



ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

**ASSESSMENT OF PERFORMANCE APPRAISAL AND REWARD PRACTICE:
THE CASE OF ETHIOPIAN REVENUE AND CUSTOMS AUTHORITY (ERCA);
WESTERN ADDIS ABABA BRANCH**

BY

BEEMINET FANTU

JUNE, 2017

ADDIS ABABA

ETHIOPIA

ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

**ASSESSMENT OF PERFORMANCE APPRAISAL AND REWARD PRACTICE:
THE CASE OF ETHIOPIAN REVENUE AND CUSTOMS AUTHORITY (ERCA);
WESTERN ADDIS ABABA BRANCH**

BY

BEEMINET FANTU

**A THESIS SUBMITTED TO ST MARY'S UNIVERSITY, SCHOOL OF
GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE DEGREE OF MASTERS OF BUSINESS
ADMINISTRATION**

JUNE, 2017

ADDIS ABABA

ETHIOPIA

ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
FACULTY OF BUSINESS

**ASSESSMENT OF PERFORMANCE APPRAISAL AND REWARD PRACTICE:
THE CASE OF ETHIOPIAN REVENUE AND CUSTOMS AUTHORITY (ERCA);
WESTERN ADDIS ABABA BRANCH**

BY

BEEMINET FANTU

APPROVED BY BOARD OF EXAMINERS

_____	_____
Dean, Graduate Studies	Signature
_____	_____
Advisor	Signature
_____	_____
External Examiner	Signature
_____	_____
Internal Examiner	Signature

ACKNOWLEDGEMENTS

First of all, my heartfelt gratitude goes to the almighty GOD who made all of these possible and who guided me throughout this process. I would also like to forward my deepest appreciation for my advisor Chalachew Getahun (PhD), for giving me his precious time, kind support, guidance, and expertise.

Finally, I am very grateful for all the staff of Ethiopian Revenue and Customs Authority, Western Addis Ababa Branch, for their genuine opinion and time contribution to provide me with all the information needed for the completion of this research.

TABLE OF CONTENTS

Content	Page no
ACKNOWLEDGMENTS	i
TABLE OF CONTENTS	ii
LIST OF ACRONYMS	v
LIST OF TABLES	vi
ABSTRACT	viii
CHAPTER ONE	
1. INTRODUCTION	1
1.1. Background of the study	1
1.2. Background of the Organization	2
1.3. Statement of the Problem	4
1.4. Research Questions	5
1.5. Objectives of the study	5
1.5.1. General objective	5
1.5.2. Specific Objectives	6
1.6. Definition of Terms	6
1.7. Significance of the study	7
1.8. Scope and limitations of the study	7
1.9. Organization of the paper	7
CHAPTER TWO	
2. LITERATURE REVIEW	9
2.1. Theoretical Literature	9

2.1.1.	Performance Appraisal	9
2.1.2.	Purpose of performance appraisal	11
2.1.3.	Who does performance appraisal?	13
2.1.4.	Steps in Appraising performance	13
2.1.5.	Common problems in performance appraisal	15
2.1.6.	Effective performance appraisal	16
2.1.7.	Reward	17
2.1.8.	Reward management	18
2.1.9.	Relationship between performance appraisal and Reward system	20
2.2.	Empirical Literature	21
2.3.	Synthesis of the literature reviewed	23

CHAPTER THREE

3.	RESEARCH DESIGN & METHODOLOGY	26
3.1.	The Research Approach	26
3.2.	The research Design	26
3.3.	Population and Sampling Technique	27
3.4.	Methods of data collection	28
3.4.1.	Instrument of data collection	28
3.4.2.	Procedures of data collection	28
3.5.	Methods of data analysis	29
3.6.	Ethical issues	29

CHAPTER FOUR

4.	DATA PRESENTATION, ANALYSIS & INTERPRETATION	30
4.1.	Background characteristics of the Employees	30
4.2.	Performance Appraisal and Reward Policy of ERCA	32

4.3.Methods used while Conducting Performance Appraisal in ERCA...	35
4.4.Reward Practice of ERCA.....	44
CHAPTER FIVE	
5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	48
5.1.Conclusion.....	48
5.2.Recommendations.....	50
References.....	51
Appendices.....	53
Declaration	
Endorsement..	

LIST OF ACRONYMS

EEO	Equal Employment Opportunity
ERCA	Ethiopian Revenue and Customs Authority
HR	Human Resource
HRM	Human Resource Management
PA	Performance Appraisal
SPSS	Software Package for Social Science (SPSS- Version 16.0)

LIST OF TABLES

Content	Page no
Table 4.1. Respondents' response regarding sex and age composition.....	30
Table 4.2. Respondents' level of agreement/disagreement regarding the Necessity of Performance Appraisal.....	32
Table 4.3. Respondents' level of agreement/disagreement regarding Performance Appraisal policy and Objectives of ERCA.....	33
Table 4.4. Respondents' level of agreement/disagreement regarding Performance Appraisal factors and goals.....	35
Table 4.5. Respondents' level of agreement/disagreement regarding Performance Appraisal with company strategy & rewarding system.....	36
Table 4.6. Respondents' level of agreement/disagreement regarding Design & Fairness of Performance Appraisal.....	38
Table 4.7. Respondents' level of agreement/disagreement regarding How Performance Appraisal is conducted.....	39
Table 4.8. Respondents' level of agreement/disagreement regarding Supervisor role in Performance Appraisal.....	40
Table 4.9. Respondents' level of agreement/disagreement regarding Performance Feedback.....	41
Table 4.10. Respondents' level of agreement/disagreement regarding Performance Appraisal Results.....	42

Table 4.11. Respondents' level of agreement/disagreement regarding Reward Practice of ERCA.....	44
Table 4.12. Respondents' level of agreement/disagreement regarding Reward type preference.....	45
Table 4.13. Respondents' level of agreement/disagreement regarding Satisfaction with current Performance appraisal system.....	46

ABSTRACT

The purpose of this research was to assess the current performance appraisal system and reward practice of Ethiopian Revenue and Customs Authority, focusing mainly on western Addis Ababa branch. Both primary and secondary data were collected using questionnaires, interview and written materials. Simple random sampling technique was used to collect primary data from 185 respondents, and descriptive statistics were used to analyze the data gathered. Results revealed that ERCA has implemented a performance appraisal system but it is not enforced properly. Most of the employees are not satisfied with the current appraisal system and it is mostly biased. There is also no financial/non-financial reward system that supports the current performance appraisal system and this is highly de-motivating employees. Based on these findings, it was suggested that Ethiopian Revenue and Customs Authority should give high emphasis in enforcing the performance appraisal policy for higher employee job satisfaction and for achieving its company goals in the long run. It should also implement an effective reward system as a motivation.

Key words: Performance, Performance Appraisal, Reward, Reward Practice

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the study

In today's rapidly changing environment, every organization should manage its assets effectively and efficiently, in order to be a competitor among rivals. Organizations must manage four types of assets: physical, financial, intangible and human assets. All these assets are crucial in varying degrees. However, the human assets are the "glue" that holds all the other assets together and helps to achieve organizational goals and objectives (Mathis & Jackson, 2006).

Studies show that the application of effective human resource management practice helps create competitive advantages. Some of the ways that organizations make human resources a core competency are attracting and retaining employees with unique professional and technical capabilities, investing in the training and development of those employees, and compensating them in ways that retain them and keep them competitive with their counterparts in other organizations (Mathis & Jackson, 2006).

Performance appraisal plays a key role to measure the employee's performance and help the organization to check the progress towards the desired goals and objectives. Now organizations are using performance appraisal as a strategic approach by coordinating the human resource (HR) functions and business policies. Performance appraisal help aligns individual goals and objectives with the organization goals.

Performance appraisal includes improving performance, motivating staff, allocating rewards, succession planning and career progression and improving communication between the managers and employees (Porter, Bingham & Simmonds, 2008). So, Performance appraisal is not just an evaluation that is done only once or twice a year. It deals with the overall development of employees.

With respect to motivating employees to improve their performance, only evaluating performance is not sufficient. It has to be backed with a good reward system. Reward system is an important tool that management can use to channel employee motivation in a desired ways. In other words, reward systems seek to attract people to join the organization to keep them coming to work and to perform high levels (Pratheepkanth, 2011). The reward system consists of all organization components including people, processes, rules and decision making activities involved in the allocation of compensation and benefits to employees in exchange for their organization (Armstrong, 2009).

Employee satisfaction has a major impact on the service provided by any service providing company. In order to accomplish this, a well-designed employee performance appraisal and reward practice system is vital. Therefore, this study was aimed to assess the performance appraisal and reward practice in Ethiopian Revenue and Customs Authority, focusing mainly on the western Addis Ababa branch.

1.2. Background of the Organization

The Ethiopian Revenues and Customs Authority (ERCA) is the body responsible for collecting revenue from customs duties and domestic taxes. In addition to raising revenue, it is responsible to protect the society from adverse effects of smuggling and contraband. It seizes and takes legal action on the people and vehicles involved in the

act of smuggling, any tax evasion and avoidance while it facilitates the legitimate movement of goods and people across the border (2017, May 03).

The Ethiopian Revenues and Customs Authority (ERCA) was established by the proclamation No .587/2008 on 14 July 2008, by the merger of the Ministry of Revenue, Ethiopian Customs Authority and the Federal Inland Revenue Authority for the purpose of enhancing the mobilization of government revenues, while providing effective tax and Customs administration and sustainability in revenue collection. The main objective of the establishment of ERCA was to streamline the public revenue generation function by bringing the relevant agencies under the umbrella of the central revenue collector body. This structuring aimed at improving service delivering, facilitating trade, enforcing the tax and customs laws and thereby enhancing mobilization of Government revenue in sustainable manner (2017, June 29).

ERCA has the following objectives: (2017, June 29).

- Establish modern revenue assessment and collection system; and render fair, efficient and quality service;
- Assess, collect and account for all revenues in accordance with tax and customs laws set out in legislation;
- Equitably enforce the tax and customs laws by preventing and controlling contraband as well as tax fraud and evasion;
- Collect timely and effectively all the federal and Addis Ababa tax revenues generated by economy, and
- Provide the necessary support to the regional states with the objective of harmonizing federal and regional tax administration systems.

1.3.Statement of the problem

Performance appraisal is a very important but mostly overlooked concept. If it is applied well it can help the organization to achieve its objectives through employee satisfaction.

According to Kohn (1993) there are several challenges regarding the implementation and practice of performance appraisal. Performance appraisal and rewards serve more to punish and de-motivate employees, than to positively motivate them. Moreover, performance appraisal can yield erroneous results if the appraisal form was designed improperly, the standards of measuring performance are irrelevant or if the rater was biased. Therefore, the review may be influenced by many non-performance factors such as employee 'likeability', personal prejudices, ease of management, and/or previous mistakes or successes.

Employee satisfaction is very important to any service providing company, to reach its company objectives. Hence, to improve employees' productivity and belongingness: applying effective motivational schemes should be developed based on employee's performance results.

Many writers in the human resource management like (Bhatic, 2003 and Goyal, 2002, cited on Melese, 2013) argue that if performance appraisal is conducted appropriately, it will positively contribute to the performance of employees and improves the performance of the organization. If not communicated properly, the reverse will happen to the employees' as well as to the organization. For this reason, organizations need to have clear criteria for appraising the performance of employees in an objective manner as much as possible and administer benefits according to results.

There are extensive researches done on the area of performance appraisal system and its link to other human resource management practice out comes like turn over, employees' job performance and employees' job engagement in other institutions. But there is little well comprehensive research done that shows the influence of reward management practice on performance appraisal system and on the satisfaction of employees towards a job in service providing sector in Ethiopia.

Thus, this research was designed to assess the performance appraisal and reward system policy of Ethiopian Revenue and Customs Authority (ERCA), to assess whether the performance appraisal and reward practice of ERCA is well guided by the policy of ERCA or not and to point out possible solutions to the major performance appraisal and reward system problems of ERCA.

1.4. Research Questions

This research tried to answer the following questions

- What is the performance appraisal practice of ERCA that is currently being used?
- Is the performance appraisal and reward system of ERCA well guided by the performance appraisal policy of ERCA?
- What is the reward practice of ERCA?

1.5. Objectives of the study

This research had the following general and specific objectives.

1.5.1. General Objective

The general objective of this research was:

- To assess the performance appraisal and reward practice of Ethiopian Revenue and Customs Authority.

1.5.2. Specific objectives

The specific objectives of this research were the following:

- To describe the performance appraisal practice Ethiopian Revenue and Customs Authority currently uses
- To assess whether the performance appraisal and reward system of ERCA is well guided by the performance appraisal policy of ERCA or not
- To describe the reward practice of Ethiopian Revenue and Customs Authority
- To point out some possible solutions to the major performance appraisal and reward system problems of Ethiopian Revenue and Customs Authority

1.6. Definition of Terms

- **Core competency** is a unique capability that creates high value and differentiates an organization from its competition (Mathis & Jackson, 2006)
- **Performance Appraisal** – is the identification, measurement and management of employee performance in organizations (Gomez-Mejira, Balkin & Cardy, 2001)
- **Appraisee** - Employee
- **Appraiser** – Any close supervisor or manager responsible for evaluating and monitoring the performance of an employee under his/her supervision

1.7. Significance of the study

This research is expected to fill the research gap identified above. It can help the company to have a good understanding about its current practice of performance appraisal and reward practice and to improve and make the necessary adjustments based on the findings. Additionally, it will be a stepping stone for future researches.

1.8. Scope and limitations of the study

Due to time constraints, the research was only limited to Ethiopian Revenue and Customs Authority, Western Addis Ababa branch, that is located around Kazanchis. The research assessed and analyzed the performance appraisal and reward practice of the company, in that particular branch.

Although the research is believed to reach its aims, it has some restrictions. Since this research was conducted only in one branch, the result may not be applicable to all staff in the organization. The time given for the research work was not adequate enough to supplement the study exhaustively and hence, the study by no means claims to be conclusive. It would rather serve as a spring board for further studies in the area.

1.9. Organization of the paper

The paper consists of five chapters. Chapter one presents background of the study, statement of the problem, research questions, objectives of the study, definition of terms, significance of the study, and scope and limitations of the study. Chapter two reviews the most significant theoretical and empirical studies. Chapter three presents

methodology of the study. Chapter four provides the interpretation and analysis of the data collected and finally, chapter five gives conclusions and recommendations.

CHAPTER TWO

2. LITERATURE REVIEW

This chapter presents the theoretical and empirical literatures and the synthesis of the literature reviewed.

2.1. Theoretical Literature

Human resource is one of the major types of resource for an organization. A proper management of this resource plays a vital role for a success of an organization. It helps the organization to achieve its goals properly. Performance appraisal falls in the middle of performance management. It is a means of measuring and evaluating the work done by an employee. But performance appraisal is not enough to motivate employees. A well designed reward management system is also important to help keep employees satisfied and motivated to pursue theirs and the company's goals. This chapter tried to give an insight about performance appraisal and reward practices and their role in an organization.

2.1.1. Performance Appraisal

Performance appraisal plays a vital role in human resource management. The concept of performance appraisal is often confused with the concept of performance management. "The key to overcoming this confusion is to view performance management as an independent activity, but as a set of integrated processes aligning several elements of effective people management." (Porter, Bingham, & Simmonds, 2008). So, first, let us define performance management.

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

According to Ivancevich (2003), “Performance management is a process by which executives, managers and supervisors work to align employee performance with the firm’s goals.”

A performance management system should consist of three parts. (Bloisi, 2007)

1. It specifies which aspects of performance are relevant to the job. This can be achieved through the use of a job analysis
2. It measures the relevant aspects of employee performance. One method of doing this is through the performance appraisal system
3. It provides feedback to employees so that they can adjust their performance to match organization’s goals.

Generally, performance management is a continuous and a wide concept that deals with the general management of employees, in order to help them achieve the general objective of the organization.

So, what exactly is performance appraisal? It is one of the major parts of performance management system. “Performance appraisal can be seen as an objective method of judging the relative worth or ability of an individual employee in performing his tasks” (Saiyadain, 2003). “It is the activity used to determine the extent to which an employee performs work effectively” (Ivancevich, 2003).

Performance appraisal is part of the performance management process and needs to be seen as a constructive and fair process that can enable both the people and the organization to develop. (Bloisi, 2007)

Performance appraisal involves

- Setting work standards
- Assessing the employee's actual performance relative to these standards; and,
- Providing feedback to the employee with the aim of motivating that person to eliminate deficiencies or to continue to perform above par. (Dessler, 2003)

2.1.2. Purpose of performance appraisal

According to Cascio (2004), performance appraisal serves two major purposes in organizations:

1. To improve the job performance of employees, and
2. To provide information to employees and managers for use in making decisions.

Bloisi (2007) also states that, "the performance appraisal process should establish employees' goals and be linked to the organization's strategic goals. Carried out correctly, the performance appraisal process should:

- Tell top performers that they are valued by their organization
- Ensure that all employees doing similar jobs are evaluated using the same standards
- Help an organization identify its strongest and weakest employees

- Legally justify HRM decisions such as promotions, bonuses, discipline and redundancies
- Encourages collaboration and co-operation

While performance appraisal comes in various different forms, it will typically involve a formal review of an employee's work over a set of time – normally a year. Appraisals tend to have two parts-the first is looking back over the past year to review performance and objectives; and the second part is looking forward to set objectives and targets for the next year and to identify learning and development needs. It provides the opportunity for the employee and manager to sit down and have a dialogue about performance and development at least on a yearly basis (Porter, Bingham & Simmonds, 2008).

Key aims for Performance appraisal would include the following: (Porter, Bingham & Simmonds, 2008)

- **Improving performance** – in the absence of clear feedback, it is difficult for people to improve, at least in the way the organization requires. Performance appraisal provides an opportunity for managers to reinforce good performance by praise and recognition. Identifying gaps in performance and providing appropriate learning opportunities also helps to improve performance. Equally important is the clarification of goals, roles and standards.
- **Motivating staff** – recognition, knowledge of results, feedback and agreeing SMART goals are all factors that contribute to improving motivation (Locke and Latham, 1990, cited on , Porter, Bingham & Simmonds, 2008)
- **Allocating rewards** – the assessment of performance made in the appraisal interview can form the basis for decisions about allocations to pay and incentives.

- **Succession planning and career progression** – identifying those with potential and ensuring that they have the right development opportunities
- **Improving communication between managers and managed** – providing a two-way channel of communication.

2.1.3. Who does performance appraisal?

Appraising performance is both a difficult and an essential supervisory skill. The supervisor – not HR – usually does the actual appraising, and a supervisor who rates his or her employees too high or too low is doing a disservice to them, to the company, and to him-or herself. Supervisors must be familiar with basic appraisal techniques, understand and avoid problems that can cripple appraisals, and know how to conduct appraisal fairly (Dessler, 2003).

The HR department serves a policy-making and advisory role. In most firms, the HR department provides advice and assistance regarding the appraisal tool to use, but leaves final decisions on procedures to operating division heads. In the rest of the firms, HR prepares detailed forms and procedures and insists that all departments use them. HR is also responsible for training supervisors to improve their appraisal skills. Finally, HR is responsible for monitoring the appraisal system and, particularly, for ensuring that the format and criteria being measured comply with EEO laws and aren't outdated (Dessler, 2003).

2.1.4. Steps in Appraising Performance

The performance appraisal process contains three steps (Dessler, 2003):

- **Define the job**

Making sure that you and your subordinate agree on his or her duties and job standards

- **Appraising performance**

Comparing your subordinate's actual performance to the standards that have been set: this usually involves some type of rating form

- **Provide feedback**

Performance appraisal usually requires one or more feedback sessions. Here the two of you discuss the subordinate's performance and progress, and make plans for any development required

When appraisal fails, they do so for reasons that parallel these three steps-defining the job, appraising performance, and providing feedback. Some fail because subordinates don't know ahead of time exactly what you expect in terms of good performance. Other fail because of problems with the forms or procedures used to actually appraise the performance: a lenient supervisor might rate as "high", for instance, subordinates who are actually substandard. Other problems, like arguing and poor communication, undermine the interview feedback session. Let's look first at defining your expectation (Dessler, 2003).

Clarifying what you expect is thicker than it may appear. Employers usually write job descriptions not for specific jobs, but for group of jobs, and the descriptions rarely include specific goals. Therefore expectations should be quantified. The most straightforward way to do this is to get measurable standard for each expectation. The point is this: Employees should always know ahead of time how and on what basis they are going to be appraised (Dessler, 2003).

2.1.5. Common problems in Performance Appraisal

Making a judgment about another person's performance, and giving them that feedback honestly is something that most people find challenging; they will often take steps to avoid, or to dilute, any critical feedback. Overcoming this is a critical challenge. Other common problems that occur with appraisals include (Porter, Bingham & Simmonds, 2008):

- **Lack of regular feedback** – instead of tackling difficult issues at the right time, feedback is stored and given in one piece at the appraisal time;
- **Collecting comprehensive evidence about performance** – appraisers do not always work with the staff they are appraising, making it sometimes difficult to collect evidence about performance;
- Lack of follow-up;
- Time pressures;
- It is often viewed as a tedious routine;
- Filling out the forms and dealing with the paper work becomes more important than the motivational aspects of the process;
- **Focus on the negative** – a large proportion of time in the appraisal spent talking about the things that have gone wrong rather than accentuating the positive aspects of performance;
- Inadequately trained appraisers;
- It can be complex to administer

2.1.6. Effective Performance Appraisal

The issues raised above essentially focus on the problems of reliability and validity of performance appraisal. The following steps can help improve the system (Saiyadain, 2004).

- The supervisors should be told that performance appraisal is an integral part of their job duties and that they themselves would be evaluated on how seriously they have taken this exercise
- To help them do this task well, they should be provided systematic training on writing performance reports and handling performance interviews.
- Conduct job evaluation studies and prepare job descriptions/roles and develop separate forms for various positions in the organization.
- Design the system as simple as possible so that it is neither difficult to understand nor impossible to practice. Patz (1975, cited on Saiyadain, 2004) suggested four basic steps for effective form of performance appraisal: (a) Keep it simple by having just fewer categories of ratings, (b) keep it separate from reward and promotions, (c) keep it contained by restricting it to appraisal of past performances and an estimate of potential, and (d) keep it participative by giving due weight age to the subordinate's point of view
- In any appraisal process, three elements are involved (Niazi, 1979, cited on Saiyadain, 2004). These are administrative matters related to appraisal, appraisal itself and identification of potential. Niazi (1982, cited on Saiyadain, 2004) points out that in performance appraisal there are three subsystems and there is need to delink them from each other. In fact, he goes to the extent of suggesting that each one of these subsystems should be handled by separate individuals. One distinct advantage

foreseen in any such attempt is that to some extent the 'string pulling' can be minimized because the subsystems are managed independently leading to greater effectiveness of performance appraisal.

- Generally after the appraisal interview, the employee is left alone to improve his performance on the dimensions discussed in the interview till his performance comes up for evaluation next year, And with the interview over, the supervisor may think that his job is over. In effect, his real job begins from that moment. The supervisor should monitor now and then whether the improvement in performance in the areas found weak is taking place or not and, if not help the employee to achieve the required improvement. Malhotra (1982, cited on Saiyadain, 2004) suggested a performance improvement model which necessitates supervisors to monitor the performance every four months on the achievement of targets given key factors determining success and making necessary mid-course corrections.
- Finally, reviewing, the appraisal system every now and then helps updating it, finding the problems of the supervisors, and making suitable evolutionary changes in it. This is the most important factor in making performance appraisal effective. As time passes changes in technology and work environment necessitate changes in tasks, abilities and skills to perform these tasks. It changes in the format are not incorporated the reports may not generate the kind of data needed to satisfy appraisal objectives.

2.1.7. Reward

Reward is compensation given to an employee in return for performance. It can be monetary, in the form of remuneration or non-monetary. Monetary rewards are clearly important as few people can afford to work for no pay; however it is also important that any remuneration is fair and equitable. Yet money does not necessarily make people work harder. In other words, it is not necessarily a motivator. It is often the non-monetary

awards that employee value more, such as career and social awards. Opportunities for job security, career growth, praise and recognition may be far more important to an employee than a high income in a boring, repetitive or undervalued job. Therefore, it is important for employees to be aware of the total reward system that can be offered to an employee. (Bloisi, 2007)

Monetary compensation is important, however, as it ensures that (Bloisi, 2007):

- The pay is sufficient to attract the right people to the organization
- The pay is perceived as equitable so that good employees can be retained
- The rewards ensure that the organization can maintain its competitive advantage
- The rewards are available to increase productivity and profitability
- Legal obligations are met, such as equal pay for equal work
- The organizational pay structure is clearly defined and transparent to avoid criticism that could lead to legal action

2.1.8. Reward Management

Reward management is concerned with the formulation and implementation of strategies and policies that aim to reward people fairly, equitably and consistently in accordance with their value to the organization. It deals with the design, implementation and maintenance of reward processes and practices that are geared to the improvement of organizational, team and individual performance (Jha, 2005).

The strategic aim of reward management is to develop and implement the reward policies, processes and practices required to support the achievement of the organization's business goals. The specific aims are to (Jha, 2005):

- Create total reward processes that are based on beliefs about what the organization values and wants to achieve;
- Reward people for the value they create;
- Align reward practices with both business goals and employee values; as Duncan Brown emphasizes, the alignment of your reward practices with employee values and needs is every bit as important as alignment with business goals, and critical to the realization of the latter;
- Reward the right thing to convey the right message about what is important in terms of expected behaviors and outcomes;
- Facilitate the attraction and retention of the skilled and competent people in the organization needs, thus ‘winning the war for talent’;
- Help in the process of motivating people and gaining their commitment and engagement;
- Support the development of a performance culture;
- Develop a positive employment relationship and psychological contract

To achieve these aims, reward management must be strategic in the sense that it addresses longer-term issues relating to how people should be valued for what they do and what they achieve. Reward strategies and the processes that are required to implement them have to flow from the business strategy (Jha, 2005).

They have to be integrated with other human resource management (HRM) strategies, especially those concerning human resource development – reward management is an integral part of an HRM approach to managing people. Effective reward management is based on a well-articulated philosophy – a set of beliefs and guiding principles that are consistent with the values of the organization and to help to enact them (Jha, 2005).

2.1.9. Relationship between performance appraisal and reward system

It is the task of every organization to enhance its organizational performance. One of the best ways to put forth this is to put in place a proper performance based reward system. Performance is based on three factors: That is ability, motivation and resources. This implies that for greater work enhancement, all the aforesaid factors must be high. In other words, organizational rewards must be linked to work performance to achieve better or improved organizational results provided that the organization have enough resources and employees are qualified or trained to carry out their jobs. This implies that if work members and work teams are rewarded according to their performance, they will make significant contributions to their organizations. It is thus of fundamental importance for every organization to decide how best to reward its employees and on what basis will they be rewarded (Hamukwaya & Yazdanifard, 2014).

Numerous studies found a positive relationship between performance related reward system and work performance. If an employee sees that another worker is compensated more or equal reward for doing less work, it will have an impact on his/her level of satisfaction in the workplace. It is therefore an employer's duty to see to it that there is fairness that will help employees to be treated equitably. Moreover, work performance and an engaged workforce are complementary for maximizing organization success. Motivated employees tend to recommend their organization as a good place, given a high level of satisfaction (Hamukwaya & Yazdanifard, 2014).

Rewards that are performance based will drive not only employees but also work groups, work teams, departments, committees to work toward achieving organizational goals. This implies that several team members will share information with no hesitation because they all have one goal, which is achieving desired objectives in return of better and improved rewards. To put this in a nutshell, performance-related reward systems are the

“engine” that drives to excellence in the organizations (Hamukwaya & Yazdanifard, 2014).

The most fundamental benefit that employees seek in the workplace is satisfaction, while employers seek maximum work performance. However, for complementary results, the enforcement of a proper performance related reward system with proper evaluation measures must be put in place. Moreover, there is a positive relationship between performances related rewards and work performance. This is sought through joint reward systems, monetary and non-monetary reward systems. In the light of the above, one can deduce that putting a proper performance related reward system in place is a silver bullet for any organization to achieve its set goals, objectives, strategies, vision and mission (Hamukwaya & Yazdanifard, 2014).

2.2. Empirical literature

Many researches have been conducted throughout the years regarding performance appraisal and reward systems, both internationally and locally.

Dechev (2010) did a research on employees’ opinions about the performance appraisal and their attitude towards work, taking the case of “HSL Bulgaria” Company, which is part of the central and Eastern European Retail market unit. Based on his findings he has concluded the following.

- Effective appraisal process requires serious preparation work to be done by the employee and the manager. They should know why appraisal exists, what the objectives and expected results are.
- Discussion around staff development as part of the performance appraisal process should increase. The discussion should allow time both parties to

discuss development areas and to design and agree learning interventions that will help people to address their current skill gaps.

- Credible and specific feedback could play a positive role in boosting individual confidence and motivation. Special attention must be given when delivering negative feedback in order to get credibility and use it constructively for future performance improvement.
- Managing expectations and performance of another person is not an easy task because it requires from line manager to know how to achieve goals through other people. They should know what factors could be motivating for each individual, how to coach and develop as well how to resolve conflict situation.
- The performance should be measured against defined success criteria, following the same format for everyone.
- Best practice requires the evaluation of performance to take place on a regular basis. Mostly suggested are quarterly performance updates. Reviewing performance on continuous basis will allow a bad performance or existing issues to be identified and corrective measures to be designed at an early stage.

Recent studies in Ethiopia show that apart from a good performance appraisal system, designing a good reward management system is also important for ultimate employee satisfaction. To name a few, Getachew (2016) studied the relationship between rewards system and employee engagement: a case study of commercial bank of Ethiopia – Credit management and Misganaw (2016) did a research on the relationship between reward management practices to employees' job satisfaction in Ethiopian Insurance Corporation. They both concluded that Organization need to motivate employees intrinsically and extrinsically to help them engage in their jobs, so that they can start to work hard, be loyal and honest with their job responsibilities.

organizations should try their best to keep employees satisfied by providing reasonable amount of extrinsic and intrinsic rewards, this possibly decrease the tendency of its employees' to shift to other similar industries and become their own competitors. Because, employees are strategic assets and retaining them helps the organization to achieve its competitive advantages.

The management should be actively involved in sound decision with the concerned body and strive to accomplish that the existing reward policy of the company need continuous revision, revisiting and restructuring to ensure their fairness and competitiveness in the market.

Many researches have also been conducted with regard to the perception of performance appraisal, effectiveness of performance appraisal and relationship between reward and different factors like job satisfaction, motivation, and employee engagement and so on, in the case of different companies. But not much research has been conducted on performance appraisal with regard to reward system. So the main purpose of this research was to fill the gap in this area and assessed the performance appraisal and reward practice of Ethiopian Revenue and Customs Authority.

2.3.Synthesis of the literature reviewed

Performance appraisal is one of the major parts of human resource management. Major purposes of performance appraisal includes: improving performance, motivating staff, allocating rewards, succession planning and career progression, and improving communication between managers and managed – providing a two-way channel of communication. The supervisor – not HR – usually does the actual appraising. The

performance appraisal process contains three steps: define the job, appraising performance and provide feedback.

Common problems that occur with appraisals include: lack of regular feedback, unable to collect comprehensive evidence about performance, lack of follow-up, time pressures, it is often viewed as a tedious routine, filling out the forms and dealing with the paper work becomes more important than the motivational aspects of the process, focus on the negative, inadequately trained appraisers and it can be complex to administer.

In order to improve performance appraisal the following should be considered. The supervisors should consider it as part of their job duties; they should be given adequate training on how to conduct performance appraisals, develop separate forms for various positions in the organization, design the system as simple as possible to make it simple to implement, the supervisor should monitor now and then whether the improvement in performance in the areas found weak is taking place or not and, if not, help the employee to achieve the required improvement. Finally, reviewing, the appraisal system every now and then helps updating it, finding the problems of the supervisors, and making suitable evolutionary changes in it. This is the most important factor in making performance appraisal effective.

In order to apply performance appraisal effectively, application of a good reward management system is important. The main purposes of reward management are creating total reward processes that are based on beliefs about what the organization values and wants to achieve, reward people for the value they create, align reward practices with both business goals and employee values, reward the right thing to convey the right message about what is important in terms of expected behaviors and outcomes, facilitate

the attraction and retention of the skilled and competent people in the organization needs, help in the process of motivating people and gaining their commitment and engagement, support the development of a performance culture and develop a positive employment relationship and psychological contract.

CHAPTER THREE

3. RESEARCH DESIGN & METHODOLOGY

This chapter addresses the research design and methodology used in the gathering of data for this study. It contains the research approach, research design, population and sampling techniques, instrument of data collection, procedures of data collection, methods of data analysis and ethical issues.

3.1. The research approach

To collect the required data, both primary data and secondary data sources were employed. In terms of approach, both qualitative and quantitative types of data were collected. To collect primary data both questionnaires and interview tools were employed. Quantitative data was collected from the staff of ERCA, western Addis Ababa branch, by using close-end questionnaires. Qualitative data was collected through open end questions on the questionnaires and personal interview with 2 management staffs, selected based on their positions. To collect secondary data the researcher used the company official website, employee profile data and performance appraisal template collected from the Human Resource department of ERCA.

3.2. The research design

In order to meet the objective of this research the researcher applied descriptive survey design. This method helps to get a general understanding of the current problem by

studying the current situation, the nature of the prevailing condition, practices and trends. This method has a potential to make detail description about the existing phenomena, justify current condition and practices to make good solution for improvement. So, since the purpose of this study was to describe about the current performance appraisal and reward practice of ERCA, descriptive research type has been selected.

3.3. Population and sampling techniques

Ethiopian Revenue and Customs Authority, western Addis Ababa branch, has 394 employees, according to the human resource department data. For the purpose of this study the researcher took all employees as a total population. Based on Yamane formula to determine sample size for homogeneous population, with 5% margin of error, the study's sample size of 198 is fair enough to represent the population.

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

$$n = \frac{394}{1 + 394(0.05)^2}$$

$$\underline{\underline{n = 198}}$$

Where, n = Correct sample size

N = Population Size

e = Margin of error

Total of 198 questionnaires were distributed but only **185** questionnaires were collected. The questionnaires were distributed for randomly selected employees (appraisees), and

close supervisors (appraisors) and, in addition, 2 higher management officials were selected for personal interview, based on their positions.

3.4.Methods of data collection

While undertaking the research, the researcher employed different data collection methods.

3.4.1. Instrument of data collection

The major tools employed to collect data for the study were questionnaire, interview, and review of relevant documents. Questionnaires were used to collect data from the employee of Ethiopian Revenue and Customs authority, western branch, in order to obtain first-hand information. It consists of both close and open ended questions. So the researcher was able to draw not only factual information but also the respondents' opinion and views. Interview was conducted with 2 higher officials, who were selected based on their positions, to collect more supplementary opinion so as to crosscheck the responses obtained by using questionnaire. In addition to questionnaire and interview the human resource data and different documents were examined.

3.4.2. Procedures of data collection

After reading the available related literature on the issues of performance appraisal system, the basic questions of the study was established. Based on these basic questions

and the review of the literature of the study, questionnaires and interview questions were designed and distributed to employees of Ethiopian Revenue and Customs Authority (Western Addis Ababa branch).

3.5. Methods of data analysis

The data collected through questionnaires were coded, tabulated, and interpretation was made based on the analysis made by descriptive statistics, with the help of the Software Package for Social Science (SPSS- Version 16.0). Descriptive statistics is the analysis of data that helps describe, show or summarize data in a meaningful way. Qualitative data that were collected through interview and open ended questions of the questionnaire were presented and used as supplementary to the quantitative data gathered through questionnaire.

3.6. Ethical issues

The study was conducted in such a way that it is considered ethical responsibility that is being honest about what exactly the study is all about and what it will intend to measure. The respondents were assured that the information that they provide were confidential and only be used for the intended purpose.

CHAPTER FOUR

4. DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This chapter presents the analysis and interpretation of data's gathered through questionnaire and interview. In total, 198 questionnaires were distributed to the employees of Ethiopian Revenue and Customs Authority, Western Addis Ababa Branch. Out of the 198 questionnaires 185(93%) were filled and returned by respondents, the rest 13(6.57%) of the questionnaires were not returned. Interview has been conducted with 2 higher officials. Close ended questions in the questionnaire were analyzed using quantitative method and Interview and open ended questions were analyzed through qualitative method.

4.1. Background characteristics of the Employees

Table 4.1. Respondents' response regarding Sex and age composition

Statement	Response	Frequency	Percentage (%)
Sex	Male	97	52.4
	Female	88	47.6
	<i>Total</i>	<i>185</i>	<i>100</i>

Age	25 & Below	73	39.5
	26 – 30	93	50.3
	31 – 40	15	8.1
	41 – 50	4	2.2
	Above 50	-	-
	Total	185	100
Educational Background	<i>Educational Background</i>		
	Certificate	-	-
	College Diploma	4	2.2
	Bachelor's Degree /First Degree	173	93.5
	Masters / Second Degree & Above	8	4.3
	Total	185	100
Employee Category	Appraiser	109	58.9
	Appraisee	76	41.1
	Total	185	100
Experience	5 years or below	151	81.6
	6 - 10 years	27	14.6
	11 - 20 years	7	3.8
	Above 20 years	-	-
	Total	185	100

Based on the above data, 52.4% of the respondents were male and 47.6% of the respondents were female. This shows that majority of the respondents were male. With regard to their age composition, majority of the respondents (50.3%) were between the ages of 26 – 30 years of age, 39.5% of the respondents were 25 years or below, 8.1 %

were between 31 and 40 years and 2.2% were between 41 and 50 years of age. This implies that majority of the respondents were under 30 years of age.

According to the above table, 93.5% of the respondents have Bachelor’s or first degree. 4.3% of the respondents have master’s or second degree and above and 2.2% have college diploma. This shows that majority of the respondents are holders of Bachelor’s or first degree. The data shows that 41.1% of the respondents are in appraiser position and 58.9% are in the appraisee position. 81.6% of the respondents have company experience of 5 years or below, 14.6% of respondents have 6 to 10 years of experience and 3.8% have experience of 11 to 20 years. So majority of the respondents have company experience of 5 years or below.

4.2. Performance appraisal and reward policy of ERCA

Table 4.2. Respondents' level of agreement/disagreement regarding the necessity of performance appraisal

Statement	Response	Frequency	Percentage (%)
<i>I believe that it is necessary for performance appraisal to be conducted in an organization</i>	Strongly Agree	59	31.9
	Agree	95	51.4
	Neutral	18	9.7
	Disagree	13	7
	Strongly Disagree	-	-
	Total		185

Based on the data collected, 51.4% of the respondents believed that it is necessary for performance appraisal to be conducted in an organization. 31.9% strongly agree, 9.7% has a neutral opinion and only 7% disagree. This shows that performance appraisal is the most important function of Human Resource Management.

According to Gomez-Mejira, Balkin & Cardy (2001), organizations usually conduct appraisal for administrative and /or developmental purposes. Performance appraisals are used administratively whenever they are the basis for a decision about the employee's work conditioned, including promotions, termination, and rewards. Developmental uses of appraisal, which are geared toward improving employees' performance and strengthening their job skills, include counseling employees on effective work behaviours and sending them for training.

Table 4.3. Respondents' level of agreement/disagreement regarding the performance appraisal policy and objectives of ERCA

Statement	Response	Frequency	Percentage (%)
There is a clear PA policy in ERCA	Strongly Agree	11	5.9
	Agree	84	45.4
	Neutral	40	21.6
	Disagree	38	20.5
	Strongly Disagree	12	6.5
	Total	185	100
The PA of ERCA is based on clear and measurable objectives	Strongly Agree	15	8.1
	Agree	65	35.1
	Neutral	40	21.6
	Disagree	58	31.4
	Strongly Disagree	7	3.8
	Total	185	100

The respondents were asked whether there is a clear performance appraisal policy in ERCA or not, and the majority (45.4%) agreed that there is a clear policy. 21.6% have a neutral opinion, 20.5% disagree, 6.5% strongly disagree and 5.9% strongly agree. And when asked whether the performance appraisal of ERCA is based on clear and measurable objectives, 35.1% of the respondents agreed that it is based on clear and measurable objectives. 31.4% disagree, 21.6% have a neutral opinion, 8.1% strongly agree and 3.8% strongly disagree. This means that ERCA has a clear policy that states clear and measurable objectives.

According to Mathis & Jackson (2006), Realistic, measurable and clearly understood performance standards benefit both organizations and employees. Well-defined standards ensure that everyone involved knows the levels of accomplishment expected.

4.3. Methods used while conducting performance appraisal in ERCA

Table 4.4. Respondents' level of agreement/disagreement regarding the performance appraisal factors and goals

Statement	Response	Frequency	Percentage (%)
The factors used to measure your performance focus on the most important aspects of your job.	Strongly Agree	30	16.2
	Agree	75	40.5
	Neutral	37	20
	Disagree	36	19.5
	Strongly Disagree	7	3.8
	Total		185
Performance Goals are clearly defined in the appraisal process	Strongly Agree	8	4.3
	Agree	82	44.3
	Neutral	57	30.8
	Disagree	32	17.3
	Strongly Disagree	6	3.2
	Total		185

According to the above data, the majority of the respondents (40.5%) agreed that the factors used to measure their performance focus on the most important aspects of their job. 20% had a neutral opinion, 19.5% disagreed, 16.2% strongly agreed and 3.8% strongly disagreed. They also agreed (44.3%) on the fact that the performance goals are clearly defined in the appraisal process. 30.8% had a neutral opinion, 17.3% disagreed, 4.3% strongly agreed and 3.2% strongly disagreed. This shows that the employees are

being evaluated based on clearly defined appraisal process and based on their work performed.

Table 4.5. Respondents' level of agreement/disagreement regarding Performance appraisal with company strategy and rewarding system

Statement	Response	Frequency	Percentage (%)
The performance appraisal process supports the Company's Strategy	Strongly Agree	44	23.8
	Agree	87	47
	Neutral	28	15.1
	Disagree	26	14.1
	Strongly Disagree	-	-
	Total	185	100
The PA system of ERCA is conducted based on the PA policy of the company	Strongly Agree	37	20
	Agree	72	38.9
	Neutral	44	23.8
	Disagree	32	17.3
	Strongly Disagree	-	-
	Total	185	100
The PA policy is supported by a financial/non-financial rewarding system	Strongly Agree	26	14.1
	Agree	61	33
	Neutral	47	25.4
	Disagree	29	15.7
	Strongly Disagree	22	11.9
	Total	185	100

According to the response the researcher got from the collected data, 47% of the respondents agreed that the performance process supports the company's strategy. 23.8% strongly agreed, 15.1% had a neutral opinion and 14.1% disagreed. 38.9% said that the performance appraisal system of ERCA is conducted based on the performance appraisal of the company. 23.8% had a neutral opinion, 20% strongly agree and 17.3% disagreed. 33% agreed that the performance appraisal policy of ERCA supports financial/non-financial rewarding system. 25.4% had a neutral opinion, 15.7% disagreed, 14.1% strongly agree and 11.9% strongly disagreed. This indicates that the performance appraisal supports the strategy of the company and the policy supports financial/non-financial rewarding system.

Bloisi (2007) states that how successful an organization is in achieving the aims of its appraisal system depend on its ability to link this with business objectives. When performance appraisals are integrated with strategic objectives managers are more able to link the goals of an individual with those of the organization. The process should also provide a means of measuring the contribution of each work unit and each employee. A good appraisal system should also enable decisions to be made that will enhance the organization's future performance, such as assessing skill levels and identifying training needs.

Table 4.6. Respondents' level of agreement/disagreement regarding design and fairness of performance appraisal

Statement	Response	Frequency	Percentage (%)
The PA was designed through the involvement of employees	Strongly Agree	20	10.8
	Agree	77	41.6
	Neutral	19	10.3
	Disagree	59	31.9
	Strongly Disagree	10	5.4
	Total	185	100
PA in my company is fair	Strongly Agree	8	4.3
	Agree	43	23.2
	Neutral	52	28.1
	Disagree	72	38.9
	Strongly Disagree	10	5.4
	Total	185	100

According to the majority of the respondents (41.6%), the performance appraisal was designed through the involvement of employees. 31.9% disagreed, 10.8% strongly agreed, 10.3% had neutral opinion and 5.4% strongly disagreed. Employee involvement is important in any performance appraisal, so that the review can be constructive and open, and future objectives are agreed that are relevant, achievable and owned by the individual. This will help employee buy-in to the process and commitment to achievement of any objectives set (Murtan, Inman & Osullivan, 2010).

But when asked about the fairness of the performance appraisal of ERCA, the majority of respondents (38.9%) disagreed. 28.1% had a neutral opinion, 23.2% agreed, 5.4% strongly disagreed and 4.3% strongly agreed. This shows that most of the employees are dissatisfied with the performance appraisal of the company.

Table 4.7. Respondents' level of agreement/disagreement regarding how performance appraisal is conducted

Statement	Response	Frequency	Percentage (%)
I receive specific and accurate feedback from my manager/supervisor on my past performance	Strongly Agree	4	2.2
	Agree	98	53
	Neutral	30	16.2
	Disagree	50	27
	Strongly Disagree	3	1.6
	Total	185	100
The Performance Appraisal System helps identify areas for development	Strongly Agree	42	22.7
	Agree	84	45.4
	Neutral	18	9.7
	Disagree	38	20.5
	Strongly Disagree	3	1.6
	Total	185	100
All the information obtained from PA is confidential	Strongly Agree	17	9.2
	Agree	60	32.4
	Neutral	52	28.1
	Disagree	46	24.9
	Strongly Disagree	10	5.4
	Total	185	100

The above data shows that most of the respondents (53%) agreed that they receive specific and accurate feedback from their managers/supervisors on their past

performance. 27% disagreed, 16.2% had a neutral opinion, 2.2% strongly agreed and 1.6% strongly disagreed. The majority (45.4%) also said that the performance appraisal system helps identify areas for development. 22.7% strongly agreed, 20.5% disagreed, 9.7% had a neutral opinion and 1.6% strongly disagreed. 32.4% agreed that all the information obtained from performance appraisal is confidential. 28.1% had a neutral opinion, 24.9% disagreed, 9.2% strongly agreed and 5.4% strongly disagreed. This shows that, the respondents receive specific and accurate feedback from their manager/supervisor on their past performance, the Performance Appraisal System helps identify areas for development and all the information obtained from Performance appraisal is confidential.

Table 4.8. Respondents' level of agreement/disagreement regarding supervisor role in performance appraisal

Statement	Response	Frequency	Percentage (%)
My supervisor possesses adequate knowledge and training to properly implement my performance evaluation	Strongly Agree	16	8.6
	Agree	68	36.8
	Neutral	31	16.8
	Disagree	47	25.4
	Strongly Disagree	23	12.4
	Total	185	100
My supervisor utilizes the evaluation system to assess my performance objectively and without bias	Strongly Agree	12	6.5
	Agree	57	30.8
	Neutral	42	22.7
	Disagree	67	36.2
	Strongly Disagree	7	3.8
	Total	185	100

Based on the above data, 36.8% of the respondents believe that their supervisor possesses adequate knowledge and training to properly implement their performance evaluation.

25.4% disagreed, 16.8% had a neutral opinion, 12.4% strongly disagreed and 8.6% strongly agreed. But the majority of the respondents (36.2%) disagree on the fact that their supervisor utilizes the evaluation system to assess their performance objectively and without bias. 30.8% agreed, 22.7% had a neutral opinion, 6.5% strongly agreed and 3.8% strongly disagreed. This can be taken as one of the reasons for dissatisfaction on the fairness of the performance appraisal system of ERCA in Table 4.7.

Table 4.9. Respondents' level of agreement/disagreement regarding performance Feedback

Statement	Response	Frequency	Percentage (%)
The performance feedback I receive is helpful in improving my on - the – job performance and in attaining my goals.	Strongly Agree	49	26.5
	Agree	74	40
	Neutral	26	14.1
	Disagree	32	17.3
	Strongly Disagree	4	2.2
	Total	185	100
I receive regular and timely performance feedback beside the annual performance review.	Strongly Agree	12	6.5
	Agree	100	54.1
	Neutral	27	14.6
	Disagree	37	20
	Strongly Disagree	9	4.9
	Total	185	100
The information provided by my supervisor during my performance feedback is sufficiently detailed	Strongly Agree	16	8.6
	Agree	70	37.8
	Neutral	29	15.7
	Disagree	64	34.6
	Strongly Disagree	6	3.2
	Total	185	100

Based on the collected data, 40% believe that the performance feedback they receive is helpful in improving their on-the job performance and in attaining their goals. 26.5% strongly agreed, 17.3% disagreed, 14.1% had a neutral opinion and 2.2% strongly disagreed. 54.1% said that they received regular and final performance feedback beside the annual performance review. 20% disagreed, 14.6% had a neutral opinion, 6.5% strongly agreed and 4.9% strongly disagreed. The majority of the respondents (37.8%) also agreed that the information provided by their supervisor during the performance feedback is sufficiently detailed. 34.6% disagreed, 15.7% had a neutral opinion, 8.6% strongly agreed and 3.2% strongly disagreed.

Table 4.10. Respondents' level of agreement/disagreement regarding performance appraisal results

Statement	Response	Frequency	Percentage (%)
The best performer in the organization gets higher evaluation mark	Strongly Agree	20	10.8
	Agree	42	22.7
	Neutral	43	23.2
	Disagree	58	31.4
	Strongly Disagree	22	11.9
	Total	185	100
PA is used as a decision making tool for increasing the performance and set promotion standards	Strongly Agree	22	11.9
	Agree	76	41.1
	Neutral	44	23.8
	Disagree	39	21.1
	Strongly Disagree	4	2.2
	Total	185	100
On top of the current appraisal system there is recognition or reward system in terms of performance-related pay for those who achieve Excellent in their annual appraisal.	Strongly Agree	12	6.5
	Agree	38	20.5
	Neutral	41	22.2
	Disagree	68	36.8
	Strongly Disagree	26	14.1
	Total	185	100

When asked about choosing the best performer, majority of the respondents (31.4%) disagreed on the fact that the best performance in the company gets higher evaluation mark. 23.2% had a neutral opinion, 22.7% agreed, 11.9% strongly disagreed and 10.8% strongly agreed. Majority of the respondents (36.8%) disagreed that on the top of the current appraisal system, there is recognition or reward system in terms of performance related pay for those who achieve excellent in their annual appraisal. 22.2% had a neutral opinion, 20.5% agreed, 14.1% strongly disagreed and 6.5% strongly agreed. But 41.1% of them agreed that the performance appraisal is used as a decision making tool, for increasing the performance and for setting promotion standards. 23.8% had a neutral opinion, 21.1% disagreed, 11.9% strongly agreed and 2.2% strongly disagreed. So, this shows that, although the company uses the performance appraisal process for decision making tool, the employees are not satisfied with the selection of best performer and they don't get any kind of reward based on their performance evaluation.

4.4. Reward practice of ERCA

Table 4.11. Respondents' level of agreement/disagreement regarding reward practice of ERCA

Statement	Response	Frequency	Percentage (%)
I have been given bonus or financial reward in the past as a motivation based on my performance evaluation	Strongly Agree	4	2.2
	Agree	30	16.2
	Neutral	26	14.1
	Disagree	62	33.5
	Strongly Disagree	63	34.1
	Total		185
I have been given a well-known recognition in the past for my work done as a motivation based on my performance evaluation	Strongly Agree	8	4.3
	Agree	43	23.2
	Neutral	35	18.9
	Disagree	42	22.7
	Strongly Disagree	57	30.8
	Total		185

Majority of the respondents (34.1%) strongly disagreed that they have been given bonus or financial reward before as a motivation based on their performance evaluation. 33.5% disagreed, 16.2% agreed, 14.1% had a neutral opinion and 2.2% strongly agreed. 30.8% of the respondents strongly disagreed that they have been given a well-known recognition

for their work done as a motivation, based on their performance evaluation. 23.2% agreed, 22.7% disagreed, 18.9% had a neutral opinion and 4.3% strongly agreed. This shows that the employees had never received financial/non-financial reward.

Table 4.12. Respondents' level of agreement/disagreement regarding reward type preference

Item	Question	Frequency	Percentage (%)
I will be more motivated to perform better if I am provided with a financial reward	Strongly Agree	32	17.3
	Agree	48	25.9
	Neutral	40	21.6
	Disagree	47	25.4
	Strongly Disagree	18	9.7
	Total	185	100
I am more interested in getting a recognition for my performance rather than getting a financial reward	Strongly Agree	65	35.1
	Agree	58	31.4
	Neutral	18	9.7
	Disagree	29	15.7
	Strongly Disagree	15	8.1
	Total	185	100

As shown above, 25.9% of the respondents prefer to be provided with a financial reward in order to be motivated. 25.4% disagreed, 21.6% had a neutral opinion, 17.3% strongly agree and 9.7% strongly disagreed. 35.1% of the respondents strongly agree that they are more interested in getting recognition for their performance rather than getting a financial reward. 31.4% agreed, 15.7% disagreed, 9.7% had a neutral opinion and 8.1% strongly

disagreed. This indicates that the majority of the respondents prefer recognition over financial reward.

Table 4.13 Respondents' level of agreement/disagreement regarding *Satisfaction with current PA system*

Statement	Response	Frequency	Percentage (%)
Are you satisfied with the current PA and reward practice of ERCA	Yes	63	34.1
	No	122	65.9
	Total	185	100

As we can see from the above data, the majorities (65.9%) of the respondents are not satisfied with the current performance appraisal and reward practice of ERCA.

- ✚ According to the open-end questions provided for the respondents, a number of reasons for this have been mentioned. They are presented below in summarized form.
 - ✓ ERCA, as an organization stated a good strategy policy for performance appraisal and reward practice but they are not being enforced.
 - ✓ There is no reward and recognition given by ERCA, to motivate employees
 - ✓ The supervisors don't collect real data. So, every evaluation is done mostly in judgmental way.
 - ✓ Most of the performance evaluation in the branch is not clear and biased
 - ✓ Currently not enough performance appraisal training for employees.
 - ✓ The performance appraisal methods depends mostly on un-considerable work and the managers use it just like formality

- ✓ The branch uses performance appraisal only for job training
- ✓ During performance appraisal most of the appraisers tend to focus mainly on the weak side of the employee rather than its strong side.

According to the research done by Eshak, Jamian, Jidi & Zakirai (2016), there is a positive relationship between Rewards and Employee Performance. Employees are the main sources to achieve organization goals, so the organization need to make sure reward system is fairly given to the right person to make employees feel that the company is appreciative of him/her. The organization should ensure that rewards are not biased when given to the person for performing their task successfully and with excellence discipline.

CHAPTER FIVE

5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Conclusion

The aim of this study was to assess the existing performance appraisal and reward practice in Ethiopian Revenue and Customs Authority, Western Addis Ababa branch. In addition, it attempted to describe the current phenomena and tried to reveal the real problems related to performance appraisal practice. The study employed both interview and questionnaires to collect primary data. The interview was held with 2 higher officials of the company, selected based on their positions, to collect accurate information on the actual practice of performance appraisal and related issues. The information gathered was further analyzed by descriptive method by comparing it with the theoretical aspects gained from secondary sources in the subject matter. Thus based on such analysis the following conclusions are drawn:

- ✓ There is a clear performance appraisal and reward practice policy in ERCA but they are not being properly enforced. Lack of commitment from ERCA higher management to enforce the Performance appraisal and reward policy of ERCA is mentioned from employees as a possible reason.
- ✓ The supervisors don't collect clear and timely information about employee's performance to evaluate them based on the evaluation methods of ERCA. So, real employee data is not being considered.
- ✓ There is no good ethical measurement to select the best and better employee. So, it is easily biased and the best performer doesn't get higher evaluation mark.
- ✓ There is lack of training to help employees understanding better about how the current performance appraisal system is being conducted.

- ✓ ERCA doesn't give reward or any other performance related incentives for best performers. This makes the employees of ERCA dissatisfied with the current appraisal process.

Managing performance appraisal of employees properly has a tremendous amount of positive effect in an organization. Satisfied employees are the best assets a company can have. When it is aligned with the company's strategy, the company can achieve its goals better than ever. But the concept of performance appraisal is mostly neglected and even if it is being applied, it is mostly accompanied by lots of bias and problems. Identifying these problems and solving them will help the company to reach to new heights.

The above mentioned evidences show that even though ERCA started a good path in setting a clear policy for performance appraisal, it failed to satisfy its employees with its application. The employees are not satisfied with the way best performer is being selected and feels that the evaluation system is biased. They don't get any type of financial or non-financial reward for their performance and it created lack of motivation among employees. They clearly stated that they are not satisfied with the current performance appraisal system of ERCA. So, in order for the company to achieve its objectives, the performance appraisal of ERCA needs a lot of control and commitment especially from higher officials, to ensure that those policies are being enforced properly.

5.2. Recommendations

Based on the findings of this research, the following conclusive recommendations were forwarded. Thus, this study could be seen as the first step in improving the ongoing practice. To this regards,

- ✓ Higher officials of ERCA should give emphasis on the proper application of the Ethiopian Revenue and Customs Authority performance appraisal and reward practice policy. They should be committed in enforcing the policy fairly and without bias.
- ✓ The supervisors should closely follow up the performance of the employees that are under their supervision and gather the necessary information based on their performance. As mentioned above in brief, performance appraisal is not an activity done only once or twice a year. It is meant to be continuous and should also focus on employee performance development.
- ✓ Great care must be taken while selecting best performer. If not done properly, it will de-motivate employees not to work to their best capacity. So, it has to be ethical and without bias.
- ✓ All Employees must get sufficient training to have a clear understanding about the current performance appraisal system of ERCA, to help them have a clear understanding about what is expected of them. The supervisors should also have the training to minimize any biasness resulting from unclear evaluation criteria.
- ✓ Reward of any sort, whether it is financial/non-financial is a great way to motivate employees to perform better. So, ERCA should properly implement a well organized reward system, to motivate its employees to a new level.

REFERENCES

- Armstrong, M. and Baron, A. (2005), *Managing performance: Performance management in Action*, London: CIPD
- Armstrong, M. (2009), *Armstrong's Hand Book of Human Resource Management Practice* (11th Ed.) London: Kogan Page Limited.
- Bloisi, W. (2007), *An Introduction to Human Resource Management*, McGraw-Hill Education
- Cascio, W.F. (2003), *Managing Human Resources*, Tata McGraw-Hill Publishing company, 6th Edition
- Dechev, Z., (2010), *Effective Performance Appraisal – a study into the relation between employer satisfaction and optimizing business results*, Erasmus University Rotterdam
- Dessler, G. (2004), *Human Resource Management*, Prentice-Hall of India Private Limited, Ninth Edition
- Eshak, E.S, Jamian, N.F, Jidi, M.M & Zakirai, N., (2016), *The Relationship Between Reward System with Employees' Performance*, e-Proceeding of the Social Sciences Research (ICSSR 2016)
- Getachew, W., (2016), *The relationship between rewards system and employee engagement: A case study of Commercial Bank of Ethiopia – credit management*, Addis Ababa University school of commerce
- Gomez-Mejia, L.R., Balkin, D.B, & Cardy, R.L, (2001), *Managing Human Resources*, Prentice Hall, 3rd Edition

- Hamukwaya, S.I & Yazdanifard, R., (2014), How a Proper Performance Related Reward System Can Contribute to Work Performance Excellence, authors and Scientific Research Publishing Inc.
- Ivancevich, J.M. (2003), Human Resource Management, Tata McGraw-Hill Publishing company, 9th Edition
- Jha, P.K. (2005), ICTS and Human Resource Management, VISTA International Publishing House,
- Kohn, A. (1993), Punished by rewards. Boston, Mass: Houghton Mifflin
- Mathis,R.L., & Jackson,J., (2006), Human Resource Management, South-Western, Thomson, Eleventh Edition
- Melese,T., (2013), The Effect of performance appraisal on employees performance at NIB international bank share company, St. Mary's University
- Misganaw,T., (2016), The relationship between reward management practices to employees' job satisfaction in Ethiopian insurance Corporation, Addis Ababa University, college of business and economics school of commerce
- Porter, C., Bingham, C. & Simmonds, D. (2008), Exploring Human Resource Management, McGraw-Hill Education
- Pratheepkanth, P., (2011), Reward System and its Impact on Employee Motivation in Commercial Bank of Srilanka Plc, In Jaffna District. Global Journal of management and business research. V.XI, version 1, March 2011.
- Saiyadain, M.S, (2004), Human Resource Management, Tata McGraw-Hill Publishing company limited, Third Edition

<http://www.erca.gov.et/index.php/about-us> retrieved on May 03, 2017 & June 29, 2017

APPENDICES

APPENDIX I

St. Mary's University

Department of General Management

The purpose of this questionnaire is to gather information and opinion to support a study on “*Assessment of performance appraisal and reward practice in the case of Ethiopian Revenue and Customs Authority, western Addis Ababa branch*”. The Research is done as a partial fulfillment of academic requirements of M.A. degree in General Management. The information you provide will be valuable for the success of this research. Please be honest and objective while filling the questionnaire. The information you provide will be used only for academic purpose and will be kept confidential and anonymous. The researcher would like to convey her gratitude for giving your precious time and energy to fill this questionnaire and contribute your part for the completion of this study.

N.B.

- No need of writing your name on the questionnaire.
- Where alternative answers are given please mark your answer using “√” in the corresponding boxes.
- Please be as brief as possible answering the open ended questions.
- ERCA refers to Ethiopian Revenue and Customs Authority.

Thank you in advance for your kind cooperation!!

Part 1:- Personal information

1. Sex:

a) Male

b) Female

2. Age: _____

3. Educational Background:

a) Certificate

b) College Diploma

c) Bachelor's Degree/ First Degree

d) Masters/Second Degree & Above

4. What is your current position in Ethiopian Revenue and Customs Authority?

5. How many years of experience do you have in Ethiopian Revenue and Customs Authority?

Part 2:- Performance appraisal and reward system policy

S. N	Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	I believe that it is necessary for Performance Appraisal to be conducted in an organization?					

2	There is a clear performance appraisal policy in Ethiopian Revenue and Customs Authority (ERCA).					
3	The Performance Appraisal of ERCA is based on clear and measurable objectives.					
4	The factors used to measure your performance focus on the most important aspects of your job.					
5	Performance Goals are clearly defined in the appraisal process					
6	The Performance Appraisal process supports the Company's Strategy					
7	The performance appraisal system of ERCA is conducted based on the performance appraisal policy of the company.					
8	The performance appraisal policy is supported by a financial/non-financial rewarding system					

Part 3:- Methods used while conducting performance appraisal in ERCA

S. N	Statement	Stro ngly Agr ee	Agre e	Neut ral	Disag ree	Stron gly Disag ree
1	The performance Appraisal was designed through the involvement of employees.					
2	Performance appraisal in my company is fair					
3	I receive specific and accurate feedback from my manager/supervisor on my past performance					
4	The Performance Appraisal System helps identify areas for development					
5	All the information obtained from Performance Appraisal is confidential.					
6	My supervisor possesses adequate knowledge and training to properly implement my performance evaluation					
7	My supervisor utilizes the evaluation system to assess my performance objectively and without bias					

8	The performance feedback I receive is helpful in improving my on - the – job performance and in attaining my goals.					
9	I receive regular and timely performance feedback beside the annual performance review.					
10	The information provided by my supervisor during my performance feedback is sufficiently detailed.					
11	The best performer in the organization gets higher evaluation mark.					
12	Performance appraisal is used as a decision making tool for increasing the performance and set promotion standards					
13	On top of the current appraisal system there is recognition or reward system in terms of performance-related pay for those who achieve Excellent in their annual appraisal.					

Part 4:- Reward Practice of ERCA

S. N	Statement	Stro ngly Agr ee	Agre e	Neut ral	Disag ree	Stron gly Disag ree
1	I have been given bonus or financial reward in the past as a motivation based on my performance evaluation					
2	I have been given a well-known recognition in the past for my work done as a motivation based on my performance evaluation					
3	I will be more motivated to perform better if I am provided with a financial reward					
4	I am more interested in getting a recognition for my performance rather than getting a financial reward					

Part 5:- Open questions

1. Are you satisfied with the current performance appraisal and reward practice of ERCA?

- a) Yes
- b) No

2. If your answer for the above question is “No”, why is that? Please explain honestly?

3. What do you think are the challenges during the application of the performance appraisal and reward practice of ERCA?

4. What do you recommend to improve the current performance appraisal and reward practice of ERCA?

APPENDIX II
INTERVIEW QUESTIONS

St. Mary's University

Department of General Management

The purpose of this interview is to gather information and opinion to support a study on *“Assessment of performance appraisal and reward practice in the case of Ethiopian Revenue and Customs Authority, western Addis Ababa branch”*. The Research is done as a partial fulfillment of academic requirements of M.A. degree in General Management. The information you provide will be valuable for the success of this research. Please be honest and objective while providing your answers. The information you provide will be used only for academic purpose and will be kept confidential and anonymous. The researcher would like to convey her gratitude for giving your precious time and energy to answer these questions and contribute your part for the completion of this study.

Thank you in advance for your kind cooperation!!

1. What is your current position in ERCA?
2. How often is performance appraisal being applied?
3. Is it backed with a rewarding system? If not, why?
4. What are the major challenges faced while applying performance appraisal?
5. What do you recommend to improve the current performance appraisal system of ERCA?

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.

Name

St. Mary's University, Addis Ababa

Signature

June, 2017

ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

Advisor

St. Mary's University, Addis Ababa

Signature

June, 2017