

**PERFORMANCE APPRAISAL PRACTICES AMONG  
COMMERCIAL BANKS IN KENYA.**

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## DECLARATION

This research project is my original work and has not been presented for the award of degree in any other university or institution for any other purpose.

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I wish to thank most sincerely all those whose contributions have made this project a success

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Most of all I thank God for the gift of wisdom and strength to complete this project.

## **DEDICATION**

I dedicate this project to my mum, late dad and siblings.

You have brought immeasurable joy to my life and helped me develop patience to see things to a desired end. Thank you for your support. You are God's special gifts to me and the best I could ever get.

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## **ABSTRACT**

In today's competitive business world, it is understood that organizations can only compete with their rivals by innovating and organizations can be innovative by managing their human resources well. The human resource system can become more effective by having a valid and accurate appraisal system used for rating performances of the employees. Unfortunately, the number of the organizations using an effective performance appraisal system is limited. Organizations are run and steered by people. It is through people that goals are set and objectives are realized. The performance of an organization is thus dependent upon the sum total of performance of its members. The success of an organization will therefore depend on its ability to measure accurately the performance of its members and use it objectively to optimize them as a vital resource. In the present highly competitive environment, organizations have to ensure peak performance of their employees continuously is in order to compete and survive at the market place effectively. The objective of the study was to determine the performance appraisal practices among commercial banks in Kenya. The population of the study was all the forty two commercial banks operating in Kenya. The study used primary data which was collected using self-administered questionnaires. The data was analyzed using the Statistical Package for Social Sciences (SPSS) software. The findings of the study were that performance appraisal was carried out in the banks mostly on quarterly. The banks use performance appraisal for organizational development, employees' performance, salary increment or distribution of rewards, has a motivational effect on workers' performance, promotion, training, development and training needs identification and that performance appraisal is used in assessing employees' commitment to organizational goals and objectives. The study found out that goal setting help to contribute to higher performance in the bank than only telling employees what to do and how to do and that the banks establishes goals that are perceived as challenging but realistic and to which there is higher level of commitment. Performance appraisal method used by the banks resulted in performance criteria/instruments used to measure employee performance being clearly defined, objective and employees in the bank undertake self reviews, graphic rating scale is used to appraise employees, merit/pay bonus allocations was a motivating and fair, behaviorally anchored rating scale method is undertaken in the bank and bank appraise employees using comparative ranking method.

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# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the study

Organizations in the public and private sectors around the world are struggling with their performance measurement systems. In particular they are finding it difficult to develop cost effective, meaningful measures that drive performance improvement without leading to undesired negative consequences. This can be made possible by ensuring an effective performance appraisal process that can systematically increase employee commitment by improving the performance level of an individual as well as of an organization (Gardner and Moynihan, 2003). Creating a positive image in the current competitive market has become an overt objective of any organization. This has many manifestations and has become very tricky and challenging. Higher levels of efficiency and productivity are more demanding among them. However, they can be affected if and only management enhances the quality of its inputs (performance appraisal process and employee development opportunities) to enable the employees to increase their output (performance) (Tessema and Soeters, 2006).

Organizations can only win a competitive advantage through people (Alo, 2000). Competition for scarce resources among organizations is becoming more and stiffer. This therefore means that organizations can grow to the extent that people who work in such organization are supported to grow. However Banjoko (2007) asserts that there is probably no program in the arsenal of personnel management that is difficult to effectively implement and yet so fundamental to individual and organizational growth than performance appraisal. In business as well as in government, effective results are crucial to survival since improved performance is a basic criterion for individual and organization growth. Companies that seek to gain competitive advantage through employees must be able to manage the behaviour and results of all employees especially in an increasingly complex environment and the rapid change of technology which have created some new challenges to many organizations. Management and human resource managers must be equipped to address the changes in developing the employee's

competencies and skills in response to customers' needs and competition (Grubb, 2007). Although performance management has been of concern recently in managing and integrating reward performance, most organizations still use the performance appraisal as a tool to measure employees' performance.

An organization's success or failure is highly determined by effective and efficient utilization of resources at its disposal, such as human, material, financial, and information resources. Among these four resources, the human resource is the most important part and crucial of all resources for the survival of an organization or business firms. According to Ivancevich (2009, p.62), "It is important to remember that people do the work and create ideas that show the organizational service". Therefore, it is agreed that resources remain unutilized unless the human element is involved. The degree of human resource contribution should be evaluated in the development of the organization or business firm.

### **1.1.1 Performance Appraisal**

Performance appraisal is "the evaluation of an individual's work performance in order to arrive at objective personnel decisions" (Robbins et al, 2000). It is also the process of obtaining, analyzing and recording information about the relative worth of an employee (Dowling, Welch and Schuler, 2009). Thus, performance appraisal is a planned interaction between employees and their supervisors during which the former examine the performance of the latter to identify strengths and weaknesses with the view to improving future performance. Performance appraisal is a significant element of performance management. Performance appraisals are form of providing feedback, deciding promotions or termination, determining compensation, identifying strength and weakness or areas for change and identifying development needs that can help with career planning. It is a tool that both the appraiser and the appraisee can use to enhance performance of employee and the organization. However, the type of appraisal used must be in line and congruent with the requirements and structure of the organization in order to reap the benefits (Appelbaum *et-al.*, 2011).

Traditionally, performance appraisal is considered as a formal annual interview that generates social interactions between managers and employees to formulate action plans through a discussion of the individual's previous job performance and future developmental needs (Murphy and Cleveland, 2005). More recently, instead of only being a simple tool of recording and documenting employee's performance, performance appraisal is considered as a more strategic and holistic approach to link a headquarters' strategic plan with the subsidiary and individual performances (Fletcher, 2004). Performance Appraisal benefits both employees and employers. Employers benefit from understanding their employees' weaknesses and strengths. Understanding the employees helps to make basic enforcement for weakly performing employee by giving training and development in order to improve his/her performance if not to punish. It also helps to make remuneration and promotion readily available for those who performed well. Performance appraisal is not only important to employee's problem identification, but also important to the organization for effective utilization of human resource by identifying strong employees from best for utilization of manpower, to bring effectiveness and efficiency (Zohir, 2004). Employees benefited by getting feedback about their performance of certain period in time, to improve themselves on their poor performance or to be motivated for their good performance.

The performance appraisal process in the organization is done as an exercise, which has no relationship or bearing with an individual's career development or other functions such as competency training, rewards and job transfer. Subsequently, appraisers are not given adequate exposure or guidance on how to conduct an effective appraisal exercise and they are also not informed as how to relate performance appraisal with other functions of human resource. Under such circumstances, performance appraisal remains as a normal process and the feedback is seldom used to improve the employees' performance. As a result, most employees perceive performance appraisal only as a routine yearly exercise to assess their performance against which they will be rewarded or penalized. However said that appraisals should not be a one-off event and they should be and is part of an ongoing cycle of performance management in order to change the perception of employees. All workers expect to be rewarded and recognized for their efforts (Tippins

and Coverdale, 2009). Performance management systems are often used in the determination of such rewards. To this end, it can be said that performance management as a process, affects the livelihood of employees. It is therefore important that a performance management system is perceived as being fair in design and implementation to enable acquiescence to the system.

### **1.1.2 Performance Appraisal Practices**

Performance appraisal practices are considered as one of the key contributing factors to the success of an organization. Performance appraisal practices involve performance assessment of an individual in relation to the objectives, activities, outputs and targets of the job over a specific period of time (Cardy, 2003). Performance appraisal practices often include formal review and feedback sessions, and may include procedures for establishing work objectives, conducting self-appraisals, and setting performance goals. The processes inherent in these systems and the performance appraisal outcomes themselves can have an important influence on employees' reactions toward their work, their supervisors, and their organization as a whole. The appraisal process can also become a source of frustration and extreme dissatisfaction when employees perceive that the appraisal system is biased, political or irrelevant (Skarlicki and Folger, 2007).

Kamwine (2004) observed that appraisal schemes encourage open communication between employees and employers or subordinates and supervisors, which ultimately help to create effective cohesive work groups. Therefore, appraisal practices generate accurate record of performance that helps in counseling and setting objectives upon which employees' performance is judged. Leaders of organizations may know that employees perceive their performance appraisal processes as unfair, but they have not had a convenient way of measuring their specific appraisal practices (Peretomode and Peretomode, 2001). Leaders who do not know the specific faults of current appraisal practices often assume that the entire system is bad. They may be limited to the choice of accepting the status quo, or scrapping old systems for new ones with the hope of improving employee reactions. New performance appraisal systems replace old, without any determination of the root causes of the dissatisfaction and without any basis for the

new system. One possible way to rectify this situation is to provide leaders with the information necessary to make sensible decisions concerning their existing performance appraisal processes.

### **1.1.3 Banking Industry**

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted. As at December 2012 there were forty five banking and non-bank institutions, fifteen micro finance institutions and one hundred and nine foreign exchange bureaus. Over the last few years, the banking sector in Kenya has continued to grow in assets, deposits, profitability and products offering. The CBK (2011) emphasizes that the banking institutions will need to cope continuously with changing business environment and a continuous flood of new requirement via a robust ICT platform, while staying sufficiently agile. Consumers will continue to demand individualized services, and to demand them faster than ever. Hence banks will continue aggressively design new products that leverage on ICT to remain competitive. Down streaming into the retail market segment will also be expected to continue particularly with the anticipated licensing of deposit taking Micro finance Institutions.

In the coming period, according to the CBK (2009), diversification into other financial services is also expected as consumers increasingly seek “one stop financial supermarket.” These developments are expected to enhance banking products being offered and bring more Kenyans into the banking space. However, the main challenges facing the banking sector today include the Finance Act 2008, which took effect on 1 January 2009 that requires banks and mortgage firms to build a minimum core capital of Ksh 1 billion by December 2012. This requirement, it is hoped, will transform small banks into more stable organization. The implementation of this requirement poses a challenge to some of the existing banks and they may be forced to merge in order to comply with the act. The Kenyan banking industry has continued to grow both in terms

of new local and foreign entrants, customer and deposit base, regionalization and increased scrutiny from the regulators specifically the Central Bank of Kenya. This new shift in the Kenyan banking industry can be attributed to the liberalization of the sector, increased adoption of information technology and improved business environment due to reforms being undertaken in the political, economic, social and cultural fields. With these changes, the level of competition in the banking industry has reached an all level high and coupled with an enlightened customers and increased scrutiny from the regulators, local banks have had to shift their attention to human resource which is the most important asset for any organization and it is the source of achieving competitive advantage. This necessitates the use of performance appraisal practices to manage the bank human resource.

## **1.2 Research Problem**

In today's competitive business world, it is understood that organizations can only compete with their rivals by innovating and organizations can be innovative by managing their human resources well. The human resource system can become more effective by having a valid and accurate appraisal system used for rating performances of the employees. Unfortunately, the number of the organizations using an effective performance appraisal system is limited (Dayan and Benedetto, 2007). In today's business world, it seems like a chore for organizations to allocate significant intangible resources for planning, developing and engaging in employee performance appraisals. Despite this allocation, most organizations could not afford to give formal performance evaluations. This in turn necessitates that systems and processes in the organization be applied in the right way to produce the right things to produce the expected results. In most cases, organizations focus on output, general performance, efficiency, and organizational profit above all other objectives. It is also very uncommon for them not to link most of human resource functions with performance appraisal.

With intense competition from both domestic and international players, rapid innovation and introduction of new financial instruments, changing consumer demands and explosive growth in information technology, the way in which a commercial bank



conducts business and reaches out to its customers has significantly changed and therefore in order to survive and adapt to the changing environment, commercial banks are putting more stress on understanding the drivers of success, like better utilization of its resources (like technology, infrastructure and employees), process of delivering quality service to its customers, coming up with strategies to manage its loans effectively and performance benchmarking. Appraisal practices provide employees in commercial banks with meaningful appraisal that encourages professional learning and growth. Employee performance is perceived to be good when employee morale and motivation is high and when employees are punctual at work and therefore effective performance appraisal practices would help the bank meet its employee's needs.

Recent studies done on performance appraisal practices include Richu (2007) who researched on a survey of teachers' perception of performance appraisal practices in public secondary schools in Nakuru District and established that the frequency of appraisal was very low and the working environment did not facilitate the practice and did not meet the needs of the teachers. The management was not well trained for the practice of performance appraisal and thus the practices did not support school development and did not contribute to improving the teachers. Awori (2007) worked on performance appraisal practices in state corporations in Kenya and the findings were that the state corporations were using performance appraisal to improve work performance with the use of management by objectives appraisal practice as opposed to the balanced scorecard, self-review, peer review and upward appraisal. Although the performance appraisal practices were objective, the appraisal instruments were not tailored for every job category, performance appraisal was not necessarily used for promotion and appraisers are trained to a little extent. Mugwe (2010) researched on teachers' perceptions of performance appraisal practices in public secondary schools in Limuru District and the findings were that teachers have a negative perception of performance appraisal in all areas related to effectiveness of the appraisal, while there were some variations on the role of the current practice. The research revealed that Performance Appraisal practices should be reviewed to enhance effectiveness. The results of performance appraisal should be used for promotion, salary increase and recognition. The studies done above show that

there is no known study which has been done on the performance appraisal practices in the banking industry and the study will therefore seek to determine; what are the performance appraisal practices among Commercial Banks in Kenya?

### **1.3 Research Objective**

To determine the performance appraisal practices among Commercial Banks in Kenya.

### **1.4 Value of the study**

The study will help the management of the commercial banks to identify performance appraisal practices that may positively or otherwise affect employee performance and hence be in position to adjust those systems that they are in position to adjust in order to positively influence employee performance in bank.

The findings of the study will be of help to other sectors as they will enable them conduct appraisal programmes in their respective companies in a more systematic and transparent manner in order to come up with more accurate and dependable results concerning performance.

The study may also add to the existing body of knowledge by stimulating new areas for further research through the findings and subsequent recommendations. The policy makers could use the results of the study to identify and bridge up gaps in the existing performance appraisal practices. This would help in improving the performance of employees in bank and motivate them. Additionally, the study also helps researchers in provision of information as secondary data for future use in the academic arena.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter covers literature review conducted by the researcher. It includes a review of the various studies conducted by researchers on theoretical foundation, performance appraisal and performance appraisal practices.

### **2.2 Theoretical Foundation of the study**

The goal-setting theory of the work motivation states that objectives can have a high motivational effect concerning the performance results (Braunschweig, 2001). The objective theory is today one of the best secured approaches of motivational psychology (Rosenstiel, 2010). The starting point of this theory is that every human action is goal-oriented. Thus goals are ascribed a certain knock-on effect that leads to the mobilization of effort, to a focus on attention, and to an increase in endurance (Bungard, 2002). This has the result that those concerned strive to get rid of every obstruction with regard to the objective achievement. Thus creative and efficient business strategies emerge. Additionally, objectives make a sense of success possible. The experience of achieving a goal strengthens self-esteem and the knowledge of one's own competence. This experience has a central significance for future behaviour.

The theory adopted in this study is McGregor's (1960) theory X and Y which suggests that managers make either theory X or theory Y assumptions about the way others behave. This theory is a traditional view of motivation that holds that work is distasteful to employees who must be motivated by force, money or praise (Stoner and Freeman, 2001). Stoner and freeman (2001) stressed that McGregor distinguished two alternatives basic assumptions about people and their approach to work. Mc Gregor (1960) called these two assumptions theory X and Y. The theory suggested that employees' evaluations are directly mediated by managers' attributes as to who is perceived to be in control of the employee's performance. Therefore, basing on the nature of the study the researcher focused on theory X. Theory X Managers according to McGregor (1960) are people who must be coerced into putting effort in their jobs. He further noted that, most people

dislike work and avoid it whenever possible and therefore, they need to be directed, controlled or even threatened with punishment in order to move them to work and achieve organizational goals. In regards to this study, this theory tried to establish performance appraisal practices in commercial banks. This theory is considered relevant in a way that it would encourage the employees to perform as expected by supervising and monitoring them through an effective appraisal practice.

### **2.3 Performance Appraisal**

Cropanzano *et al.*, (2007) posit that performance appraisal is an important management tool to assess employees' efficiency in the workplace, and may be defined as a structured formal interaction between a subordinate and supervisor that usually takes the form of a periodic review which could be annual or semiannual to evaluate work performance. Performance appraisal is intended to engage, align, and coalesce individual and group effort to continually improve overall organizational mission accomplishment (Shanock, 2006). It provides a basis for identifying and correcting disparities in performance. Systematically, performance appraisal reviews each employee's work performance with a view to discovering the strengths and weaknesses of individuals and to identify opportunities for future skills improvement and development. Performance appraisal is a systematic way of evaluating a worker's performance and his potential for development. This continuing performance and periodic evaluation helps in retraining, promotional and retaining policies.

Performance appraisal could be formal or informal (Aycan, 2005). Formal appraisal is more orderly, systematic, planned and periodical, in which separate documents exist for the formal appraisal and this is usually recorded. Whereas, informal appraisal entails subordinate's performance assessment in the normal course of work and day – to – day relationship. Formal appraisal occurs when the contact between manager and employee is formalized, in which case a system is established to report supervisory impressions and observations of employee performance. This could be annually or semi-annually. Informal appraisal is conducted whenever a superior and subordinate feel it is necessary.

This evaluation is communicated through conversation on the job or by on-the-spot examination of a particular piece of work (Cropanzano *et al.*, 2007).

Roch and Shanock (2006) posit that formal performance appraisal plans are designed to meet the following organizational and individual needs: promotions, demotions or termination. Appraisal let subordinates know where they stand and needed changes that are required in their behaviour, attitudes, skills or job knowledge. A sound performance appraisal system can be useful in improving employees' job performance, encouraging employees to express their views or to seek clarification on job duties and serving as a key input for administering a formal organizational reward and punishment systems. However, for performance appraisal system to be effective, it must have the following characteristics: it must be free of bias, the evaluator or rater must be objective and the method of appraisal must be fair consistent and equitable.

#### **2.4 Performance Appraisal Practices**

Performance appraisal practices play an important role in human resource practices (Boswell, Boudreau, 2002). Aguinis (2009) also thinks that performance appraisal practices contribute to the efficiency of employee behaviors, attitudes, and performance. It encourages and presses them to make a suitable change to improve themselves. Stone (2005) offers a program to make an effective performance appraisal. He mentions organizations should highlight goal establishment, performance feedback and performance improvement in the performance appraisal program. Specifically, the context of this program includes Performance measures (instrument design), goal setting, performance appraisal methods, feedback and rating.

Performance measures or instruments are importance in measuring individual results. According to Nzube (2010), performance appraisal is the evaluation of an employee's work performance over a given period of time. It is formalized review of the way in which an employee has been performing on the job. This exercise is usually conducted on a regular basis six months to one year. But this period will vary depending on the purpose, e.g a newly employed person may be on the probation for any period of time

from one month up to two years. In this case management must determine when to conduct a performance appraisal so that they can decide whether to confirm, extend probation period or terminate the employment.

Goal setting involves defining a target or purpose to achieve. Stone (2005) argued that organizations should pay attention to some issues in goal-setting process. First, goal should be set unambiguously. With a clear goal, employees are able to achieve and improve easily. Furthermore, goal setting is to contribute to higher performance than only telling employees what to do and how to do it. Finally, goals should be perceived as difficult to achieve in order to get a better performance. But organizations must consider that the setting goals should be based on employees' abilities. In addition, goals should be comprehensive and hierarchical (Goncharuk, Monat, 2009). In detail, goals must be divided into different levels, such as corporate level, department level, and individual level. Meanwhile, individual goal and department goal must support the corporate goal, and enhance corporate performance finally.

#### **2.4.1 Goal setting**

Goal/Target setting involves managers and subordinates jointly establishing and clarifying employee goals. It affects performance through influencing what people think and do by focussing their behaviour in the direction of the goals, energise behaviour, motivate people to put forth the effort to reach difficult goals that are accepted and clarifies duties and responsibilities. The first element of goal/target setting is establishing goals that are perceived as challenging but realistic and to which there is high level of commitment. It involves having employees participate in the goal setting process so as to increase motivation and performance. Participation also convinces employees that the targets are achievable and can increase their commitment to achieving them. Employee participation is likely to be effective if employee involved and will therefore support goal setting. Participation in goal setting is likely to be seen as legitimate, resulting in the desired commitment to challenging goals (Cummings & Worley, 2005).

The second element in the goal setting process involves specifying and clarifying the goals measurement. When given specific goals, workers perform higher because ambiguity is reduced than when they simply receive no guidance. Clarifying goal measurement requires that employees and supervisors negotiate resources necessary to achieve the goals such time, equipment, raw materials and access to information (Goncharuk and Monat, 2009). If employees cannot have appropriate resources, the targeted goal may have to be revised. The process of specifying and clarifying goals can be difficult if the business strategy is unclear, hence under such conditions, attempting to gain consensus on the measurement and importance of goals can lead to frustration and resistance to change.

#### **2.4.2 Performance appraisal methods**

There are various methods of performance appraisal. Whatever the method of performance appraisal and organization uses, it must be job related. Therefore, to selecting a performance appraisal method, an organization must conduct job analyses and have to develop job descriptions. Most of the performance measures currently in use can be characterized as either objective or subjective. Objective measures are typically results based measures of physical output, whereas subjective measures can be used to assess traits, behaviors, or results. Performance appraisal methods can be categorized into four groups; category rating, comparative, behavioural/objective, and narrative method (Mathis and Jackson, 2005).

With comparative ranking method, the supervisors compare the performance of one employee with others (Mathis and Jackson, 2005). Comparative techniques include ranking, paired comparisons, and forced distribution. In ranking method, the supervisor lists all subordinates in order, from the highest to the lowest in performance. Rankings such as this are appropriate only in small companies. As the number of employees increases, it becomes gradually more difficult to discern differences in their performance. Usually this method is applied to evaluate the employees who have the same types of job responsibilities and duties. Sometimes it is also used to evaluate the employees who work

in the same project. In the paired comparison method involves comparing each employee to every other employee in the rating group, one at a time, to determine the better.

Although there are different types of methods under category rating, in graphic rating scale method, the rater assesses an employee or factors such as quantity of work, dependability, job knowledge, attendance, accuracy of work and cooperativeness. The graphic rating scale method is subject to some serious weaknesses; one potential weakness is that evaluators are unlikely to interpret written descriptions in the same manner due to difference in background, experience and personality. According to Dessler *et al.*, (2011), Graphic Rating Scale is a scale that lists a number of traits and a range of performance for each. The employee is then rated by identifying the score that best describes his or her level of performance for each trait. The graphic rating scale allows the rater to mark an employee's job performance on a five-point or seven-point scale. This method identifies certain subjective character traits, such as 'pleasant personality', 'initiative' or 'creativity' to be used as basic job performance criteria (Mondy, 2008).

Peer reviews often have a high level of worker acceptance and involvement and tend to be stable, task-relevant, and accurate. By helping peers to understand each other's work and by airing grievances in a non-threatening manner, peer reviews may also help people to get along better. For the organization, this means higher performance. For staff, this means a better place to work and less frustration; it may also help employees to concentrate less on politics or working around people, and to spend more time on their work (or to put in less overtime) (Campbell and Kiran, 2010). Peer reviews may work best if all parties know that the reviews will not be used for setting pay, promotion possibilities, or disciplinary actions. However, a peer review system with the power to give promotions, raises, or disciplinary actions might be workable in some businesses, if the employees think it's a good idea (Campbell and Kiran, 2010).



The peer review practice is an interesting concept if properly implemented and used in conjunction with another method. This is similar to 360 degree feedback with the limitation of only having some employees rate another employee based on their familiarity of their work while eliminating or limiting management and raters involvement (De Vries *et al.*, 2011). This may be one-sided if the supervisor or manager is left out of the process. The peer review may be successful in an organization fully developed with trust, respect and maturity. If an organization struggles with employee to employee constructive criticism these reviews can present concerns from both ends of the spectrum. The range of concern is from a crass ego busting evaluation from peers to a sugar coated meaningless evaluation. Lastly, training employees on properly evaluating peers is a necessity to having this process work in additions to having trust respect and maturity in place among staff.

Supervisors are pivotal in performance appraisal as they are generally responsible for setting performance objectives, providing formal and informal feedback, and the overall rating of the employees' performance. Uses of the performance rating vary but include determining the extent of any subsequent pay rise, promotion or dismissal. So an employee's current and future employment prospects can be heavily influenced by their supervisor's evaluation of their performance. The findings of Greenberg (2006) identified the ability of a supervisor to make an accurate evaluation of subordinate's performance as an important influence on fairness perceptions. An employee's immediate supervisor has traditionally been the most logical choice for evaluating performance and this continues to be the case. The supervisor is usually in an excellent position to observe the employee's job performance and the supervisor has the responsibility for managing a particular unit ((Mondy, 2008). When someone else has the task of evaluating subordinates, the supervisor's authority may be undermined. Also, subordinate training and development is an important element in every manager's job and, as previously mentioned, appraisal programs and employee development are usually closely related.

According to Meyer (2001) changes the role of the manager to counselor, rather than judge - a role from which the manager can do more to support people. Involving the employee as an equal in the review process is more likely to increase commitment to action plans, making the entire process both more satisfying and more productive. Self-reviews tend to have low halo error and result in little paperwork for managers. However, people may not see their own deficiencies as others do, so self-review. The manager may be left out of the process, although an exchange of views between the worker and manager may help their relationship, and boost the employee's own understanding. Self-appraisal is a self-development tool that forces employees to think about their strengths and weaknesses and set goals for improvement. Thus if an employee possesses a unique skill, the employee may be the only one qualified to rate his/her own behavior. Yet, employees may not rate themselves as supervisors would rate them, using quite different standards (Schuler, 2005).

Behaviorally anchored rating scale combines the benefits of narratives, critical incidents and quantitative scales by anchoring a rating scale with specific behavioral examples of good or poor performance (Shanock, 2006). Its proponents say it provides better, more equitable appraisals than do the other tools. BARS utilize critical incidents to focus appraisal on employee behaviors that can be changed. Thus, a BARS system describes examples of 'good' or 'bad' behavior. These examples are 'anchored', or measured, against a scale of performance levels. An example of BARS that rates a university professor's attitude toward students is sited here.

Construction of BARS begins with the identification of important job dimensions. The dimensions are the most important performance factors in an employee's description. Assume the major job dimensions associated with teaching are: course organization, attitude toward students, fair treatment, and competence in subject area (Gardner and Moynihan, 2006). Short statements, similar to critical incidents, are developed that describe both desirable and undesirable behaviors. Then they are 'retranslated' or assigned to one of the job dimensions. This task is usually a group project and assignment to a

dimension usually requires the agreement of 60% to 70% of the group. The group, consisting of people familiar with the job, then assigns each 'anchor' a number, which represents how 'good' or 'bad' the behavior is. When numbered, these anchors are fitted to a scale. The drawbacks are: behaviorally anchored rating scales require extensive time and effort to develop and maintain.

### **2.4.3 Performance appraisal feedback**

According to Williams (2002) feedback (knowledge of results) is necessary in order to heighten the performance enhancing effect of goals. Feedback can serve to keep people on track; it provides a signal that a particular goal is still important (which may be particularly critical in cases of underachievement) and may help to guide the individual towards ways of achieving the goal- in other words, it has informal and learning value. And when the goal is achieved feedback provides recognition. According to Nzuve,(2010) states that the signing of the appraisal form by both the subordinate and superior is not the end of the exercise. Whatever the method used or whoever conducted the exercise, there should be feedback. The results should be discussed and a follow-up made. It may be common knowledge among other employees how one has been performing but what has been recorded must remain confidential between the subordinate and superior.

Mathis and Jackson (2007, pp. 345) stated that Performance appraisal can be primary source of information and feedback for employees, which is the key for their future development. When supervisors identify the weakness, potentials, and training needs of employees about their progress, discuss what skills they need to develop and workout development plans. Here the main purpose of developmental feedback lies to change or reinforce individual behavior rather than to compare individual as in the case of administrative users of performance appraisal. Armstrong (2009) also stated employees □ feedback and development as functions as a continuous and evolutionary process in which performance improves overtime. It provides the basis for regular and frequent dialogues between managers and individuals about performance and development needs based on feedback and self-assessment. It is mainly concerned with individual

performance but it can also be applied to teams. The emphasis is on development, although performance management is an important part of the reward system through the provision of feedback and recognition and the identification of opportunities for growth. It may be associated with performance- or contribution-related pay but its developmental aspects are much more important.

#### **2.4.4 Performance appraisal ratings**

Hacket (1996) states that performance appraisal ratings provide yet more structure for judgment, by requiring that the appraisee be scored against the checklist. Ratings can be numerical, alphabetical or behavioral anchored- that is, a description of different types of behavior which the job-holder could be expected to exhibit. Simple descriptive scales are used: for example 'far exceeds required standard', 'below required standard' or 'well below required standard'.

Performance appraisal practices require that the organization observes and records employees' performance. That is, the appraisers should observe, and record their or someone's behavior or performance. For making an effective performance appraisal, it is important to understand who assesses performance. This can be done by supervisors, peers, subordinates, self-appraisal and customers (DeNisi and Griffin, 2005). Supervisors play a significant role in performance appraisal. Immediate supervisors (Immediate managers) are most familiar with subordinates' behavior and performance, and they usually take responsibility for their subordinates' performance. Thus, they are used to appraisal performance in most organization. But the disadvantage is that supervisors may hurt the benefit of their subordinates if they are not objective. Immediate managers cannot always have the opportunities to observe their subordinates' performance (Sillup and Klimberf, 2010). Peers work together day-to-day so that they are familiar with each other to provide feedback to manager easily. It is an important source to assess managers' performance because subordinates know their managers well. The information from subordinates may be useful for enhancing managers' leadership ability (DeNisi, Griffin, 2005). But most of the time, subordinates may be threaten if they record bad performance of their managers.

Customers are a useful source to provide feedback to organization about employees' performance. The feelings of consumers are the responses to the products and employees' performance (Sillup and Klimberf, 2010). This way helps organizations to know what customers highlight and what the organization needs to improve. On the other hand, this approach may be costly. Performance review discussion is the key in performance appraisal. Generally, performance review discussion is conducted by interviews. (Stone, 2005, p.306) Before the interviews with employees, managers should make a sufficient preparation for the interview. In the interview, managers should encourage employees to talk what problems they have and their ideas about the future work. Furthermore, managers should give a feedback to them. This helps employees identify what skills and knowledge have to be developed. In this process, managers must avoid utilizing their authority. In other words, the interview should be freely and neutral (Stone, 2005). Goncharuk and Monat (2009) provide a performance management model, which is called employee goals-behaviors-metrics-rewards model. In this model, they emphasize the importance of motivation in employee performance management. It is also essential in performance appraisal. They think that motivation can encourage the adoption of employees' new behaviors. When improving their behaviors, employees can make a superior performance.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter introduces the design of the research and the data collection and data analysis technique.

### **3.2 Research Design**

The research design adopted was a cross sectional survey design. According to Cooper and Schindler (2000), a descriptive research design is concerned with finding out the; who, what, where, when and how much. Furthermore, a research design is structured, has investigative questions and part of formal studies. A cross sectional study looks at data collected across a whole population to provide a snapshot of that population at a single point in time. This kind of study was used to determine performance appraisal practices on all the commercial banks operating in Kenya. Descriptive design method provided quantitative data from cross section of the chosen population. The reason for using this method is because it is inexpensive and takes less time.

### **3.3 Target Population**

The population of the study consisted of all the forty two commercial banks operating in Kenya. According to Central Bank of Kenya (2013) there are forty two commercial banks operating in Kenya, and all of them participated hence the study was a census.

### **3.4 Data Collection**

The study used primary data which was collected through self-administered questionnaires. The questionnaires consisted of both open and closed ended questions designed to elicit specific responses for qualitative and quantitative analysis respectively. The questionnaire was administered through “drop and pick later” method. The respondents for the study were human resource managers or their acquaintance in all the commercial banks operating in Kenya. The questionnaire covered two sections with section A, covering general information, section B covered performance appraisal.

### **3.5 Data Analysis**

The data collected was analyzed using descriptive statistics which are measures of central tendency and measures of variations that is mean, standard deviation, frequency distribution and percentages. Once the data is collected, the questionnaires were edited for accuracy, consistency and completeness. However, before final analysis was performed, data were cleaned to eliminate discrepancies and thereafter, classified on the basis of similarity and then tabulated. Data was analyzed using statistical package for social sciences based on the questionnaires. In particular, pie charts, percentages, mean and standard deviations to summarize the respondent answers.

## CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

### 4.1 Introduction

This chapter presents the data findings of the study. The research objective was to establish the performance appraisal practices among commercial banks in Kenya. This chapter presents the analysis, findings and discussion. The findings are presented in percentages and frequency distributions, mean and standard deviations. A total of 43 questionnaires were issued out and only 37 were returned. This represented a response rate of 86%.

### 4.2 Demographic Information

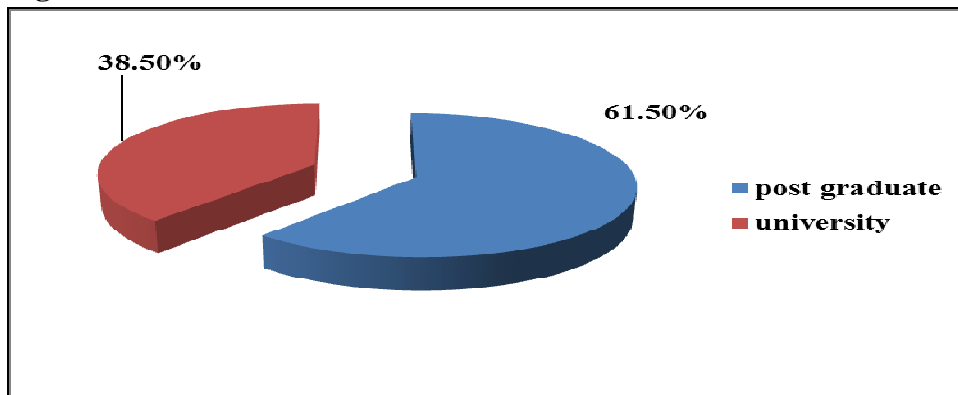
The demographic information considered in the study was level of education, length of service and duration of bank existence. This was done so as to understand the background of the respondent and the ability to give relevant data useful to the study.

#### 4.2.1 Level of education

The study sought to find out the level of education for the respondent so as to know whether they understand the concept.

The results presented indicate the highest level of education among the respondents.

**Figure 4.1: Level of education**



The findings in figure 4.1 show the proportions of the respondents' level of education. The findings indicate that 38.5% of the respondents indicated that their highest level of



education was university while the other 61.5% of the respondents said that post graduate level was their highest level of education. The findings indicate that majority of the respondents had attained university level and therefore they understand the concept of performance appraisal practices.

#### **4.2.2 Length of service with the bank**

The study sought to find the length of service the respondent had with the bank so as know if they understand the bank in terms of performance appraisal practices.

The respondents were asked to indicate the length of service with the commercial bank. The results are presented in Table 4.2.

**Table 4.1: Length of service with the bank**

Years	Frequency	Percent	Cumulative Percent
Less than 5	13	35.1	35.1
5 – 10	11	29.8	64.9
Over 10	13	35.1	100.0
Total	37	100.0	

The findings show that 35.1% of the respondents indicated that they have worked with the bank for less than 5 years, 29.8% of the respondents said that they have worked with the bank for 5 to 10 years while 35.1% of the respondents indicated that they have worked with the bank for over 10 years. The results indicate that majority of the respondents have worked with their respective commercial banks for a longer period of time and therefore they understand the bank in terms of performance appraisal practices.

### 4.2.3 Duration of bank existence

The study sought to the duration in which the bank under study had been in existence so as to know if the management understands the challenges and competition in the industry so as to overcome them by having an effective human resource which can be achieved through performance appraisal practices.

The respondents were asked to indicate the duration in which the commercial bank has been in operation and the findings are indicated in Table 4.5.

**Table 4.2: Duration of bank existence**

Years	Frequency	Percent	Cumulative Percent
Under 10	4	10.8	10.8
16 – 20	6	16.2	27.0
Over 25	27	73.0	100.0
Total	37	100.0	

The results indicate the duration in which the commercial banks have been in existence. The findings on the bank duration was that 73% of the respondents indicated that the commercial banks have been in existence for over 25 years, 16.2% of the respondents said that the banks have been in existence for a period of 16 to 20 years while 10.8% of the respondents said that the banks have been in existence for less than 10 years. The findings indicate that majority of the commercial banks have been in existence for over 25 years thus bank management understands that challenges and competition in the industry can be overcome by having an effective human resource which can be achieved through performance appraisal practices.

### 4.3 Performance Appraisal

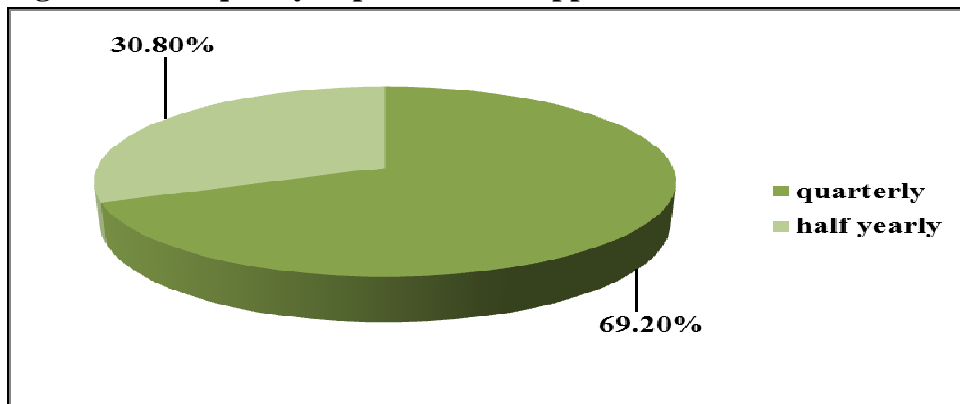
Performance appraisal is a significant element of performance management. Performance appraisals are form of providing feedback, deciding promotions or termination, determining compensation, identifying strength and weakness or areas for change and identifying development needs that can help with career planning. The study sought to

find whether they were in agreement with performance appraisal been carried out so as to establish the purpose and uses of performance appraisal. The data was collected using a likert scale of 5 points. According to the scale 1 represent strongly agree, 2 disagree, 3 neutral, 4 agree and 5 strongly agree. The data has been presented using mean and standard deviation. In the results shown, those variables which had mean  $\geq 4.5$  represented very great extent, those variables which had a mean ranging between  $\geq 3.5$  and  $\leq 4.4$  represented great extent, those with a mean between  $\geq 2.5$  and  $\leq 3.4$  represented moderate extent, a mean of the range  $\leq 1.5$  and  $\leq 2.4$  represented low extent and those with a mean  $\leq 1.4$  represented no extent at all. For the standard deviation, those variables which had a value of  $\geq 1$  represented lack of consensus while those which had a value  $\leq 0.9$  means there is a consensus.

#### 4.3.1 Frequency of performance appraisal

The study sought to find the frequency of performance appraisal so as to enable the management of the bank to know areas that, employees needs to improve on in order to achieve the desired results. The results presented indicate the frequency in which performance appraisal was undertaken in the banks.

**Figure 4.2: Frequency of performance appraisal**



The findings on the frequency of performance appraisal indicate that 69.2% of the respondents said that the appraisal was undertaken on quartely basis while 30.8% of the respondents said that it was underrtaken half yearly. The results indicate that the appraisal was undertaken quartely and this will enable the mangement of the bank to know the areas that the employees need to improve on in order to achieve the desired targets.

## 4.4 Performance Appraisal Practises in the Commercial Banks

### 4.4.1 Techniques used on performance appraisal

The study sought to find the techniques used on performance appraisal so as to find out which is commonly used. The respondents were asked to indicate the extent to which the commercial banks used the different techniques on performance appraisal. They rated them on a scale of 1 to 5 with 5- being very great extent and 1- being not at all. These ratings are presented in table 4.3:

**Table 4.3: Techniques used on performance appraisal**

Techniques used on performance appraisal	Mean	Std. Deviation
Supervisor rating of subordinates i.e rating of employees by supervisors	4.6923	.4803
Employee rating of superiors i.e having superiors rated by subordinates	1.9387	1.0801
Peer ratings where employees appraise each other	1.8462	1.2810
Self appraisal where employees are forced to think about their strengths and weaknesses and set goals for improvement	3.9231	1.0377

The findings as shown on table 4.3 above the performance appraisal techniques indicate that supervisor rating of employees (mean 4.6923) was mostly used by the banks, followed by self appraisal (mean 3.9231). The results indicate that employee ratings of supervisor (mean 1.9387) and peer ratings where employees appraise each other (mean 1.8462) was not used by the banks. In conclusion the techniques used by commercial banks for performance appraisal to a higher extent are supervisors rating subordinates and self appraisal whereas employees rating superiors and peer ratings are rarely used.

### 4.4.2 Purpose of Performance appraisal in banks

The respondents were requested to indicate the extent to which they were in agreement with performance appraisal in the banks.

**Table 4.4: Purpose of Performance appraisal in banks**

Performance appraisal in banks	Mean	Std. Deviation
Performance appraisal is an essential tool for organizational development	4.6154	.6504
Performance appraisal serves as a tool for employees' performance	4.3246	.8548
Performance appraisal has a motivational effect on workers' performance	4.2308	.8320
Performance appraisal is not an essential management tool for promotion	3.7692	.8320
Performance appraisal is used in assessing employees' punctuality	1.8462	.8987
Performance appraisal is used in assessing employees' commitment to organizational goals and objectives	3.5385	1.3913
Performance appraisal is used for training, development and training needs identification	3.6492	.8770
Performance appraisal serves as a means for salary increment or distribution of rewards	4.3077	.6304
Leadership style does not influence workers perception of performance appraisal	1.6928	.8006

The findings on Table 4.4 indicate the responses on performance appraisal in the banks. The findings indicate that performance appraisal is an essential tool for organizational development (mean 4.6154), serves as a tool for employees' performance (mean 4.3246), serves as a means for salary increment or distribution of rewards (mean 4.3077), has a motivational effect on workers' performance (mean 4.2308), promotion (3.7692), training, development and training needs identification (mean 3.6492) and that performance appraisal is used in assessing employees' commitment to organizational goals and objectives (mean 3.5385). The respondents noted that performance appraisal in the banks was not used in assessing employees' punctuality(mean 1.8462) and that leadership style does not influence workers perception of performance appraisal(mean 1.6928). In conclusion the purpose of performance appraisal to a large extent is importance for the purpose of organizational development, as a tool for measuring employees' performance, for motivational purposes and as a means for salary increment

and rewards. Performance appraisal is moderately used for the purpose of promotion, assessing employees' commitment to the organization and for training needs identification. Performance appraisal is rarely used for the purpose of assessing employees' punctuality and leadership style in respect to perception of performance appraisal.

#### **4.5 Performance Appraisal Practises in the Commercial Banks**

The study sought to establish the extent to which employees were in agreement with the performance appraisal practices in the bank which are goal setting, performance appraisal methods, performance appraisal rating and feedback.

##### **4.5.1 Goal setting in banks**

The study sought to establish whether employees were in agreement regarding goal setting in the bank so as to determine if it helps to contribute to higher performance.

The respondents were requested to indicate the extent to which they were in agreement regarding goal setting in the bank. The results are in table 4.6.

**Table 4.5: Goal setting in banks**

Goal setting in banks	Mean	Std. Deviation
All the employees are involved in setting targets/goals in the bank in order to increase motivation	2.6923	1.2506
Goal setting in the bank is unambiguously i.e it has a clear goal with employees being able to achieve and improve easily	2.7692	1.0127
Goal setting help to contribute to higher performance in the bank than only telling employees what to do and how to do	4.2308	.8320
The bank establishes goals that are perceived as challenging but realistic and to which there is higher level of commitment	3.6385	.8770
Goal setting in the bank is based on employees' abilities	2.3077	1.0315
The employees and supervisors in the bank negotiate resources necessary to achieve the goals	3.1538	.6887

The findings on goal setting in the banks concerned was that it setting help to contribute to higher performance in the bank than only telling employees what to do and how to do (mean 4.2308) and that the bank establishes goals that are perceived as challenging but realistic and to which there is higher level of commitment (mean 3.6385). The respondents indicated to a moderate extent that employees and supervisors in the bank negotiate resources necessary to achieve the goals (mean 3.1538), goal setting in the bank is unambiguously i.e it has a clear goal with employees being able to achieve and improve easily (mean 2.7692) and that all the employees are involved in setting targets/goals in the bank in order to increase motivation (mean 2.6923). The respondents disagreed that goal setting in the bank is based on employee abilities ( mean 2.3077). In conclusion goal setting to a higher extent helps to contribute to higher performance in the banks. To a moderate extent goal setting is perceived to be challenging, but realistic and employees and supervisors negotiate resources necessary to achieve the goal. The study also indicates that, rarely are all employees involved in setting goals in the bank.

#### **4.5.2 Performance appraisal methods in the bank**

The study sought to indicate the extent to which banks use performance appraisal methods so as to establish if they were clear and objective. The respondents were asked to indicate the extent to which the banks use performance appraisal methods. The ratings are presented in table 4.7.

**Table 4.6: Performance appraisal methods in the bank**

Performance appraisal methods in the bank	Mean	Std. Deviation
The performance criteria/instruments used to measure employee performance are clearly defined and objective	3.7692	.7250
The bank appraises its employees using comparative ranking method i.e supervisors comparing the performance of one employee with others	2.6154	1.1929
Graphic rating scale is used in the bank to appraise employees i.e rating employees on quality of work, dependability, job knowledge, attendance, accuracy of work and cooperativeness	3.4615	.6602
Peer review method of appraisal is used in the bank i.e employees are evaluated by their peers	1.7692	1.0919
The employees in the bank undertake self reviews i.e evaluating their own performance	3.6923	1.1094
Behaviorally anchored rating scale method is undertaken in the bank i.e combines the benefits of narratives, critical incidents and quantitative scales by anchoring a rating scale with specific behavioral examples of good or poor performance	3.0769	.9540
Merit/pay bonus allocations refers to the degree to which employees perceive performance-based pay as motivating and fair	3.4615	.6602

The findings show that the respondents were only in agreement with the use of performance criteria/instruments to measure employee performance being clearly defined and objective (mean 3.7692) and employees in the bank undertake self reviews (mean 3.6923). The respondents indicated to a moderate extent that graphic rating scale is used in the bank to appraise employees (mean 3.4615), merit/pay bonus allocations refers to the degree to which employees perceive performance-based pay as motivating and fair (mean 3.4615), behaviorally anchored rating scale method is undertaken in the banks (mean 3.0769) and bank appraising its employees using comparative ranking method(mean 2.6154). The respondents indicated that peer review was not used by the banks (mean 1.7692). In conclusion to a large extent the performance criteria/instruments



used to measure employee performance are clearly defined and objective, the employees in the bank undertake self reviews. In moderation graphic rating scale is used in the bank to appraise employees, merit/pay bonus allocations refers to the degree to which employees perceive performance-based pay as motivating and fair. Rarely is peer review method of appraisal is used in the banks.

### 4.5.3 Performance ratings in the banks

**Table 4.7: Performance ratings in the banks**

Performance appraisal ratings	Mean	Std. Deviation
Supervisors avoid giving performance ratings which may have negative consequences to his/her subordinates	2.1846	.7679
The performance evaluation system in the bank serving its purpose	3.7385	.5188
Performance evaluation criteria used in the bank is capable of measuring employee true performance	3.5615	.8770
Employees can challenge a performance rating if employees think is biased or inaccurate	3.6947	.8770
In order to avoid resentment and rivalry among colleagues, supervisor gives equivalent ratings	1.6923	.8548

The findings in Table 4.8 show that performance evaluation system in the banks serving its purpose (mean 3.7385), employees can challenge a performance rating if employees think is biased or inaccurate (mean 3.6947) and that performance evaluation criteria used in the bank is capable of measuring employee true performance (mean 3.5615). The respondents disagreed that supervisors avoid giving performance ratings which may have negative consequences to his/her subordinates(mean 2.1846) and that in order to avoid resentment and rivalry among colleagues, supervisor gives equivalent ratings (mean 1.6923). In conclusion to a large extent banks performance evaluation criteria used served the purpose, employees can challenge a performance rating if they think it is biased and performance evaluation criteria used in the banks is capable of measuring employee true

performance. In order to avoid resentment and rivalry among colleagues rarely do supervisors give equivalent ratings.

#### 4.5.4 Performance appraisal feedback

The study sought to find whether the respondent were in agreement with the performance appraisal feedback. The respondents were requested to indicate the extent to which they agreed on performance appraisal feedback in the banks.

**Table 4.8: Performance appraisal feedback**

Performance appraisal feedback	Mean	Std. Deviation
Information generated through performance evaluation is used to give feedback to subordinates so that they know where they stand	3.7692	.7250
Feedback on performance is given to employees so that they understand that a particular goal is still important	3.8349	.7250
Employees receive feedback frequently enough to assess progress made toward goal attainment	3.9462	.8006
Employees in the bank are trained after receiving feedback on their performance	3.0769	.7595
Customers are a useful source to provide feedback to the bank about employees' performance	3.1538	.8006

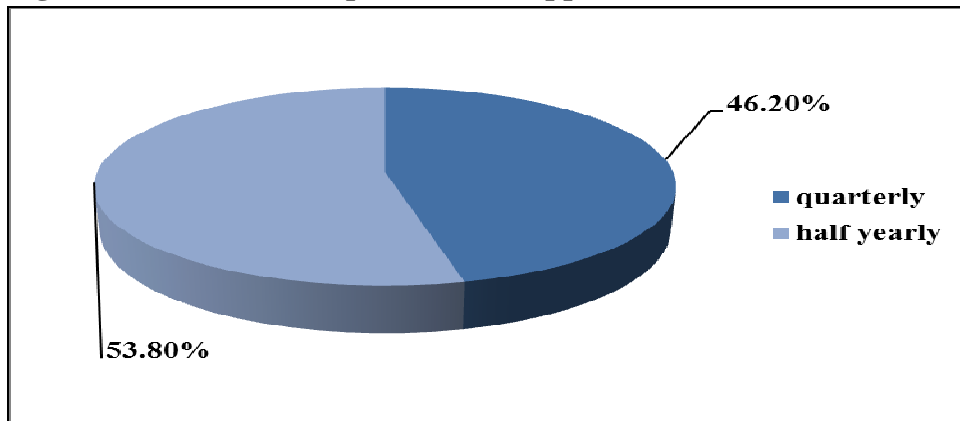
The findings on table 4.9 indicate that the respondents expressed high level of agreement that employees receive feedback frequently enough to assess progress made toward goal attainment (mean 3.9462), feedback on performance is given to employees so that they understand that a particular goal is still important (mean 3.8349) and information generated through performance evaluation is used to give feedback to subordinates so that they know where they stand (mean 3.7692). The respondents at the same time expressed moderate level of agreement on customers being a source of useful information to provide feedback to the bank about employees' performance(mean 3.1538) and employees being trained after receiving feedback on their performance(mean 3.0769). In conclusion to a large extent feedback on performance is given to employees so that they

understand that a particular goal is still important and employees receive feedback frequently enough to assess progress made toward goal attainment.

#### 4.5.6 Feedback on performance appraisal

The study sought to find the frequency of feedback to the banks employees. When asked about feedback employees responded as per figure 4.3.

**Figure 4.3: Feedback on performance appraisal**



The findings on the frequency of feedback on performance appraisal to the employees was that 53.8% of the respondents said that feedback is undertaken half yearly while 46.2% of the respondents said that feedback on performance appraisal is done on quarterly basis. The results indicate that the frequency of feedback to the employees differed and this can be attributed to individual bank policies on human resource practices.

#### 4.6 Discussion

Performance appraisal system has gained considerable importance recently. Just because, all other human resource functions such as; recruitment and placement, training and development, managing careers and fair treatment, pay for performance and financial incentives directly or indirectly depend on the performance appraisal system. The ultimate goal of most performance appraisal systems is to increase employee motivation and productivity. The findings indicate that performance appraisal is an essential tool for organizational development and that performance appraisal serves as a tool for

employees' performance. More so, it was found that performance appraisal is used as an assessment tool for promotional exercise. These findings corroborate the views of (Gibson, Harvey and Harris, 2007). The finding that performance appraisal serves as a means for salary increment or distribution of rewards is in consonance with the views of Briscoe and Claus (2008) who hold the view that appraisal is a means for distributing rewards.

In the commercial banks, all the individuals' and teams' performance are evaluated on a regular interval. The employees are evaluated quarterly. Frequently done performance appraisals can result in improved performance and low employee turnover (Khan, 2008). Thus this practice can help the banks to retain employees as high employee turnover rate prevails in this sector. The employees are evaluated by multiple appraisers in the banks. As different people see different things from different perspectives, this practice can be useful for any bank as it can ensure comprehensive and quality performance information. Though it is a complex and time consuming process, it can also lead to a bias/prejudice free appraisal (Bohlander and Snell, 2007). It was found that performance appraisal is used for training, development and training needs identification. This finding corroborates the views of Briscoe and Claus (2008) as well as Fajana (2002) who view appraisal as a means for determining training and development needs of employees.

The finding that performance appraisal has a motivational effect on workers' performance and is used in assessing employees' commitment to organizational goals and objectives supports the principles of management by objective and is consistent with the views of (Dessler ,2008). According to Dessler, management by objective entails the setting of specific measurable goals with each employee and then periodically reviews the progress made. The finding also agrees with the views of Ikemefuna (2005), who posits that management by objective is a performance appraisal method that includes mutual objective /goal setting and evaluation based on the attainment of specific objectives or goals. Also, motivation and performance were enhanced when individuals participated in goal setting. This corroborated Armstrong's (2006) assertion that

motivation and performance will improve if people have challenging but agreed upon goals and receive feedback. Employees feel motivated when they know how well they are doing on their jobs. This also informs employees of their value and future to the organization. The findings of this study are consistent with the views of Gibson *et al.*, (2007) who argue that performance appraisal forms the foundation for many human resource functions, effectively setting the standards to drive recruiting efforts, and it is customary to use these criteria in hiring, promoting, evaluating and equitably compensating employees, and forming the basis for many employee training programmes

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

In this chapter, the findings of research are summarized and discussed, the chapter also offers conclusion of the study, highlights the recommendations for policy and practices and gives suggestions for further studies.

### **5.2 Summary of Findings**

This chapter winds up the study. The study established that the majority of the respondents had attained university level and therefore they understand the need for the bank to have effective performance appraisal practices. The findings show that the length of service in the banks varied although majority of the respondents have worked for a longer duration of time and therefore they understand the performance appraisal practices existing in the bank. The study found out that majority of the commercial banks have been in existence for over twenty five years and thus in order to compete effectively there has to be effective human resource which can be achieved through performance appraisal practices.

The study found out that performance appraisal was carried out in the banks mostly on quarterly basis and this will give the management and the employees' time to ensure that all the desired objectives are achieved during the end year. Employees in the bank receive feedback on performance appraisal half yearly and this will enable the management of the bank to know the areas that the employees need to improve on in order to achieve the desired targets. The study found out that performance appraisal in the bank was undertaken through supervisor rating and self appraisal. Employee ratings of supervisor and peer ratings where employees appraise each other were not used by the banks.

The study found out that the banks use performance appraisal for organizational development, employees' performance, salary increment or distribution of rewards, has a motivational effect on workers' performance, promotion, training, development and training needs identification and that performance appraisal is used in assessing employees' commitment to organizational goals and objectives.

The findings of the study showed that employees are well informed about the purpose of appraisal, employees are given the objectives upon which the appraisal practice is conducted, employees are involved in rating other employees, employees are regularly appraised, manager discusses with me the results of the appraisal practice and that employees are given the opportunity to react to the evaluators rating and comments. Goal setting involves managers and subordinates jointly establishing and clarifying employee goals. The study found out that goal setting help to contribute to higher performance in the bank than only telling employees what to do and how to do and that the banks establishes goals that are perceived as challenging but realistic and to which there is higher level of commitment.

The findings on performance appraisal method were that performance criteria/instruments used to measure employee performance was clearly defined and objective and employees in the bank undertake self reviews. The findings to a moderate extent was that graphic rating scale is used in the bank to appraise employees, merit/pay bonus allocations was a motivating and fair, behaviorally anchored rating scale method is undertaken in the bank and bank appraise employees using comparative ranking method. The results on performance rating was that performance evaluation system in the bank serve its purpose, employees can challenge a performance rating if employees think is biased or inaccurate and that performance evaluation criteria used in the bank is capable of measuring employee true performance. The findings on performance appraisal feedback on the banks was that employees receive feedback frequently enough to assess progress made toward goal attainment, feedback on performance is given to employees so that they understand that a particular goal is still important and information generated through performance evaluation is used to give feedback to subordinates so that they

know where they stand. On the other hand the study found out that customers being a source of useful information to provide feedback to the bank about employees' performance and employees being trained after receiving feedback on their performance were used by the banks to a low level.

### **5.3 Conclusion**

In any organization each individual's performance keeps its own importance in the success of organization. With the changing competitive business environment the effective and efficient use of resources is very important for the survival of organization in market. And evaluation of the performance of all the resources involved in organizational operation is also very essential in order to achieve organizational goal. Since ultimately it is the human resources that determine the success and failure of the organization, the management of human resources plays a very crucial role in the overall management system of the organization. Attracting and selecting the most competent employees to the organization is not enough. Getting the maximum benefit from its employees is the aim of organizations and managers. This, of course, requires a very good understanding of human behavior in the organizational settings. As human resource is considered the most valuable and complicated resource in an organization, appraisal of the human resource is also complicated and very essential.

The study revealed that the respondents support quarterly reviews. The periodic reviews will allow more communication between an employee and supervisor and give current status reports on performance used to prepare the annual performance evaluations. The quarterly reviews open lines of communication and allow supervisor and employee to meet on a routine base thereby eliminating surprises during the annual performance evaluation. The research also concluded traditional evaluations; peer reviews and individual developmental plans are valuable tools. These practices together work the best to show the true and whole picture of the employee's performance and not just a single snap shot. The expansion path of development should not get slender due to the inadequate employee performance. Establishing an effective performance appraisal process can improve the employee performance, which in turn can boost organizational



performance. Thus performance appraisal can be the road to competitive advantage by ensuring the retention of quality human resources in banks. Finally, reviewing the current performance appraisal practices will lead to a competent future for banks as the objective of performance appraisal is to ensure performance improvement, and link it with other human resources practices and organizational strategies. Any mismatch in this regard can cost an organization a great deal of money, time and energy, which will ultimately affect the employee retention and organizational performance in long-term.

#### **5.4 Recommendations**

The findings of this study to a large extent have shown that workers have an optimistic view of performance appraisal as a means for promoting, evaluating and equitably compensating employees, and forming the basis for many employee training programmes as well as its motivational effect on workers' performance. From the foregoing therefore, it is recommend that for appraisal to yield the desired outcomes, adequate attention should be paid to the avoidance of appraisal politics and the pursuance of fairness and transparency in the process. More so, training programmes could be initiated by organizations to offer tips for avoiding appraisal errors. All forms of discrimination and unethical practices which could jeopardize the process should be eschewed or avoided. Open-reporting system as opposed to closed-reporting system should be encouraged for performance appraisal to have a motivational effect on workers' performance.

Employee participation in the appraisal process was very high and this positively affected employee motivation and perception of fairness. Consequently, banks are advised to adopt participatory performance appraisal systems in order to motivate employees and reduce biased considerations in both the process and outcome. Hence, a participatory performance appraisal would ensure both procedural and distributive justice thereby motivating employees both intrinsically and extrinsically. Results of the study further indicated that most employees preferred appraisal ratings to be used for training and development purposes. It is recommended that managers should improve on the training and development needs analysis component of appraisal in order to meet the desires and

aspirations of employees. A well trained and developed workforce is required for increased productivity and organizational growth. It would lead to efficiency and effectiveness of organizational activities.

In order to minimize the problems of subjectivity, raters need to evaluate their subordinates based on the actual volume of work and responsibility discharged over the period of evaluation rather than focusing only on subjective measurement so that the productivity of employees will be enhanced. The bank should also establish a committee who are in charge of undertaking the performance evaluation of the organization. The performance evaluation system of the bank should be designed in such a ways that it is future oriented and focused on the long term developmental benefits rather than focusing on the controlling aspect only which is short term in nature.

### **5.5 Suggestions for further studies**

The study confined itself to commercial banks. This research therefore should be replicated in other sectors to establish the performance appraisal practices adopted in those sectors. At the same time it is important to explore how commercial banks can establish the formal appeal and control system, and keep transparency in performance appraisal. This further study may help banks or other organizations to improve its performance appraisal system specifically, and make it work professionally.

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## APPENDIX I: QUESTIONNAIRE

Please give answers in the spaces provided and tick (✓) in the box that matches your response to the questions where applicable.

### Section A: Demographic Profile

1. Name of the bank.....
2. What is your highest level of education qualification?
  - a) Post graduate level ( )      b) University ( )
  - c) Tertiary College ( )      d) Secondary ( )
3. Length of continuous service with the bank?
  - a) Less than five years ( )
  - b) 5-10 years ( )
  - c) Over 10 years ( )
4. For how long has your bank been in operation in Kenya?
  - a) Under 10 years ( )      b) 11 – 15 years ( )
  - c) 16 – 20 years ( )      d) 21 - 25 years ( )
  - e) Over 25 years ( )

### Section B: Performance Appraisal

7. How often is performance review/appraisal carried out within the organization?
  - a) Quarterly ( )      b) Half yearly ( )
  - c) Annually ( )      c) Never carried out ( )
8. How often do the employees receive feedback on the performance appraisal?
  - a) Quarterly ( )      b) Half yearly ( )
  - b) Annually ( )      c) Never ( )



9. To what extent does your bank use the following techniques on employee performance appraisal? Use 1-Not at all, 2-Small extent, 3-Moderate extent, 4-Great extent and 5-Very great extent.

Appraisal technique	1	2	3	4	5
Supervisor rating of subordinates i.e rating of employees by supervisors					
Employee rating of superiors i.e having superiors rated by subordinates					
Peer ratings where employees appraise each other					
Self appraisal where employees are forced to think about their strengths and weaknesses and set goals for improvement					

10. To what extent do you agree on the following regarding performance appraisal in your bank? Use 1- Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree and 5-Strongly Agree.

Statement	1	2	3	4	5
Performance appraisal is an essential tool for organizational development					
Performance appraisal serves as a tool for employees' performance					
Performance appraisal has a motivational effect on workers' performance					
Performance appraisal is not an essential management tool for promotion					
Performance appraisal is used in assessing employees' punctuality					
Performance appraisal is used in assessing employees' commitment to organizational goals and objectives					
Performance appraisal is used for training, development and training needs identification					
Performance appraisal serves as a means for salary increment or distribution of rewards					
Leadership style does not influence workers perception of performance appraisal					

11. Using the key given, choose or tick the right alternative that corresponds with your opinion as they relate to you regarding appraisal practices used in your bank as follows: 1- Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree and 5-Strongly Agree.

Statement	1	2	3	4	5
I am well informed about the purpose of appraisal					
I am involved in rating myself					
I am given the objectives upon which the appraisal practice is conducted					
I am regularly appraised					
The bank management uses more than one type of appraisal					
I am given the opportunity to react to the evaluators rating and comments					
The manager discusses with me the results of the appraisal practice					

12. To what extent do you agree with the following regarding goal setting in your bank?  
Use 1- Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree and 5-Strongly Agree.

Goal setting practice	1	2	3	4	5
All the employees are involved in setting targets/goals in the bank in order to increase motivation					
Goal setting in the bank is unambiguously i.e it has a clear goal with employees being able to achieve and improve easily					
Goal setting help to contribute to higher performance in the bank than only telling employees what to do and how to do					
The bank establishes goals that are perceived as challenging but realistic and to which there is higher level of commitment					
Goal setting in the bank is based on employees' abilities					
The employees and supervisors in the bank negotiate resources necessary to achieve the goals					

13. To what extent does your bank uses the following performance appraisal methods?  
Not at all, 2-Small extent, 3-Moderate extent, 4-Great extent and 5-Very great extent.

Performance appraisal methods	1	2	3	4	5
The performance criteria/instruments used to measure my performance are clearly defined and objective					
The bank appraises its employees using comparative ranking method i.e supervisors comparing the performance of one employee with others					
Graphic rating scale is used in the bank to appraise employees i.e rating employees on quality of work, dependability, job knowledge, attendance, accuracy of work and cooperativeness					
Peer review method of appraisal is used in the bank i.e employees are evaluated by their peers					
The employees in the bank undertake self reviews i.e evaluating their own performance					
Behaviorally anchored rating scale method is undertaken in the bank i.e combines the benefits of narratives, critical incidents and quantitative scales by anchoring a rating scale with specific behavioral examples of good or poor performance					
Merit/pay bonus allocations refers to the degree to which employees perceive performance-based pay as motivating and fair					

14. To what extent do you agree with the following performance appraisal ratings in the bank? Use 1- Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree and 5-Strongly Agree.

Performance appraisal ratings	1	2	3	4	5
Supervisors avoid giving performance ratings which may have negative consequences to his/her subordinates					
The performance criteria/instruments used to measure my performance are clearly defined and objective					
The performance evaluation system in the bank serving its purpose					
Performance evaluation criteria used in the bank is capable of measuring my true performance					

Employees can challenge a performance rating if I think is biased or inaccurate					
In order to avoid resentment and rivalry among colleagues, supervisor gives equivalent ratings					

15. To what extent do you agree with the following regarding performance appraisal feedback in your bank? Use 1- Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree and 5-Strongly Agree.

Performance appraisal feedback	1	2	3	4	5
Information generated through performance evaluation is used to give feedback to subordinates so that they know where they stand					
Feedback on performance is given to employees so that they understand that a particular goal is still important					
Employees receive feedback frequently enough to assess progress made toward goal attainment					
Employees in the bank are trained after receiving feedback on their performance					
Customers are a useful source to provide feedback to the bank about employees' performance					

16. What are some of the challenges administrators face in the process of appraisal?

.....  
 .....  
 .....

## APPENDIX II: LIST OF COMMERCIAL BANKS

1. ABC Bank (Kenya)
2. Bank of Africa
3. Bank of Baroda
4. Bank of India
5. Barclays Bank
6. CFC Stanbic Bank
7. Chase Bank (Kenya)
8. Citibank
9. Commercial Bank of Africa
10. Consolidated Bank of Kenya
11. Cooperative Bank of Kenya
12. Credit Bank
13. Development Bank of Kenya
14. Diamond Trust Bank
15. Dubai Bank Kenya
16. Ecobank
17. Equatorial Commercial Bank
18. Equity Bank
19. Family Bank
20. Fidelity Commercial Bank Limited
21. Fina Bank
22. First Community Bank
23. Giro Commercial Bank
24. Guardian Bank
25. Gulf African Bank
26. Habib Bank

27. Habib Bank AG Zurich
28. I&M Bank
29. Imperial Bank Kenya
30. Jamii Bora Bank
31. Kenya Commercial Bank
32. K-Rep Bank
33. Middle East Bank Kenya
34. National Bank of Kenya
35. NIC Bank
36. Oriental Commercial Bank
37. Paramount Universal Bank
38. Prime Bank (Kenya)
39. Standard Chartered Kenya
40. Trans National Bank Kenya
41. United Bank for Africa
42. Victoria Commercial Bank

Source: Central Bank of Kenya (2013)