used only for academic purpose i.e. **in partial fulfillment of the requirement for MA in Human Resource Management**. Since successful completion of this study depends on your genuine response, I'm kindly requesting your cooperation to respond to all of the following questions.

Thank you in advance for your cooperation!

Part I: Respondent's Demographic Characteristics

1. Sex: 1) Male 2) Female

2. Age in years: 1) 18-25 2) 26-35
 3) 36-45 4) Above 45

3. Your highest level of Educational Qualification?
 - 1) Diploma 3) MA Degree
 - 2) BA Degree 4) PHD 5) Other _____

4. Years of service in your current organization?
 - 1) Below 2 years 2) 2-4years 3) 5-7 Years
 - 4) 8-10 years 5) Above 11years

Part II: Research Related Questions

Please read each statement in this part carefully and show the extent of your agreement on the statement by putting “√” or “X” make in the boxes using the following rating scale:

1=SD=Strongly Disagree, 2=D=Disagree, 3=N=Neutral/Undecided, 4=A=Agree and 5=SA Strongly Agree

1. Questions Related to Purpose of Performance Appraisal

S.n	Questions	1=SD	2=D	3=N	4=A	5=SA
1	The performance appraisal system of the bank has purpose.					
2	The Bank collects information through performance appraisal and uses it to make personnel decisions as, promotion, suspension and termination.					
3	The performance appraisal data are used to differentiate between high performers and low performers.					
4	The purpose of performance appraisal in United Bank focuses on employee development.					
5	The purpose of performance appraisal in United Bank is basically to identify and prepare individuals for increased responsibility.					
6	Appreciation and being praised by their managers for successful employees is effective to increase their performance.					

2. Questions Related with Performance Appraisal Methods

S.n	Questions	1=SD	2=D	3=N	4=A	5=SA
1	The Performance Appraisal method covers a number of dimensions such as volume of work, quality of work, job knowledge, dependability and cooperation etc.					
2	The Bank uses behavioral oriented statements representing good, average, poor performance along each dimension.					
3	The method requires the manager to keeps records of specific incidents of effective and ineffective performance on the part of each employee.					
4	In my opinion performance appraisal method can evaluate employee's performance properly.					
5	I am satisfied with the current performance appraisal method of the Bank.					

3. Questions Related with Process of Performance Appraisal

s.n	Questions	1=SD	2=D	3=N	4=A	5=SA
1	The performance appraisal process communicates performance expectations of the Bank to employee before measuring the actual performance.					
2	The manager tries to measure employee actual performance using personal observation, statistical report, oral and written reports.					
3	The manager has a skill to evaluate employee performance.					
4	The manager has enough information on my real work performance.					
5	The manager consistently provides lower rating to people with certain characteristics, such as Women and minorities.					
6	I feel that the manager take into consideration my performance throughout the evaluation period rather than looking the short term achievement or failure.					

Please read each statement in this part carefully and show the extent of your agreement on the statement by putting “√” or “X” make in the boxes using the following rating scale:

1=SD=Strongly Disagree, 2=D=Disagree, 3=N=Neutral/Undecided, 4=A=Agree and 5=SA Strongly Agree

4. Questions Related with Feedback

S.n	Questions	1=SD	2=D	3=N	4=A	5=SA
1	The feedback I receive from my immediate manager helps me to improve my work.					
2	I believe the performance evaluation report reflects my true performance.					
3	When my performance has not met minimum standards, my manager discusses with me the reasons.					
4	The manager provides me with clear direction for improving my work performance.					
5	The manager communicates with me frequently about my performance.					
6	The manager tries to understand my point of view when he/she discusses problems or projects with me.					

5. Questions Related to Employee Performance

S.n	Questions	1=SD	2=D	3=N	4=A	5=SA
1	I perform well in my overall job by carrying out tasks as expected.					
2	I could manage more responsibility in my job than is typically assigned to me.					
3	I always reach my performance target.					
4	I am able to perform my work well with minimal time and effort.					
5	I do my job independently (without waiting for specific instruction from my supervisor)					
6	Compared to last year, I judge the quality of my work in the past six months to be much better.					
7	I am able and willing to work in collaboration with others.					
8	I actively looked for ways to improve my performance at work.					

Any point you want to say about performance appraisal and employee performance in United Bank S.C

Thank you!

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