

**FACTORS INFLUENCING THE EFFECTIVENESS OF PERFORMANCE
APPRAISAL SYSTEM IN NATIONAL BANK OF KENYA, HEAD OFFICE
NAIROBI COUNTY**

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**A project research submitted in partial fulfillment of the requirement for the award of
Master of Arts Degree in Project Planning and Management of the University of Nairobi**

DECLARATION

This research project is my original work and has not been presented to any other examination body. No part of this project research report should be produced without my consent or that of The University of Nairobi.

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DEDICATION

I dedicate this work to my parents for their love, constant care and their unwavering determination to advise and pick me up for the times I needed directions. Dad and Mum, the significance of your presence in my academic upsurge is evidenced by the far I have academically gone. To both of you, I pray always that you live to see the sunset that the Almighty God can ever endow caring and loving parents.

My brothers regardless of your different ages each one of you has played a pivotal role in this intellectual course. Special dedication also goes to my sisters; you have had a role in building the desires that have inculcated in me the virtues of hard work.

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LIST OF ABBREVIATIONS

| | |
|------------------|------------------------------|
| FOR | Frame-of Reference Training |
| NBK | National Bank of Kenya |
| PAS | Performance Appraisal System |
| RET | Rater Error Training |
| MD | Managing Director |
| CM | General Manager |

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ABSTRACT

Performance appraisal system is important to any organizational work performance; it determines the organization's success or failure. The aim of this study was to evaluate the factors that influence the effectiveness of performance appraisal system at National Bank of Kenya. A series of financial underperformance while an enhanced Performance Appraisal System was in existence formed the basis of the statement of the problem. The research objectives included to; establish whether the attitude of the appraiser and those who are appraised influence the effectiveness of performance appraisal in NBK, Head Office Nairobi, determine whether the appraisal design and the process of conducting affect the effectiveness of appraisal system used in NBK, Head Office Nairobi, find out if employee preparedness and training influence the effectiveness of performance appraisal in NBK, Head Office Nairobi, establish whether performance feedback influence an effective performance appraisal exercise and to find out if linking pay or rewards to performance appraisal system influences its effectiveness. The dependent variable was effectiveness of performance appraisal system while the independent variables included; attitude of the employees, performance feedback, the design of the appraisal system, training and linking rewards to Performance Appraisal System. The target population was the employees of National Bank of Kenya Head Office Nairobi. Structured questionnaires and interview schedules were used to collect data and later analyzed using SPSS. The researcher used descriptive research design and a sample size of eighty employees was used out of the possible two hundred and forty at Head Office Nairobi. Proportionate stratified sampling was the appropriate sample design applied.

The key findings were: Firstly; the attitude of the supervisors and the appraised which needs to be changed. Majority of the subordinate staff disagreed and remained neutral on attributes related to their attitude while managers agreed with these attributes in a way to justify on how they deliver on their managerial duties. Secondly, is the design of the appraisal form. Analysis results revealed that the appraisal form was designed without participation of employees and its goals were not meaningful measures to the employees. From this description, it was possible to infer that the standards against which employees' performance were judged were vague and highly subjective if these employees didn't understand its goals as meaningful measures. Thirdly was training of employees. Lack of sufficient training across all cadres of employees was revealed through the analysis which the researcher carried out. The other important factor that affected effectiveness of performance appraisal system at National Bank of Kenya was performance feedback. A good number of respondents strongly agreed that they hardly received meaningful feedback therefore they could not capitalize on their strengths and improve on the weak areas. Finally; it was linking rewards to the performance appraisal results. The analysis of the results revealed that although this practice existed, employees were given bonuses related to performance on a flat rate. This in particular showed that the system could not distinguish between performers and non performers. Majority of the respondents also claimed that the performance results were biased and that these particular bonuses will not be enough to motivate them to perform better or sustain the same performance in future.

CHAPTER ONE

INTRODUCTION

In this chapter, the researcher gave a brief general overview of performance appraisal or evaluation. The researcher also showed organizational chart depicting hierarchy of leadership and further stated why performance evaluations are necessary and its associated benefits. The statement of the problem, research objectives and questions, significance of the study, limitations and delimitation of the research project, scope of the study and its organization were also distilled in this chapter.

1.1 Background to the Study

Formal performance appraisal has become a widespread instrument of human resource management. Surveys reported in the 1970s and 1980s already indicated that between seventy four percent and ninety six percent of U.S. organizations, and a comparable proportion of British firms had a formal performance appraisal system in place. Large, complex organizations are especially likely to conduct formal appraisals (Berry, 2003). According to Jacobs et al. (1980) performance appraisal can be described as a systematic attempt to distinguish the more efficient workers from the less efficient workers and to discriminate among strengths and weaknesses an individual has across many job elements. In short, performance appraisal is a measurement of how well someone performs job-relevant tasks (Parrill, 1999). These measurements are normally done by the direct supervisor of the appraisee and can serve different organizational purposes. Examples are employee selection, disciplinary action, development /feedback, promotion, training /supervision and personnel planning.

Execution of performance appraisal means that underlying assumptions to performance appraisal exist. According to Reinke (2006) one of the most basic assumptions is that employees differ in their contribution to the organization because of individual performance, and that supervisors are actually able and willing to distinguish between employees. Furthermore, for development purposes one assumes that accurate and timely feedback can change behavior (Tziner et al., 1992) in a way that the organization as well as the individual is profiting. According to Tziner and Kopelman (2002) this is fostered through the following mechanisms: raters' identification of employees' strengths and weaknesses, the provision of feedback and the facilitation of communication with supervisors. Another assumed aspect is concerned with the practicality of performance appraisal: Time and costs for development and execution phases of the process do not outperform the organizational win which is reached by appraising performance (Jacob et al., 1980). But there are also some methodological assumptions that are made by those applying formal

performance appraisals. Jacobs et al. (1980) describe them: The first is that equivalence exists. This means that the situations under which all appraisee's are evaluated and the ways different raters actually evaluate appraisee's are comparable. Second, there are uniformed interpretations of standard expectations and forms among raters. Furthermore, the rater must have the possibility of direct observation plus additional data as for example attendance rates. Unfortunately, the performance appraisal self and the process are not without flaws.

According to Kondrasuk et al. (2002) these problems can be categorized as: the process and format, evaluators' role and problems involving the evaluatees. An example for the first category is the issue of perceived fairness described by Rarick and Baxter (1984) which significantly influences performance appraisal system effectiveness. Fairness is made up by the three different concepts of distributive fairness, procedural fairness and interactional fairness. Distributive fairness is the degree to which rewards and punishments are actually related to performance inputs. According to Swiercz et al. (1999) distributive fairness is the most important predictor of job performance. Procedural fairness describes the degree to which procedures and policies which determine the performance appraisal score are perceived as fair. Davis and Landa (1999) found that the absence of fair procedures increases distress because the results of performance appraisal are essentially outside the control of the employee. But if employees are confident in the fairness of performance appraisal process, they are more likely to accept performance ratings, even adverse ones (Roberts, 2003). Furthermore, procedural fairness is a significant predictor for pay and job-satisfaction (Swiercz et al., 1999). Interactional fairness refers to fair treatment of employees by age (Swiercz et al., 1999). Thus, employees' attitudes towards the system will predict how willing they are to buy into the goals they are expected to meet (Harris, 1988).

The second category of problems deals with the evaluator role. According to Kondrasuck et al. (2002) these problems emerge in particular because of conflicting roles of being coach and judge at the same time, lack of rater training or personal bias as favouritism, subjectivity or leniency. The third category has mainly to do with dissatisfaction with type and amount of feedback and uncomfortable feelings because of lack of control. Especially the way of feedback giving has the potential to arouse negative emotions which in turn negatively affect the acceptance of the performance appraisal system. This partially stems from the fact that performance appraisal has an impact upon an employee's sense of self-worth (Rarick and Baxter, 1984). Combined with the fact that employees tend to overrate their own performance and may feel resentful when receiving appraisals which are lower than they expected (Harris, 1988) it is an explanation why acceptance

might be lowered. The lack of user acceptance engenders resistance and a reduction in user motivation (Roberts, 2003) and can result in the undesirable closure of communication between leader and employee around the performance issue (Davis and Landa, 1999).

In summary, it can be concluded that performance appraisal systems become useless if they do not elicit positive reactions among raters and ratees (Tziner and Kopelman, 2002). Generally, this mainly deals with the performance appraisal system being accepted because it is perceived as being distributional and procedural fair and being a valid measure for the position at hand. Thus, in recognition of the large amounts of time and money that need to be invested to develop and implement an appraisal system, an ineffective appraisal system would be a severe threat and loss of resources to an organization. On basis of these facts it seems important for each organization to regularly check if their performance appraisal is perceived as intended and if users still support system and process. Thus, the leading research question is as follows: Which factors are influencing the effectiveness of the performance appraisal system at National Bank of Kenya, Head office Nairobi?

National Bank of Kenya Limited has been selected for this research in order to have in-depth investigation of different issues and their effect on performance appraisal. This particular bank has been chosen because it offers the basic range of banking services to its customers. The bank has a system of above fifty one branches in Kenya. The domestic share of National Bank of Kenya is over 7% and it offers loans to small industries, traders and farmers. National Bank of Kenya Limited (NBK) was incorporated on 19th June 1968 and officially opened on Thursday November 14th 1968. The objective for which it was formed was to help Kenyans to get access to credit and control their economy after independence. In 1994, the Government reduced its shareholding by 32% (40 Million Shares) to members of the public. Again in May 1996, it further reduced its Shareholding by 40 million Shares to the public. The current Shareholding now stands at: National Social Security Fund (NSSF) 48.06%, General Public - 29.44%, Kenya Government 22.5%. It is the slogan of the bank that they grab the best people from the pool of applicants. Therefore it is the basic reason why the bank is on the top position in the country. NBK cannot be among the list of the top banks if its employees are not performing according to the set standards. It is necessary to evaluate the performance of the employees of National Bank of Kenya. For this reason there also exists performance appraisal system in National Bank of Kenya which helps the management to know the difference between efficient and non-efficient employees. As Cullen Hightower quoted that, when performances go beyond ambition the overlap is known as success. National bank of

Kenya Limited is investing in its employees by identifying their training needs and providing them many learning facilities to improve their performance. For the very purpose, this research has elaborated various factors that can affect or are affected through the performance appraisal in National Bank of Kenya Limited. Those factors are influential in performance evaluation and betterment. This research provided the information to the management and employees about the performance appraisal system prevailing at National Bank Limited.

Figure 1 Organizational Chart of National Bank of Kenya

| | | |
|-----------------------------------|---------------------------|---|
| Board of Directors | | |
| Managing Director | | |
| Deputy MD Support Services | | Deputy MD_Customer Services |
| HiMuRniurefAiMUDlrKter | | _____ |
| CM Supplies a iul Department | CM Leialaa* Dep.rime*! | CM Audit Department |
| | | ru GM Operations Develop mmt Department |
| | | Chief Branch Manager Branch Mana ger and Departmental Heads |

Source: NBK Administration Department, 2011

1.2 Statement of the Problem

In the late nineties, National Bank of Kenya almost went down after a series of financial underperformance. Shareholders were paid dividends in the year 2011 for the first time after missing it for over a decade. Branch expansion has been slow because the regulator has not been satisfied with its ability to make profit while operating under the current number of branches. Its performance in Nairobi securities exchange has not been convincing either.

In the year two thousand and ten, the top management of National Bank of Kenya came up with an enhanced appraisal system in order to gauge the performance of its workforce and ultimately

improve on its overall financial performance. This appraisal system seems not to have had impact as expected. This means there are factors which have been influencing the effectiveness of performance appraisal process since there is a link between effective performance, employees professional development and the ultimate firm's goals and its mission,(Lawrence,2004).

Consequently, this has made the executives, investors and shareholders of National Bank of Kenya unhappy on how work is performed as they see minimal output which is affecting the performance of their business.National Bank of Kenya Head Office Nairobi exhibited the same characteristics and this prompted the researcher to carry out a study on this particular area. There are problems and gaps relating to staff involvement, improper implementation, lack of time allocated to the exercise and subjectivity(in determining best performers and the parameters on whom should be rewarded).The researcher therefore investigated on the factors influencing effectiveness of appraisal system in National Bank of Kenya with special reference to Head Office Nairobi .

1.3 Purpose of the Study

The research project sought to investigate the factors influencing effectiveness of performance appraisal system in National Bank of Kenya, Head Office Nairobi. The factors which were under investigation included; training of employees, linking performance to pay, performance feedback mechanisms in place and the attitudes of the employees.

1.4 Research Objectives

The research project report sought to investigate on the factors influencing effectiveness of performance appraisal system in National Bank Kenya, Head Office Nairobi.

The specific objectives were to;

- i. Establish whether the attitudes of employees influence the effectiveness of performance appraisal in NBK, Head Office Nairobi.
- ii. Establish whether the appraisal design of the appraisal form affect the effectiveness of appraisal system used in NBK, Head Office Nairobi.
- iii. Find out whether employee training influences the effectiveness of performance appraisal in NBK, Head Office Nairobi.
- iv. Establish whether performance feedback influence an effective performance appraisal exercise.
- v. Find out whether linking rewards/pay to performance appraisal system influences the effectiveness of performance appraisal system at NBK head office Nairobi.

- vi. Determine appropriate measures to be put in place to improve the implementation of an effective performance appraisal system in National Bank of Kenya as suggested by the employees.

1.5 Research Questions

- i. Does the attitude of employees influence the effectiveness of performance appraisal system in NBK, Head Office Nairobi?
- ii. How does the design of performance appraisal form influence effectiveness of the performance appraisal system in NBK, Head Office Nairobi?
- iii. Does employee training influence the effectiveness of performance appraisal system in NBK, Head Office Nairobi?
- iv. Does giving performance feedback influence effectiveness of an appraisal system?
- v. Does linking results of performance appraisal system affect the effectiveness of performance appraisal system in NBK, Head Office Nairobi?
- vi. What appropriate measures should be taken to enhance and improve the implementation of an effective PAS in NBK, Head Office Nairobi as suggested by employees?

1.6 Significance of the Study

Through this study the organization is able to know what is hampering the effectiveness of their appraisal system. By being able to pinpoint on the factors, the organization will be able to address these factors hence improving on their appraisal system and these will lead to achievement of set goals and targets. This will go a long way in ensuring that the financial performance and market share of the organization is improved. Additional Investors will be attracted and shareholders will too be happy. The information gathered will also assist the management to undertake serious intentional measures to redress such factors that positively influence employee's attitudes and acceptance. It will also help develop positive attitude among employees and clear misconceptions that employees have on performance appraisal.

This project research report will also be helpful to human resources practitioners and other organizations in that it will help them devise ways of employees accepting the process. The study will also be significant to future researchers by providing prior information on issues concerning related studies. The researchers will also get to know what is not included and carry relevant research on the same. The study will act as a reference and stimulate further interest among the academicians as well as advancing their knowledge.

1.7 Delimitation of the Study

The fact that National Bank of Kenya Head Office houses one big branch and several managerial departments ensured that the sample which was selected was representative. This also helped cut down on the cost of the researcher moving from one branch to the other hence making the whole process economical and affordable. The decision making body as far as appraisal performance is concerned is based at head office and this is critical for information gathering and evaluation. The researcher is also a banker and this facilitated ease of data collection since he understood the banks' operation. Gaining easy access to the banks employees is also another factor that facilitated the project's success.

1.8 Limitations of the Study

The first limitation which the study faced was bureaucracy in obtaining information from the Bank's management. There were several formalities to be followed and other managers refused in fear that the information may get into wrong hands leading to unnecessary investigations. All these stifled data gathering. To mitigate these, the researcher explicitly stated that the research was for academic purposes and the information gathered will be confidential. The researcher also used his social network within the bank to reduce on these hurdles.

The issue of unco-operative respondents also arose. In many situations they claimed they did not have time to fill the questionnaires. Some respondents also answered the questions based on their own opinions neglecting facts on the ground. This to some extent affected the accuracy and reliability of the information. Most of those the researcher targeted had a busy schedule and securing an appropriate time to interview them was quite hectic. The researcher understood the banks' operation and was timely to ensure he was there when most of the employees were not busy. The researcher also used his social network within the bank to reduce on these hurdles.

1.9 Scope of the Study

The study was carried out at National Bank of Kenya Head Office for a period necessary enough to collect all the relevant information for the project research. For this period, research activities were successfully accomplished. The employees of the bank were involved in the study. The target population comprised of; subordinates, staff members and management.

1.10 Assumptions of the Study

The first assumption of the study was that prospective key informants were co-operative and gave accurate information. Another assumption was that the sample which was selected was sufficient representative of the entire research population and that data collection method and tools had validity and gave the accurate measure. Given that it is a banks' policy limiting access to information on confidentiality grounds, it allowed the research to be carried out for academic purposes and for the organization to utilize its results.

1.11 Definition of Significant Terms

Performance Appraisal-is the process by which a manager or consultant: examines and evaluates an employee's work behavior by comparing it with preset standards, documents the results of the comparison and uses the results to provide feedback to the employee to show where improvements are needed and why.

Performance- the accomplishment of a given task measured against preset known standards of accuracy, completeness, cost, and speed.

Perception-is the process of achieving understanding of; apprehending.

Performance Feedback-is the return of information about the result of a process or activity; an evaluative response.

Performance Appraisal System- is a standardized process of obtaining, analyzing and recording information about the relative worth of an employee.

An attitude can be defined as a positive or negative evaluation of people, objects, event, activities, ideas, or just about anything in your environment (Zimbardo et al., 1999) in the opinion of Bain (1927), an attitude is "the relatively stable overt behavior of a person which affects his status."

Effectiveness-the degree to which objectives are achieved and the extent to which targeted problems are solved.

Ingratiation- to bring oneself, into the favor or good graces of another, especially by deliberate effort.

1.12 Organization of the Study

The project research is presented in five chapters. Chapter one presents background of the study, research objectives and questions, statement of the problem, why the research is important and the project assumptions. Chapter two presents review of relevant literature. The methodology to achieve the objectives was outlined in chapter three. Chapter four dealt with data analysis and

methods of presentation while findings recommendations and conclusion are elaborated in chapter five.

1.13 Summary

In this chapter the researcher gave the background of the study which outlined why appraisal systems are important, brief history of National bank and its organizational structure. The researcher also went ahead and proved that there exists a problem which emanates from the factors which influence the effectiveness of the appraisal system. The research objectives and questions were also outlined in this chapter. The chapter also outlined the significance of the study and this justified why the researcher was carrying out the research. The factors which made the research successful as well as hamper its success were also distilled in this chapter. Finally the research assumptions and definition of significant terms were dealt with in this chapter.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The primary purpose of this chapter was to get the theoretical understanding of the factors influencing the effectiveness of performance appraisal system. More specifically, it focuses on four primary areas. First, basing on the definitions given by different scholars on the term performance appraisal, I adopted the meaning of the term as it is related to the study. Second, the literature review examined studies which discussed the purpose of and the benefits that may be received from conducting performance appraisals. Third, the review identified the factors influencing the effectiveness of performance appraisal system. Fourth, the review of the literature has tried to suggest the relevant theories upon which the study is based and giving its conceptual framework. Finally, I have tried to summarize the outcome of the review of the literature as it was related to the subject under study.

2.2 Global and Kenyan Perspective on Performance Appraisal System

Performance appraisal in most Singapore's companies involved supervisors merely filling out confidential forms for the last two years. The National Production Board of Singapore started promoting open appraisal systems through a series of seminars. In spite of this, it appeared that several organizations continued to have a closed system of performance appraisal system. Ghorpade (1995) indicates that performance appraisals in Japan are so integrated into organizational life that it is difficult to isolate and talk about appraisal systems and mechanisms. The appraisal of individual performance is undeveloped in Japanese organizations and team work and organizational identity are promoted. Performance feedback is smooth and indirect. The Japanese make more great investment in people and in the skills necessary to be effective with others. It is also used for linking training, development, performance planning, and a tool to encourage employees.

Conger (1998) carried out an exploratory study to review the purposes and practices of performance appraisal. The study indicated the trend in US, as giving high focus on documentation, development and linking performance appraisals with pay and promotion purpose. In Korea, performance appraisal is used for development and promotion purposes. In Canada it is used much less for compensation and pay. In Australia performance appraisal is used for development and promotion purposes. At the University of Minnesota, performance appraisal policy statement

indicates that, employees performance appraisal is done on an annual basis. This is in a form of a written evaluation prepared by the responsible administrator.

Ouchi (1979) indicates that many companies in Kenya conduct performance appraisals, regardless of their levels of sophistication. But a number have not actualized the process. They are still learning the ropes. Start by delinking the results of the appraisal from salary reviews. Put in place structures to manage the process. Get policies and procedure manuals and train the entire organization on target setting, monitoring and review. The directorate of personnel Management, Kenya, (2002) states that conducting employee performance appraisal on regular basis will balance the employees work overload or under load, thus ensuring appropriate employee placement. Mbiti, (1974) gave the human temperaments as the reasons why we need to appraise employees. He classifies employee into four major vegetations and rejecters. Mbiti describes vegetators as people who care for nothing except their pay at the end of the month. They have no initiative; they will take the slightest excuse to be off duty, because this gives them more pleasure than working. They require constant supervision without appraising them; they will try to hide amongst others while they do nothing. These are the kind of employees that the appraisal system should focus on while improving on the well being of the rest.

Mzenge (1983) revealed that performance reports in Kenya play a relatively minor role in influencing decisions regarding the general management of the human resources. Mzenge found appraising to be based on personality traits, while actual job performance and ability to achieve goals was given little emphasis. Thus it is important that performance appraisal roles be understood by the organizational managers. Banks in Kenya have administrative and professional performance appraisal system designed to provide documented, constructive feedback regarding performance expectations, spur growth and development as well as provide a fair and equitable means to determine rewards for contributions to the bank. The senior managers and subordinates are measured by their breadth of knowledge, understanding of roles and contributions to the bank's strategic plan. The appraisal process therefore offers a valuable opportunity to focus on work activities and goals as well as identify and correct existing problems, and to encourage better future performance. Thus the performance of the whole organization is enhanced (Roger, 1995). The same idea is shared at National Bank of Kenya and as a result they have an appraisal system in place.

Gary (1991) establishes that change in behavior cannot be brought about in human beings through punishment or negative reinforcement, but only through positive reinforcement, influencing would involve providing encouragement and reinforcing success so that the person take more initiative

and is able to experiment with new ideas. Change cannot take place without experiment and risk taking. These are encouraged through positive reinforcement. Macgregor (1957) indicates that managers experienced the appraisal of others as a hostile and aggressive act against employees which resulted in feelings of guilt of employees. He asserted that the tension between appraisal as a judgment process and a supportive development process has never been resolved and is likely to continue for some time to come. Macgregor further says that making judgment about an employees' contribution, value, worth, capability, and potential has to be considered as a vital dimension of a manager's relationship with employees, as it will influence the employees' performance or output. He said that the occasion may be formally separated from the ongoing relationships and appraisal activities and decisions should be interpreted by an employee as feedback. This will have a potentially strong impact on an employee's view of self-belief and self esteem.

2.3 Outcomes of Effective Performance Appraisal

Common outcomes of an effective performance appraisal process are employees' learning about themselves, employees' knowledge about how they are doing, employees' learning about 'what management values' (Beer, 1981). According to Stephan and Dorfman (1989) outcomes of an effective performance appraisal are improvement in the accuracy of employee performance and establishing relationship between performance on tasks and a clear potential for reward. Dobbins, Cardy and Platz-Vieno (1990) told five outcomes i.e. use of evaluations as feedback to improve performance, reduced employee turnover, increased motivation, existence of feelings of equity among employees, linkage between performance and rewards. Nurse (2005) viewed provision of information for the development of managerial strategies for training and development as an outcome. Teratanavat, Raitano and Kleiner (2006) found outcomes like reduced employee stress, review of overall progress, linkage between current performance and employee's goals, and development of specific action plans for future.

2.4 Factors Influencing the Effectiveness of Performance Appraisal Systems

Aspects that can make harm to the effectiveness of performance appraisal: exemptions to the highly visible employees, conduct of performance appraisal to punish the low performers, rewards on nonperformance, doubts in the mind of performers about appraisal's after effects, organization's politics that leads to disturb performance of targeted employee (Deluca, 1989); use of fundamentally flawed appraisals, focus on encouraging individual, which automatically discourages teamwork/collaboration, inconsistencies in setting and applying appraisal criteria,

focus on extremes (exceptionally good or poor performance), appraisal's focus on achievement of short-term goals, support to autocrat supervisors, subjectivity of appraisal results and creation of emotional anguish in employees (Segal, 2000); use of vague qualities and irrelevant measurement criteria, use of useless checklists for evaluation, monologues instead of dialogues in feedback sessions, reluctance of appraisers to offer feedback, supervisor's misguidance to appraiser (Nurse, 2005); inaccuracies at supervisor/organization's end (Horvath & Andrews, 2007).

2.4.1 Design of the Performance Appraisal Form

According to Michael Beer (1987) many of the problems in performance appraisal stem from the appraisal system itself—the objectives it is intended to serve, the administrative system in which it is embedded, and the forms and procedures that make up the system. The performance system can be blamed if the criteria for evaluation are poor, the technique used is cumbersome, or the system is more form than substance. If the criteria used focuses solely on activities rather than output or results, or on personality traits rather than performance, the evaluation may not be well received (Junlin Pan and Guoqing Li, 2006; Michel Beer, 1987; Ivancevich, 2004; Cynthia Lee, 1985).

As Henderson (1984) cited in Deborah and Kleiner (2007), performance appraisal systems are not generic or easily passed from one company to another; their design and administration must be tailor-made to match employees and organizational characteristics and qualities. In the study made by Clinton Longenecker (1977) on 120 seasoned managers drawn from five different large US organizations entitled "why managerial performance appraisal are ineffective", the majority (83%) of the respondents argued that managerial performance appraisal is destined to fail because of (among the many reasons cited) unclear performance criteria or ineffective rating instrument used. This mostly emanates from ambiguity on the job descriptions, goals, traits and/or the behaviors that will be the basis for the evaluation of the process to fail right from the start.

According to Deborah and Kleiner (2007) organizations need to have a systematic framework to ensure that performance appraisal is "fair" and "consistent". In their study of "designing effective performance appraisal system", they conclude that, designing an effective appraisal system requires a strong commitment from top management. The system should provide a link between employee performance and organizational goals through individualized objectives and performance criteria. They further argued that the system should help to create a motivated and committed workforce. The system should have a framework to provide appropriate training for supervisors, raters, and employees, a system for frequent review of performance, accurate record keeping, a clearly defined measurement system, and a multiple rater group to performance.

Roberts (2003) proposes genuine employee participation in several aspects of the appraisal process because it has the potential to mitigate many of the dysfunctions of traditional performance appraisal systems as well as to engender a more human and ethical human resource management decision-making process. The first participation should be, according to him take place during the development of reliable, valid, fair and useful performance standards. Second, there should be employee participation during designing the rating format and measurement scales. The results concerning participation are according to Roberts (2003) constantly positive: Employee participation is a key element of intrinsic motivational strategies that facilitate worker growth and development. Furthermore, employees attain ownership over the performance appraisal process and employees' acceptance is enhanced that way. Third, it generates an atmosphere of cooperation and employee support which reduces appraisal related tension, defensive behavior and rater-appraisee conflict. Cox (2000) adds that these positive effects are especially generalizable to the design and implementation of pay systems. She suggests that systems implemented following meaningful consultation with employees are more effective than those which are implemented unilaterally by managers or with less employee involvement.

Even more important she argues that some of these potential failure factors can be diminished by consultation with employees. First, beside increasing the chance of resolving problems of the current system, seeking information from employees may ensure that the rewards offered are commensurate in timing and kind with the kind that of rewards employees desire. Second, the consultation process may allow the opportunity to identify any individuals or groups likely to be adversely and unfairly affected and to take action to prevent this before the scheme is implemented. Third, involving as many parties as possible in the development of a payment scheme makes them more committed to its success and makes them more likely to accept the system. The participation of employees functions most effectively in an atmosphere of trust, open communication and equal employee treatment. Therefore, it requires conceptual, affective and experiential education which can be reached by means of training (Roberts 2003). But Roberts (2003) also points at the need to execute regular employee attitude surveys and focus groups to systematically evaluate performance system participation effectiveness.

In summary, it can be concluded that, given the appropriate atmosphere and culture in an organization, employee participation will enhance motivation, feelings of fairness and overall acceptance of the performance appraisal process. Thus, to attain these positive effects it must be

determined if employees in a certain organization would actually perceive participation as an enriching factor.

2.4.2 Attitude of the Appraiser in the Performance Evaluation Process

Even if the system is well designed, problems can arise if the raters (usually supervisors) are not cooperative and well trained (Ivancevich, 2007). This is often because they have not been adequately trained or have not participated in the design of the program. Inadequate training of raters can lead to a series of problems in completing performance evaluations, including: problems with standards of evaluation, Halo effect, Leniency or harshness, central tendency error, "Recency of events" error, contrast effects, personal bias (stereotyping); as per (Ivancevich, 2007; Cascio, 2003; and Aswathappa, 2002).

According to Mark Cook (1995), Performance appraisals suffer from four major problems. These are Biases, politicking, impressions management and undeserved reputation. Biases could be consciously or unconsciously because of age, ethnicity, gender, physical appearance, attitudes and fundamental values of the raters, and personal like or dislike. There is a growing body of evidence supporting the view that supervisors are often motivated to use rating inflation as a strategy to manipulate subordinates' reactions to the performance appraisals they receive. For example, on the basis of interviews with 60 executives Longenecker, Sims and Gioia (1987) as cited in Fried et al. (1999) identified six major reasons why managers inflate ratings: to maximize subordinates' merit raises; to avoid hanging 'dirty laundry' in public; to avoid creating a written record of poor performance; to give a break to an employee who has shown recent improvement; to avoid confrontation with a difficult employee and to promote a problem subordinate 'up and out' of the department. Many of these reasons can be interpreted as supervisors' attempts to elicit positive reactions from subordinates, such as increasing their work motivation and performance, as well as increasing subordinates' trust in, and cooperation with, their supervisors.

In addition to the aforementioned reasons for inflation, supervisors may also deliberately inflate ratings to minimize potential challenges from subordinates to their own performance ratings. **Indeed, subordinates' opposition to their performance ratings is probably quite common because individuals typically overestimate their own performance level (Campbell and Lee, 1988) and thus the opposition is severe and more likely when organizational rewards and punishments are contingent on performance appraisals.** Resistance to low performance ratings is associated with such subordinate reactions as lower work motivation, greater alienation from the work environment, increased conflict with the supervisor, and diminished belief in the leadership

legitimacy and power of their supervisor (Fried et al., 1999). Thus supervisors may inflate ratings to avoid creating an angry, demoralized, unmotivated, and unproductive work unit.

Generally, rating inflation is a political strategy employed by supervisors to further their self interest. Because managers' own work effectiveness is dependent on that of their subordinates, managers will tend to deliberately inflate ratings in an attempt to ensure favorable reactions or avoid unfavorable reactions from their subordinates to their performance appraisals. However, the strength of managers' motivation to inflate ratings is likely to vary according to a variety of personal and contextual variables. In the study of Fried et al. (1999) based on results from a sample of 148 supervisors from a variety of organizations supported that raters' tendency to deliberately inflate performance appraisal ratings of subordinates is associated with rater negative affectivity (the tendency of the rater to experience such negative mood states over time and across situations have been described as being in negative affectivity) and the managers' ability to deliberately inflate ratings, if they desire to do so, may be contingent on certain aspects of the rating context. The two contextual variables are: the degree to which supervisors systematically document the work behaviors of ratees during the appraisal period and the visibility of performance ratings among subordinates. The data collected from the supervisors in a variety of organizations indicated that the tendency to inflate ratings is associated with high rater negative affectivity, low documentation of subordinates' work behaviors, and high appraisal visibility.

From an organizational perspective, the study implied that the prevalence of deliberate inflation of performance ratings may hinder organization's effort to use performance ratings effectively for development, motivational or administrative purposes. For instance :Supervisors who often inflate performance ratings may develop cynical attitudes towards their managerial position as well as low perceived integrity and work involvement; Inconsistency among raters concerning their level of rating inflation may also adversely affect an organization's ability to effectively tie performance ratings to merit raises. This is because appraisee's may become skeptical about the legitimacy of the performance appraisal merit raise link. For example, employees from different departments with similar work experience and qualifications may be rated differently by their supervisors, in part because these supervisors differ on how much they tend to inflate performance ratings on the basis of such variables as documentation of work behaviors and appraisal visibility. This inconsistency in ratings may reduce subordinates' trust and confidence in the procedural and distributive fairness of the performance appraisals system (Taylor et al., 2009), resulting in lower work motivation and performance. As Folger,(1992) cited in M.S.Susan (2009) there are three

characteristics of due process appraisal system in order to settle fairness and justice in the performance appraisal system.

Adequate notice in this context requires organizations to publicly, distribute and explain performance standards to employees to discuss how and why such standards must be met and to provide for regularly and timely feedback on performance. Fair hearing which requires a formal review meeting in which an employee is informed of a tentative assessment of his or her performance and how it was derived by his or her manager, who should have a familiarity with the employee performance based on sufficiently frequent observation of the individuals work. Employees are permitted to challenge this assessment and provide their own commentary by conducting and presenting a self appraisal. Finally, fair hearing requires that employees receive training in the appraisal process to ensure that they possess the knowledge needed to challenge assessments perceived to be unfair. Judgment based on evidence requires the organization to apply performance standards consistently across employees.

The results of the study appear to suggest that organizations may help reduce the inflation phenomenon by promoting or enforcing documentation of employees' behaviors and activities. Organizations may also help control the rate of inflation across supervisors and departments by standardizing the degree of appraisal visibility throughout the organization. On the other hand there is an evidence uncovering the reasons why managers deliberately give low performance ratings to the subordinates: to shock someone back on to a higher performance track; to teach a rebellious subordinate a lesson; to send someone a message that they should consider leaving the organization; and to build a well documented record of poor performance to speed up terminations. (Longenecker et.al.; 1987 as cited in Mark Cook; 1995)

2.4.3 Appraisee's Attitude in the Performance Evaluation Process

Another factor influencing performance evaluation can also be attributed to the appraisee's. For instance, their attempt to create unnecessary impression and work area ingratiation is one of the major problems with respect to ratees. According to Mark Cook (1995), organizations occasionally exist in which subordinates gain credit for pushing ahead with management plans that are absurdly wrong, in pursuit of aims which are completely pointless, stifling criticism either of purpose or of method with cries of "commitment" and "loyalty". An extreme case of this trend may be termed the World War I mentality. As Wayne and Ferris (1990) cited in Mark Cook (1995) there are three underlying types of ingratiating behavior, or "upward influence styles":

a) Job-focused ingratiation: claiming credit for things you have done and not done, claiming credit for what the group has done, arriving at work early to look good, and working late to look good.

b) Supervisor-focused ingratiation: taking an interest in the supervisor's private life, praising the **supervisor**, doing favors for the supervisor, volunteering to help the supervisor, complimenting the **supervisor** on his/her appearance and dress, agreeing with the supervisor's ideas.

c) Self-focused ingratiation: presenting self to the supervisor as a polite and friendly person, working hard when results will be seen by the supervisor, letting the supervisor know that you are trying to do a good job.

Research suggests however that ingratiation does not always succeed in obtaining good performance ratings. Unsubtle ingratiation may sometimes be too blatant to be credible, or palatable. Ingratiation and other impression management techniques also contaminate appraisal ratings, and make them less accurate reflectors of true worth to the organization. Besides undermining performance appraisal, and selection research, this tends to be bad for morale, when staff see persons whose true performance is poor, but who are good at ingratiating themselves, get merit awards, or promotion, or other marks of favor. On the other hand, defensiveness and resistance to evaluations are also major problems among workers. To many employees, performance appraisal can be a highly threatening experience. This is because employees regard their performance much more positively than his supervisor.

Research showed that, employees may develop defensive mechanisms and resistance in performance ratings to defend against threats to their self esteem (Michael Beer, 1987; Campbell and Lee, 1988). The defensiveness may take a variety of forms. Subordinates may try to blame their unsatisfactory performance on others or on uncontrollable events; they may question the appraisal system itself or minimize its importance; they may demean the source of the data; they may apologize and promise to do better in the hope of shortening their exposure to negative feedback; or they may agree too readily to the feedback while inwardly denying its validity or accuracy. The defensiveness that results may take the form of open hostility and denials or may be masked passively and surface compliance.

2.4.4 Linking Performance Appraisal to Pay/Reward

Performance-based rewards have a rich history in Banking, particularly in Kenya. In the last ten years, a number of countries have adopted pay-for-performance strategies to modify the traditional

salary scales . The distinguishing feature of a performance-based scheme is that it rewards or sanctions employees based upon some form of performance evaluation (Chamberlin, et al,2008). Distinctions in performance-based reward programmes are found in the skills assessed and the rewards provided. Most individually-based programmes have used pecuniary rewards for high levels of performance, usually defined in terms of employee outcomes or skills and knowledge. More recently, some analysts have proposed that intrinsic rewards, such as seeing employees improve in performance, and increased feelings of well-being are better motivators for both the employer and the employee. For this reason, many analysts believe the salary scale system determines employee compensation on incomplete criteria. For example, Hoerr (2006) argues that any non-merit-based system is unfair for exceptional employees because they are judged on inefficient criteria. This will cause, it is argued, talented employees to leave the Banking system because excellence is not fairly rewarded (Odden, 2007). Only when performance is rewarded and employees command salaries equal to the best performing private sector without having to progress up an arbitrary salary scale, will the best talent be attracted and retained (Solomon and Podgursky,2009).

Proponents point out that research has found no consistent links between education credits or degrees and student employee output, and only modest links between experience and employee performance (Heneman and Milanowski 1999; Hoerr, 2006; Tomlinson, 2009). The existing salary scales are thus at best only loosely related to the expertise and skills needed in the work place (Mohrman and Odden, 2006). If the pay structure is based on this formula, it inevitably produces unsatisfactory outcomes as it is not well aligned to employee output (Odden, 2007a). Thus, a substantial body of literature argues performance-based reward systems are an improvement on the efficiency of salary scales.

One widely accepted notion for improving individual performance is tying pay to performance in order to increase productivity (Swiercz et al., 1999). Performance based pay is a system which specifically seeks to reward employees for their contribution as individuals or as a part of a group, or to reward employees on account of the organizations overall positive performance (De Silva, 1998). There are various types of schemes which fall within the description of performance-based pay. But all of them are designed to share with or distribute to employees the financial results of organizational performance. The schemes fall into the following broad categories: individual-based incentive schemes, profit sharing, gain sharing, employees share option scheme or skill/competence based pay. The performance-based pay approach has proven to be effective in improving an

organization's success. According to Banket et al. (2001) for example the implementation of a performance based incentive plan proved to lead to the attraction and retention of more productive employees. This selection effect occurs because a performance-based compensation contract can act as a screening device that encourages less productive employees to leave and that motivates more productive employees to join or remain with the organization. Furthermore, the plan motivated remaining employees to continually improve their productivity. This effort effect occurs because a performance based incentive plan motivates employees to learn more productive ways to perform their tasks.

De Silva (1998) adds that further benefits of performance-related pay to management and employees are that: where performance/profits increase, higher earnings accrue to employees, employees' identification with the success of the business is enhanced and variations in pay lead to employees becoming more familiar with the fortunes/misfortunes of the business. Many other authors are not that convinced of the effectiveness of performance-based pay. Critiques argue that performance-based compensation programs encourage competition rather than collaboration (Solomon and Podgursky, 2009). Because everyone is concerned to secure his own success and thus his own pay, helping others to succeed is not advantageous for oneself. A related point concerning the tendency to undermine teamwork is recognized by De Silva (1998). He argues that individual performance is often difficult to measure objectively, and an exclusively individual performance-related system can damage teamwork. Instead, he proposes team-based criteria in cases where individual performance is difficult to measure, or where there is a need for a corporate culture to promote team values and cooperation, or where the roles of individuals are more flexible, or where the expected performance depends more on team, rather than individual efforts.

Furthermore, Davis and Landa (1999) state that money will buy only a minimum level of commitment. They distinguish between external and internal commitment and motivation. The externally committed employee operates at the level necessary to satisfy the demands of their leaders. Internally committed or motivated employees operate at a level of engagement necessary to provide individual- or self-satisfaction. Thus, they argue that internal commitment is the key factor in an organization's success because internally committed or motivated employees are most likely to make significant contributions to the success of an organization. Internal commitment occurs for example when employees are committed to a particular project, person or program and can be boosted by bottom-up communication. Also De Silva (1998) argues that performance related pay, if used in isolation, has little impact on motivation or performance. According to him

improvement in performance has to be secured through behavior rural change effected through a range of measures, such as training and better information/consultation/communication mechanisms. Thus, critical to the success of any performance-related pay system is the practical recognition that it is only one part of a reward system which consists of both financial and non-financial rewards (De Silva, 1998). The non-financial part of a reward system would typically address individual needs such as working in a team, recognition, opportunity to influence decisions, skills development, career opportunities, and a sense of achievement.

Anyway, it is clear that performance-based pay is a highly emotive subject to employees, since it raises subjective perceptions of fairness, indicates worth as an individual to an organization and may have significance as indicator of social status as well as determining a standard of living. Unfortunately no particular model can be recommended: The system introduced must be conditioned by a variety of factors such as the nature of the business, its business and human resource management strategy (De Silva, 1998). But special attention while implementing a performance-based pay system must be paid to procedural justice. It became obvious that the procedure is very important to employees even when the outcomes for the individual are positive (Swiercz et al., 1999). This means that employees are more concerned with fair procedures than with the outcome of the appraisal process.

But distributional justice is far from being irrelevant. The absence of distributional equity increases anxiety over the fairness of the compensation system. This leads to distrust and is thus lessening the productivity because employees become passive. Thus, if the system is not perceived as either being procedural or distributional fair, users' acceptance is in danger. Other factors why performance-related pay fails are summarized by De Silva (1998): inadequate criteria to measure performance, or criteria which are not easily understood, communicated and accepted, inappropriate performance appraisal systems in that the objectives of the appraisal system do not match the objectives of the reward system, absence of regular feedback on performance, the absence of a right mix of intrinsic and extrinsic rewards and the lack of an appropriate quantum of pay which should be subject to performance criteria.

2.4.5 Employee Training

Nearly all authors agree in the fact that rater must be trained to observe, gather, process, and integrate behavior-relevant information in order to improve performance appraisal effectiveness. Rudner (1992) for example proposes that training should aim at three goals: First, it should familiarize judges with the measure they will be working with. Second, it must ensure that judges

understand the sequence of operations that they must perform. Third, it should explain how the judges should interpret any normative data that they are given. Because errors are well-ingrained habits, Tziner and Kopelman (2002) state that extensive training is necessary for avoiding such errors. Therefore, the training should provide trainees with broad opportunities to practice the specified skills, provide trainees with feedback on their practice appraisal performance, and that a comprehensive acquaintance with the appropriate behaviors' to be observed. Harris (1988) also points at the necessity of training: Continued training is needed in areas such as goal-setting and monitoring performance on a frequent basis, and personal and interactional skills. She proposes that an organization could provide training as this on a regular basis in such a manner that it becomes an accepted part of the supervisor's position and thus becomes a part of the organization's culture. According to Reinke (2006) there needs to be an increased focus on the interpersonal issues surrounding appraisal. The reason is that interpersonal issues such as trust are important in the performance appraisal process and should thus be a part of the training program.

Kondrasuk et al. (2002) also said that the condition of training for all involved individuals must be fulfilled. According to them this means that training is frequently updated and involves appraisal aspects as for example give and take feedback, personal bias, active listening skills and conflict resolution approaches. To build trust and thus enhance acceptance of the performance appraisal process Reinke (2006) adds that a broad understanding of the system is essential. Harris (1988) also emphasized the importance of training. If implemented this way, employees are less confused; less disappointed concerning measures and are more aware about the intentions of performance appraisal. This also means that they will be capable of useful critique and feedback concerning the appraisal process. There are several training methods existing: Lee (1985) introduces the term frame-of-reference training (FOR). This kind of training attempts to develop and establish detailed performance scripts. These work as norms or standards for effective performance behaviors and can be used to organize information. In research of Lee (1985) FOR has been found to produce more accurate performance ratings. In contrast, rater error training (RET) is more focused on rating errors frequently committed, and the need to avoid these (Hedge and Kavanagh, 1988). But according to research of the authors RET actually introduces new, and usually inaccurate rating behavior and should be called inappropriate response set training.

Hedge and Kavanagh (1988) conclude that RET is nonsensical if one is interested in improving rating accuracy. Instead they recommend a combination of observation and decision-making training because this might lead to even more improvement in rating accuracy than would either

alone. But even if training improves via several factors performance appraisal effectiveness, Rothstein (1990) emphasizes that it is not likely that training raters could compensate for the lack of opportunity to observe. Good observational skills or a better understanding of common rater errors, coupled with inadequate exposure to the appraisee will not lead to reliable ratings. In summary, it is a necessary condition that raters are sufficiently trained so that they : understand the appraisal process; are able to use the appraisal instrument as intended which includes interpreting standards and use of scales; and are able to give effective feedback including goal-setting. Acceptance will only be gathered if appraisee's and raters perceive these conditions to be fulfilled. Furthermore, these skills need to be updated or refreshed on a continuing basis. But also appraisee's should receive a certain form of appraisal training to introduce them to the appraisal system. To attain their acceptance and support of the appraisal system also employees must understand the appraisal system as a whole as well as the behavioral aspects and standards that are viable and recognition of the fact that performance, especially profit, is sometimes dependent on factors outside the control of employees.

2.4.6 Performance Feedback of the Appraisal System

To feedback to the employee generally aims at improving performance effectiveness through stimulating behavioral change. Thus is the manner in which employees receive feedback on their job performance a major factor in determining the success of the performance appraisal system (Harris, 1988). Hearing information about the self discrepant from ones self-image is often difficult and painful. Thus, because feedback may strike at the core of a person's personal belief system it is crucial to set conditions of feedback so that the appraisee is able to tolerate, hear, and own discrepant information (Dalton, 1996). Only if conditions facilitate the acceptance of feedback information then the likelihood of change increases. Dalton (1996) further specifies these conditions: The feedback event should be a confidential interaction between a qualified and credible feedback giver and appraisee to avoid denial, venting of emotions, and behavioral and mental disengagement. In such an atmosphere discrepancies in evaluations can be discussed and the session can be used as a catalyst to reduce the discrepancies (Jacobs et al., 1980).

Because employees and their supervisors often find appraisal both painful and demotivating Davis and Landa (1999) argue that practice of informal, regular communication between supervisor and employee are far more desirable and effective than formal performance appraisal process. Kondrasuk et al. (2002) also propose to integrate the process of feedback into the daily interactions of supervisors and subordinate in a way that more frequent but less formal meetings. So called

achievement updates on a weekly basis then touch upon good and bad issues, while so called achievement assessments take place bimonthly, are more formal and aim at getting a more clear depiction of issues troubling both sides. Roberts (2003) instead concludes that effective feedback is timely, specific, and behavioral in nature and presented by a credible source. Tziner et al. (1992) were able to prove that when performance feedback is precise and timely it may result in behavior change, even though job behaviors' are generally difficult to modify. And if during the interview is adequate time for a full discussion of the issues and counseling it will enhance perceived system fairness, system satisfaction, acceptance and supervisory support (Roberts, 2003).

Furthermore performance feedback alone generates improvements to appraisee's" organizational commitment, and particularly to work satisfaction (Tziner and Kopelman, 2002). But performance feedback combined with goal-setting contributes the most strongly to appraisee's work satisfaction; possibly since goal-setting fosters feelings of participation in work related issues and meaningfulness at work. Tziner and Kopelman (1992) also found that the process of goal-setting gives the appraisee a broader picture of the work unit and the organizations' objectives. Harris (1988) supports the findings about the positive effects of goal-setting. She recommends an evaluative interview for providing feedback which focuses on problem-solving and goal-setting and which has high employee involvement. Done this way it is more likely to be satisfying to employees than retrospective, subjective interviews. Roberts (2003) analyzed why goal-setting is so effective and proposed that its effectiveness derives from its ability to focus employees' effort and attention on the critical task at hand, enhancing employee persistence and reducing the likelihood of being distracted.

It thus focuses attention and effort on the future which can still be changed. The judgemental performance appraisal process emphasizes past behavior which cannot be altered anymore. Roberts (2003) also gives instructions how to set goals effectively so that employee performance and satisfaction are enhanced. According to these rules performance goals must be specific, moderately difficult and accepted. Beside this focus on the future, two more things need to be taken into account. First, according to Wise (1998) it is very risky to give too complex feedback. The more complex the feedback, the more likely recipients will distort it by focusing on results that match their self-perceptions and ignore contradictory ones. Second, Roberts (2003) states that, to be maximally effective, there must be an ongoing formal and informal performance feedback.

In

summary, it can be concluded that giving feedback in an appropriate manner is a key factor in determining the employee's willingness to adapt behavior. First, it is important that the feedback is

given in a confidential atmosphere and that the appraiser is perceived as being in state to give useful feedback. Second, the feedback should be precise and detailed and if possible contain examples of the behavior at hand. Third, feedback giving should leave room for discussion of important aspects, thus involving the appraisee in giving opportunity to state his opinion and referring to his problems. Fourth, goal-setting should be part of the feedback. Goals should be clear, as well as the way how to achieve these goals, relevant, specific and moderately difficult. Furthermore, both parties should accept the goals. Fifth, it might be useful to give beside the annual performance review regular informal performance feedback. If all these conditions are met, the acceptance of the feedback will be enhanced and behavior change will be more likely.

2.5 Effectiveness of Performance Appraisal System

For effective development and utilization of the human talent, performance appraisal plays a key role since it enables an organization to identify objectively the employee's strengths and weaknesses. The organization will then be able to counsel the employees to improve the weak areas. This will help all the employees to contribute positively to the attainment of the institution /organizational objectives. Armstrong (2001) notes that issues of accuracy and fairness in performance appraisal are one of the key research interests in the field of human resource management. Performance appraisal may be used as a means of measuring performance. The purpose of measuring performance is not to indicate only where things are not going according to plan but also to identify why things are going well so that steps can be taken to build on success. The goal of performance appraisal is to assess and summarize past performance, and develop future work performance goals and expectations. It is a process of systematically evaluating performance and providing feedback on which performance adjustments can be made.

Cash (1993) indicates that from the employee's view point, the purpose of performance appraisal is in four - fold: Tell me what you want me to do, help me improve my performance, Reward me for doing well. Performance appraisal therefore is an important human resources function, which provides management with a systematic basis for effectively recognizing and evaluating the present and potential capabilities of human resource. Performance appraisal should be a continuous function and measure what it is intended to measure. The supervisors should continuously determine how effectively their subordinates are performing different tasks. Employees should be appraised at least once a year, as this will contribute to increased employee efficiency, productivity and morale. Banks in Kenya have administrative and professional performance appraisal system designed to provide documented, constructive feedback regarding performance expectations, spur

growth and development as well as provide a fair and equitable means to determine rewards for contributions to the bank.

According to Davis (1995), Performance Management is a joint process that involves both the supervisor and the employee, who identify common goals, which correlate to the higher goals of the institution. If employees are effectively appraised, then the organizations will experience increased productivity and improved quality of output. When people are treated with care, shown trust, listened to and encouraged to do better they reciprocate by being responsible and productive. Employee satisfaction with performance appraisal would be positively related to work performance (Pettijohn et al., 2001a; Roberts and Reed, 2003). Because performance appraisal often includes equipping employees with new knowledge and skills, it may also contribute to employees' perceived investment in employee development. Using a social exchange lens (e.g., Coyle-Shapiro and Conway, 2004; Eisenberger et al., 1990; Lee and Bruvold, 2003), employees who believe their organization is committed to providing them with developmental activities may feel an obligation to "repay" the organization through high work performance.

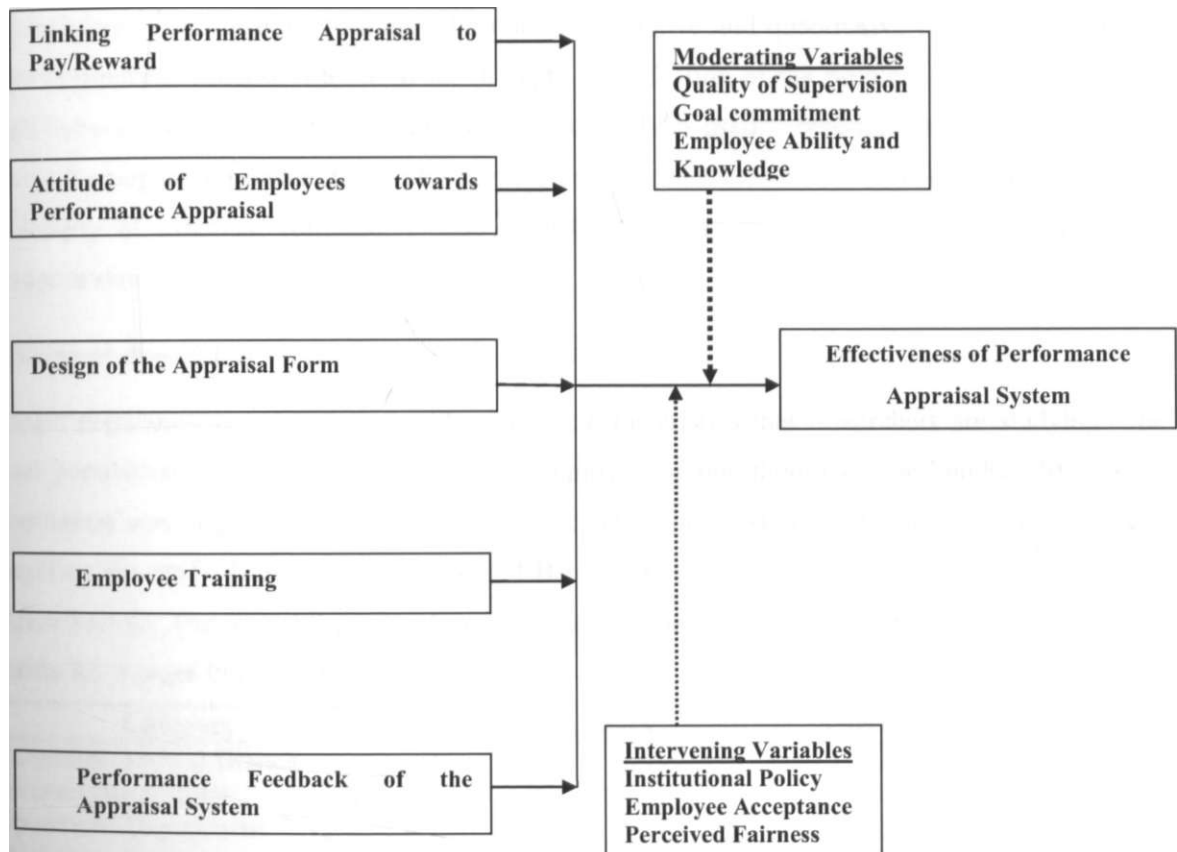
Since Performance appraisal systems will allow communicating strategies, goals and vision, employees should experience higher levels of commitment to super ordinate organizational goals and, therefore, become more affectionately committed to their organization. Moreover, developmental performance appraisal is also about increasing employees' perceptions of being valued and being part of an organizational team (Levy and Williams, 2004), perceptions that are central to affectionate commitment. Also, if performance appraisal satisfaction reflects perceived investment in employee development, employees will probably reciprocate by way of higher affectionate commitment to the organization (Lee and Bruvold, 2003). Finally, research on sales people suggests that organizational commitment is positively associated with the use of explicit evaluative criteria and openness to discussing the appraisal (Pettijohn et al., 2001a) and negatively related to role ambiguity (Babakus et al., 1996). And, since performance appraisal satisfaction is enhanced by employee participation and perceived clarity of goals (Roberts and Reed, 2003); it may also be positively related to affectionate commitment. The arguments about communication of super ordinate goals (Latham, 2003), the capacity of performance appraisal to increase employees perceptions of being valued and being part of an organizational team (Levy and Williams, 2004), and the social exchange argument (Lee and Bruvold, 2003), may also apply to turnover intention.

2.6 Conceptual Framework

The figure below shows how the dependent and independent variables relate. Intervening variables and moderating variables are shown. Moderating variables behaves like the independent variable in that it has a significant contributory or contingent effect on the relationship between the dependent and the independent variable while intervening variable is a variable that might affect the relationship of the dependent and independent variables but it is difficult to measure or to see the nature of their influence.

Figure 2 Conceptual Framework
Independent Variables

Dependent Variable



From figure 2 above, it is clear that the effectiveness of a performance appraisal system depends on employee training, attitudes of the employees, linking performance appraisal to pay/reward, design of the appraisal form and the performance feedback of the appraisal system.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology used in the study and its details is divided into; research design, sample and sampling procedures, methods of data collection, data sources, target population and methods of data presentation and analysis.

3.2 Research Design

The researcher used descriptive survey design where personal interviews and questionnaires were administered. This resulted to a mixed mode of qualitative and quantitative data analysis. It was also appropriate because it allowed for in-depth investigation of the problem under study and as well focus on the objectives. The information obtained was used to broadly generalize information about the population under study. This method ensured minimization of bias and maximization of reliability of evidence collected. It also addressed concern for economical completion of the research study.

3.3 Target Population

Target population is a population with specific characteristics that researchers are studying. The total population of National Bank of Kenya employees is one thousand nine hundred fifty. Such population was large and it required a complete survey for a study to be done successfully and therefore the study targeted part of National Bank of Kenya employees who were based at Head office Nairobi. The respondents therefore were staff members and management employees.

Table 3.1 Target Population

| Category | Target population | Percentage |
|-----------------------------|--------------------------|-------------------|
| Harambee Avenue Branch | 99 | 41.25 |
| Finance Department | 22 | 9.12 |
| Operations Department | 55 | 22.92 |
| Marketing Department | 16 | 6.67 |
| Human Resource Department | 15 | 6.25 |
| Credit Department | 20 | 8.34 |
| Supplies & Procu.Department | 13 | 5.43 |
| TOTAL | 240 | 100.0 |

3.4 Sample Size and Sampling Techniques

A sample of eighty employees was selected using proportionate stratification whereby the sample size of each stratum was proportionate to the size of the stratum. This approach was appropriate because was possible to break the population of interest into strata in terms of branches and departments. The strata sample sizes were determined by the following equation;

$$nh = (N_h/N) * n \text{ where}$$

$$nh = \text{Sample size for stratum } h$$

$$N_h = \text{Population size for stratum } h$$

$$N = \text{Total population size}$$

$$n = \text{Total sample size}$$

Taking Harambee Avenue as an example, the sample size was arrived as follows;

$$n=80 \quad N=240 \quad N_h=99 \text{ and therefore the sample size is}$$

$$nh \text{ harambee} = N_h/N * n$$

$$nh \text{ harambee} = (99/240) * 80$$

$$\underline{\underline{nh \text{ harambee} = 33}}$$

Table 3.2 Sampling Design

| Category | Staff Population | (N_h/N) | Sample Size(nh) |
|-----------------------------|------------------|-------------|-----------------|
| Harambee Avenue Branch | 99 | 0.4125 | 33 |
| Finance Department | 22 | 0.0917 | 7 |
| Operations Department | 55 | 0.2292 | 18 |
| Marketing Department | 16 | 0.0667 | 6 |
| Human Resource Department | 15 | 0.0625 | 5 |
| Credit Department | 20 | 0.0833 | 7 |
| Supplies & Procu.Department | 13 | 0.0542 | 4 |
| TOTAL | 240(N) | | 80(n) |

Based on this table, a sample of eighty employees was randomly sampled out of two hundred and forty staff to participate in this study.

3.5 Research Instruments

Both primary and secondary data collection methods were used. Primary data means the researcher gets information directly from the organization (Money, et al., 2000). The source of primary data contains surveys (questionnaires) and interviews. Primary data was collected for the particular project at hand, which was its main advantage. It made the research consistent and objective. In this study, I used the primary data to make the investigation. The primary data was from the interviews and questionnaire forms.

Secondary data is the data which is written or collected by other people, and it is often for other purposes (Hussey, 1997). In another word, if the information has existed, it is secondary data when we use it. Generally speaking, the source of secondary data includes Internet sites and web pages, government or organization studies and reports, researches of institutions, text books and other published data.

3.5.1 Questionnaires

Two research questionnaires were administered. The first questionnaire was used to capture information from staff members while the second set was used to capture relevant information from management. This made sure that questions are filtered properly to suit these categories. After getting permission from relevant authorities, the researcher embarked on issuing the questionnaires to employees and management. Having the sample size for every branch and department in mind, questionnaires were given out randomly to members of staff. The researcher chose appropriate time to make sure that staff members were given questionnaires when they didn't have large volumes of work to work on. The researcher also booked appointment with senior management regarding the same and administered the questionnaires appropriately.

3.5.2 Interview Schedule

The interviews were scheduled for that staffs that were too busy to fill in the questionnaires. Guiding questions similar to those in the questionnaire were in the interview schedule for easy triangulation. These questions tried to ascertain the involvement of the informant in the performance appraisal so as to determine their attitudes and level of acceptance towards performance appraisal process.

3.6 Instrument Validity

Validity refers to the appropriateness, meaningfulness and usefulness of the inferences a researcher makes. The content validity of the research was enhanced through adjustments and additions to the research instruments, consultations and discussions with the supervisor. Kothari (2004) stated that if the instrument contains a representative sample of the universe, then content validity is good. This study used representative sample of eighty out of two hundred and forty employees at National Bank of Kenya Head office Nairobi.

3.7 Instrument Reliability

Reliability refers to the consistence of the scores obtained. That is how consistent the scores are for each individual from one administration of an instrument to another and from one item to another. Instrument reliability was highly enhanced in that the data was collected by the researcher himself. Self administration approach of data collection ensured that unintended people did not fill the questionnaires or were not interviewed. This helped in raising the reliability of the instruments. This was assessed by pilot study whereby test-retest method was used. Pretesting was conducted to assist in determining accuracy, clarity and suitability of the research instruments. The purpose of the pretest was to assist the researcher to identify the items which are inadequate so as to make necessary corrections and examine responses to determine the level of ambiguity of the questions. The feedback was used to do revision and modification of the instrument thereby enhancing the reliability of the instruments.

3.7.1 Test-Retest Method

To test the reliability of the instruments, the researcher administered two sets of questionnaires on June 4th, and then re-administered to the same staff on later date of June 15th. Scores from the same employee were correlated to determine the degree of association between the two sets. Individual names were re-coded for confidentiality purposes. The Table below shows the results obtained.

Table 3.3 Test-Retest Scores for Reliability

| Employee | Questionnaire Form A | |
|----------|----------------------|-----------|
| | June 4th | June 15th |
| AB | 85 | 80 |
| AC | 75 | 80 |
| AD | 65 | 60 |
| AE | 60 | 55 |
| AF | 35 | 40 |
| AG | 55 | 60 |
| AH | 85 | 80 |
| AI | 85 | 75 |

Mean₁= 68.125 Standard Deviation₁=16.76 Mean₂=66.25 Standard Deviation₂=13.86 n₁=n₂=8

Table 3.4 Summary of calculation for reliability coefficient

| Employee | Questionnaire Form A | | | | |
|--------------|----------------------|----------|--------------------------------------|--------------------------------------|-----------------|
| | Score A | Scores B | (a-m ₁ /s _{d1}) | (b-m ₂ /s _{d2}) | nr ₂ |
| AB | 85 | 80 | 1.01 | 1.0 | 1.01 |
| AC | 75 | 80 | 0.41 | 1.0 | 0.41 |
| AD | 65 | 60 | -0.19 | -0.45 | 0.0855 |
| AE | 60 | 55 | -0.48 | -0.81 | 0.3888 |
| AF | 35 | 40 | -2.0 | -2.0 | 4 |
| AG | 55 | 60 | -0.78 | -0.45 | 0.351 |
| AH | 85 | 80 | 1.01 | 1.0 | 1.01 |
| AI | 85 | 75 | 1.01 | 0.63 | 0.6363 |
| TOTAL | | | | | 6.8916 |

Reliability coefficient $r = (LZaZb)/N = 6.8916/8 = 0.86145$ where N=8 (number of participants). Reliability coefficients of 0.6 or 0.7 and above are considered good for basic research and 0.9 and above are expected for professionally developed instruments. A coefficient of **0.86145** indicated strong evidence of reliability. This implied that the two forms were measuring the same thing, so high reliability for the instrument which the researcher used in his study.

3.8 Data Collection Procedures

To enhance smooth process of data collection, the researcher obtained research permit from the **Department** of Human Resources of National Bank. Together with the letter from the University of **Nairobi**, the researcher approached departmental and branch managers who granted the researcher

express permission of collecting the data from their subordinates. The researcher then issued the questionnaires randomly in every department.

3.9 Data Analysis Techniques

The data collected was edited and coded for accuracy and completeness. Statistical Package for Social Scientist (SPSS) was used to code and analyze the data. Data generated from closed-ended questions was analyzed quantitatively using descriptive statistics and then presented using frequency tables. Burns and Groove (2007) describe the purpose of descriptive statistics as providing the opinion of respondents regarding the phenomenon studied. Descriptive research provides an accurate act of characteristics of a particular individual in a real life situation. Open-ended questions were analyzed using qualitative data analysis.

3.11 Operational Definition of the Variables

In the following Table, the researcher tried to explain the project's variables, their indicators and how they can be measured. The likert scale which the researcher used generated data which was ordinal and therefore the measures of central tendencies which became applicable were mean and mode.

Table 3.5 Operationalization of the Variables

| | Objective | Variables | Indicator | Measurement | Scale | Data Collection Method | Data Analysis |
|---|--|--|---|--|--------------|-------------------------------|---|
| 1 | To investigate on the factors influencing effectiveness of performance appraisal system in National Bank Kenya Head office Nairobi | Dependent Effectiveness of an Appraisal System | 1.Effecient feedback mechanism 2.Motivated employees 3.Employee participation 4.Training 5.Linking performance to rewards | 1.Frequency of discussion with supervisors on feedback 2.Increased employee output 3.Employees understand the appraisal system in place and its objectives | Ordinal | Survey | 1.Measures of Central Tendencies (MCTs) (a) Mode (b) Mean 2.Percentages 3.Qualitative |
| 2 | To establish whether the attitudes of employees | Independent Attitude of the Appraiser | 1.Co-peration 2.Completion of PA forms 3.Rating | 1.Rater ratee agreement 2.Timely completion of PA forms | Ordinal | Survey | 1.Measures of Central Tendencies |

| | | | | | | | |
|---|--|---|---|--|---------|--------|--|
| | influences the effectiveness of performance appraisal in NBK, Head Office Nairobi. | and those who are Appraised | inflation 4. Defensive mechanism 5. Ingratiation | 3. Performance scores 4. Complains by rates 5. Behavioral | | | (MCTs) (a) Mode (b) Mean 2. Percentages |
| 3 | Determine whether the design of the appraisal form influences the effectiveness of appraisal system used in NBK, Head Office Nairobi | Independent Appraisal Design and Process of Conducting the Process | 1. Type of appraisal design in existence 2. Errors in filling PA forms 3. Time allocated for conducting PA | 1. Know how on the design of PA. 2. Number of repetition done in filling the PA 3. Availability of time to spent PA activities | Ordinal | Survey | 1. Measures of Central Tendencies (MCTs) (a) Mode (b) Mean 2. Percentages |
| 4 | To establish whether employee training influences the effectiveness of performance appraisal in NBK, Head Office Nairobi | Independent Preparedness and Training of Employees | 1. Rater and ratee training on PAS. 2. Memos on the days of conducting reviews, signing contracts and deadlines on submissions | 1. Evidence of supervisors and subordinates attending training. 2. Contact with trainers | Ordinal | Survey | 1. Measures of Central Tendencies (MCTs) 2. Percentages |
| 5 | To establish whether performance feedback influences an effective performance appraisal exercise | Independent Performance Feedback of the Appraisal System | 1. Efficient feedback mechanisms 2. Reviews | 1. Evidence of discrepant information on PAS 2. Regular communication with supervisor on the same 3. Regular assessment | Ordinal | Survey | 1. Measures of Central Tendencies (MCTs) 2. Percentages |
| 6 | To find out whether linking | Independent | 1. Performance | 1. Evidence of existence of | Ordinal | Survey | 1. Measures of Central |

| | | | | | | |
|--|---|------------------------------------|---|--|--|-------------------------------------|
| rewards to a performance appraisal system Influence the effectiveness of appraisal system at NBK Head Office Nairobi. | Linking Performance Appraisal to Pay/Reward | pay schemes 2.Pecuniary rewards | performance pay schemes 2.Financial/economic rewards | | | Tendencies (MCTs) 2. Percentages |
|--|---|------------------------------------|---|--|--|-------------------------------------|

3.12 Summary

In this chapter the researcher presented the methodology of the research proposal which included research design, sampling procedures and sample size, data collection methods, validity and reliability of the instruments and operationalization of the variables. The main issue which arose in this chapter was that the researcher used only ordinal scale and measures of central tendencies. This limited his analysis in the study.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter presents and discusses the analysis of data collected from various respondents. The data is interpreted in respect to research objectives and research questions. The data was analyzed using quantitative and qualitative analysis methods. Frequency tables were also used for data presentation. A number of questions especially from questionnaires generated data of quantitative nature while open ended questions and those of the interview schedule generated data of qualitative nature. This data provided information that formed the basis for discussion and interpretation of results.

4.2 Questionnaire Return Rate

The researcher gave out questionnaires totaling to eighty as per the sample size of each branch or department and the following table summarized how the questionnaires were returned.

Table 4.1 Response Rate

| Branch/Department | Questionnaires issued | Returned | Not returned/spoilt | Percentage of questionnaires returned |
|-------------------------------------|------------------------------|-----------------|----------------------------|--|
| Harambee Avenue | 33 | 25 | 8 | 75.6 |
| Finance Department | 7 | 5 | 2 | 71.4 |
| Operations Department | 18 | 13 | 5 | 72.2 |
| Marketing Department | 6 | 5 | 1 | 83.3 |
| Human Resources | 5 | 4 | 1 | 80.0 |
| Credit Department | 7 | 5 | 2 | 71.4 |
| Supplies and Procurement Department | 4 | 4 | 0 | 100 |
| TOTAL | 80 | 61 | 19 | Average=79 |

Since the sample size for each department or branch was relatively small, the researcher made sure that almost all the questionnaires administered were returned to ensure that optimal results were obtained during analysis. From Table 4.1 above, the average response rate was seventy nine percent way far above the minimum of fifty percent.

4.3 Demographic Information of the Respondents

The demographic information of the respondents included; their ages, gender, academic qualifications and the number of years they have worked in the organization. This was summarized in the following table.

Table 4.2 Respondent's Characteristics

| Selected Dimension | Frequency | Overall Percentage |
|----------------------------|------------------|---------------------------|
| Age | | |
| Between 18-26yrs | 21 | 34.40 |
| 27-36yrs | 18 | 29.50 |
| 37-45yrs | 21 | 34.40 |
| Above 45yrs | 1 | 1.60 |
| Gender | | |
| Male | 27 | 44.30 |
| Female | 34 | 55.70 |
| Education Level | | |
| Phd | Nil | . |
| Masters | 19 | 31.10 |
| Degree | 34 | 55.70 |
| Diploma | 3 | 4.90 |
| Certificate | 5 | 8.20 |
| Employment Duration | | |
| 0-4 years | 27 | 44.30 |
| 5-9 years | 9 | 14.80 |
| 10-19 years | 12 | 19.70 |
| 20-30 years | 9 | 14.80 |
| and above | 4 | 6.60 |

From Table 4.2 above, majority of the respondents are aged between 18 to 26 and 37 to 45 years. This is a clear indication that the organization was still tapping young talents from the market because 34.40 percent of the employees are also approaching retirement age. This age distribution was also a good indicator that those who are in management are of old age and it was difficult to get young managers in this particular organization. Female population formed 55.70 percent while male population was 44.30 percent. In some departments within head office especially operations department and Harambee avenue branches, majority of the respondents were female. It was not clear but it is believed to be due to the nature of the work they handle. In terms of education level majority of the respondents at 55.70 percent had a degree as their highest level of education then followed by those who had a masters at 31.10 percent. This is mainly because at entry level of the organization, degree is their minimum requirement. With time employees improve their academic qualification anticipating for promotion and this explains why those who had masters were many. Availability of cheap study loans was also another factor that encouraged employees to attain high academic qualifications. Support staff formed the majority of those who had diplomas and certificates.

4.4 Existence of Pas and whether it achieves its Objectives

To understand the general overview on how respondents are acquainted with the performance appraisal system used at National bank of Kenya, the researcher considered two important variables. First, whether the respondents are aware of the performance appraisal system currently in use in National bank of Kenya and whether the system achieves its objectives. Frequency tables were used to present the respondent's view on awareness and chi-square test done on the same so as to be able to know statistically whether they are aware of the appraisal system used in the bank.

Table 4.3 Awareness of performance appraisal system currently used

| Response | Frequency | Percent |
|-----------------|------------------|----------------|
| Yes | 39 | 81.25 |
| No | 9 | 18.75 |
| TOTAL | 48 | 100.00 |

From Table 4.3 majority of the respondents, 81.25 percent agreed that they are aware of the performance appraisal system used in National bank of Kenya while 18.75 percent argued that they are not aware of the performance appraisal system used in the bank.

Table 4.4 Indication whether the system achieve its objective

| Response | Frequency | Percent |
|-----------------|------------------|----------------|
| Yes | 20 | 36.70 |
| No | 35 | 63.30 |
| TOTAL | 55 | 100.00 |

The Table 4.4 above indicates that although the majority of the respondents were aware of the performance appraisal system used as earlier established, most of them were not in agreement that the system attained its objective. This was a good indication that there were insufficient trainings to make employees understand what the performance appraisal system had to achieve.

4.4.1 Chi-square test on the level of awareness of performance appraisal in the Bank

Ho : There is no statistically significant evidence at the level of significance $\alpha=0.05$ that the respondents are aware of the performance appraisal system used in the bank.

H₁ : There is statistically significant evidence at the level of significance $\alpha=0.05$ that the respondents are aware of the performance appraisal system used in the bank.

The probability of the cases in the frequency Table above is given by $E_1=E_2 = 0.5S$ (Assume that equal proportions of respondents chose each category).

The sample size (s) was 48

The Expected frequency $E= 0.5 \times 48 = 24$

The observed frequencies O are shown in Table 4.3 above

Table 4.5 Chi-square test of the level of awareness

| Response | E | O-E | (O-E)² | (OE)²/E |
|-----------------|-----------|------------|--------------------------|---------------------------|
| Yes | 24 | 15 | 225 | 9.375 |
| No | 24 | -15 | 225 | 9.375 |
| Total | 48 | 0.0 | 450 | 18.75 |

The calculated chi-square is 18.75 whereas the critical chi-square at 1 degree of freedom is 3.84. Since the calculated chi-square is much higher than the critical chi-square, the researcher therefore

rejected the null hypothesis and concluded that the respondents are aware of the existence of performance appraisal system in use at National bank of Kenya.

4.5 The Main Purposes of Performance Appraisal

According to the tool used in this study, the researcher identified the following as the main purpose of performance appraisal and their frequencies.

Table 4.6 Percentage and Frequencies on the Purpose of performance appraisal

| Purpose | <u>Level of agreement</u> | | | | | | | | | | MODE |
|-----------------------------|---------------------------|------|--------------|------|--------------------------------|------|-----------|------|--------------------|------|------|
| | Strongly Disagree (j) | | Disagree (2) | | Neither Agree nor Disagree (3) | | Agree (4) | | Strongly Agree (5) | | |
| | Freq | % | Freq | % | Freq | % | Freq | % | Freq | % | |
| Identify training needs | 1 | 2.1 | 17 | 35.4 | 12 | 25.0 | 18 | 37.5 | - | . | 4 |
| Renewal of service contract | 9 | 19.1 | 21 | 44.7 | 8 | 17.0 | 9 | 19.1 | . | . | 2 |
| Promotion | 6 | 12.8 | 23 | 48.9 | 5 | 10.6 | 12 | 25.5 | 1 | 2.1 | 2 |
| Rewards | 7 | 14 | 20 | 43.5 | 2 | 4.3 | 17 | 37.0 | 1 | 2.2 | 2 |
| Counsel & redeploy | 6 | 13 | 27 | 58.7 | 3 | 6.5 | 10 | 21.7 | - | . | 2 |
| New assignment | 10 | 20.8 | 23 | 47.9 | 5 | 10.4 | 10 | 20.8 | - | - | 2 |
| Discipline & transfers | 10 | 21.3 | 17 | 36.2 | 10 | 21.3 | 10 | 21.3 | - | . | 2 |
| Formality | 2 | 4.2 | 15 | 31.3 | 18 | 37.5 | 6 | 12.5 | 7 | 14.6 | 3 |

The Table 4.6 above indicates the respondents' level of agreement on the purpose of the performance appraisal system. 37.5 percent agreed that the system is used in training needs assessment while 35.4 percent also disagreed that the appraisal system is used to asses training need. The dominant mode is two which means that most respondents chose to disagree with the

purpose of the performance appraisal system supporting our earlier finding that most respondents do not think that the appraisal system achieves its objectives indicating that employees have not been properly sensitized on these purposes of the system. Surprisingly 14.6 percent of the respondents agreed that the system is just for formality purposes meaning that they have never understood what the appraisal process is purposed for. To identify training needs, for promotion and for rewarding were therefore recorded as the main purposes of the performance appraisal system in National bank of Kenya.

4.6 Factors Influencing the Effectiveness of Performance Appraisal System

To analyze the factors that influence the effectiveness of performance appraisal, the researcher identified the following to be the main factors that affect performance appraisal system in National bank of Kenya: Attitude of the employees, design of the appraisal form, the employee training, the performance feedback and finally linking rewards to the performance appraisal system results. These factors were explored through the frequency tables as the method of arriving at the conclusion of the various objectives. The researcher scaled up the factors using likert scaling system from 1 to 5. According to the design of tool used in data collection, 1 represented strongly disagree, 2 represented disagree, 3 represented neither agree nor disagree, 4 represented agree and 5 represented strongly agree.

Table 4.7 Percentage and frequencies of factors influencing effectiveness of PAS in NBK

| Factor | Level of agreement | | | | | | | | | | MODE |
|---|-----------------------|-------------|--------------|--------------|--------------------------------|--------------|-----------|--------------|--------------------|------------|------|
| | Strongly Disagree (1) | | Disagree (2) | | Neither Agree nor Disagree (3) | | Agree (4) | | Strongly Agree (5) | | |
| | Freq | % | Freq | % | Freq | % | Freq | % | Kreq | % | |
| Attitude of the employees | 1 | 2 | 10 | 20.4 | 8 | 16.3 | 25 | 51 | 5 | 10.2 | 4 |
| Design of the appraisal form | 1 | 2.1 | 1 | 2.1 | 11 | 22.9 | 29 | 60.4 | 6 | 12.5 | 4 |
| Employee Training | 4 | 8.2 | 6 | 12.2 | 8 | 16.3 | 28 | 57.1 | 3 | 6.1 | 4 |
| Performance feedback linking rewards to the PAS results | 1 | 2.1 | 11 | 22.9 | 2 | 4.2 | 28 | 58.3 | 6 | 12.5 | 4 |
| | 8 | 16.7 | 9 | 18.8 | - | - | 29 | 60.4 | 2 | 4.2 | 4 |
| Average percent | | 6.22 | | 15.28 | | 14.95 | | 57.44 | | 9.1 | |

The dominant mode in Table 4.7 is four or those who agreed that these factors affect effectiveness are the majority. Agree as a level of agreement had 57.44 percent across the five factors listed followed by those who chose to disagree at 15.28 percent. This implies that the respondents acknowledged that these factors are instrumental in either making the process a success or a failure.

4.7 The Employee's Perception on the Attitude of the Appraisers and those who are Appraised

Based on the responses gathered from the employees of the bank, the researcher tried to discuss the employees' perception on the attitude of the appraisers and those who are appraised at National Bank of Kenya. The questionnaires were designed using Likert Scale where almost all the statements were measured on a five point scale with 1 = Strongly Disagree; 2 = Disagree; 3 =

neither agree nor disagree; 4 = Agree; and, 5 = Strongly Agree. The information obtained from the Questionnaires are summarized and discussed in the tables below.

Table 4.8 Summary of the employee's perception towards the attitude of the appraisers and those who are appraised

| Level of Agreement | PAS results in a clear and unbiased appraisal | | PAS results to better communication between self and supervisor | | Supervisors evaluate performance objectively, without bias | | I can communicate my problems openly to my supervisor | | I feel comfortable with the scales used to evaluate performance | | I am motivated to correctly evaluate employees' behaviors | |
|--------------------|---|------------|---|------------|--|------------|---|------------|---|------------|---|------------|
| | Count | % | Count | % | Count | % | Count | % | Count | % | Count | % |
| Strongly Disagree | 16 | 32.7 | 14 | 28.6 | 8 | 16.3 | 12 | 25.5 | . | . | . | . |
| Disagree | 18 | 36.7 | 21 | 42.9 | 18 | 36.7 | 14 | 29.8 | 2 | 28.6 | 1 | 14.3 |
| Neutral | 13 | 26.5 | 9 | 18.4 | 20 | 40.8 | 18 | 38.3 | 2 | 28.6 | . | . |
| Agree | 2 | 4.1 | 3 | 6.1 | 3 | 6.1 | 3 | 6.4 | 3 | 42.9 | 5 | 71.4 |
| Strongly Agree | . | . | 2 | 4.1 | . | . | . | . | . | . | 1 | 14.3 |
| Total | 49 | 100 | 49 | 100 | 49 | 100 | 49 | 100 | 7 | 100 | 7 | 100 |
| MODE | | 2 | | 2 | | 3 | | 3 | | 4 | | 4 |

Table 4.8 shows that subordinates disagreed and remained neutral over aspects related to their attitude while managers on the hand agreed over aspects related to their attitudes on performance appraisal system. This is normal as managers tend to justify how they deliver on various managerial duties hence remaining defensive. On the contrary, majority of the respondents (42.9% and 28.6%) disagreed and strongly disagreed respectively with the idea that information generated through performance evaluation strengthens the relationship between the supervisors and the subordinates. They further contend that rather than strengthening the relationship it leads to controversies and contradictions. About 32.7% strongly disagreed with the statement that performance evaluation results in a clear and unbiased appraisal. However, a positive attitude exists among the managers since since 71.4% agreed that they are motivated to correctly evaluate employees' behaviors. It was not clear what motivated them. Therefore attitude when measured through how an individual felt

about the performance appraisal process comes out clearly as a factor that was influencing the effectiveness of performance appraisal system in National Bank of Kenya Limited.

4.8 The Employee's Perception Towards the Design of the Appraisal Form

According to Michael Beer(1987), the problems of performance evaluation is related to the forms and procedures that make up the performance appraisal system. The form used to record the performance of the employees is blamed if it is cumbersome, not customized and if employees did not participate in the design of the form of evaluation. In this regard, the opinion of participants as to the degree/extent to which they agree with the clarity ,way of conducting and objectivity of the performance evaluation criteria used in National Bank of Kenya in accordance of the work experience of respondents is portrayed in the table below.

Table 4.9 Summary of the employee's perception towards the design of the appraisal form

| Level of Agreement | I know the standards used to evaluate my performance | | Supervisors clearly expresses goals & assignments | | Coals developed for my performance are meaningful measures | | I accept the goals I have been assigned | | I am able to clearly set goals that are relevant for employees | | I am able to use the appraisal instrument as intended | |
|--------------------|--|------------|---|------------|--|------------|---|------------|--|----------------|---|------------|
| | Count | % | Count | % | Count | % | Count | % | Count | % | Count | % |
| Strongly Disagree | 10 | 20.4 | 10 | 20.4 | 2 | 4.1 | 1 | 2.3 | . | . | 1 | 14.3 |
| Disagree | 11 | 22.4 | 8 | 16.3 | 7 | 14.3 | 3 | 7 | . | . | 1 | 14.3 |
| Neutral | 15 | 30.6 | 15 | 30.6 | 28 | 57.1 | 18 | 41.9 | 1 | 14.3 | 1 | 14.3 |
| Agree | 12 | 24.5 | 14 | 28.6 | 10 | 20.4 | 17 | 39.5 | 3 | 42.9 | . | . |
| Strongly Agree | 1 | 2 | 2 | 4.1 | 2 | 4.1 | 4 | 9.3 | 3 | 42.9 | 4 | 57.1 |
| Total | 49 | 100 | 49 | 100 | 49 | 100 | 43 | 100 | 7 | 100 | 7 | 100 |
| MODE | | 3 | | 3 | | 3 | | 3 | | 4&5 | | 5 |

From Table 4.9 above, the majority of the respondents remained neutral (30.6%) with the statement 'i know the standards used to evaluate my performance'.The analysis further indicated that about 20.4% and 22.4% strongly disagreed and disagreed respectively with the statement.Concerning the

goals, a staggering 57.1% neither agreed nor disagreed if the goals are meaningful measures. From this description, it is possible to infer that the standards against which employees' performance are judged were vague and highly subjective if these employees don't understand its goals as meaningful measures. If ambiguity surrounds goals that will be the basis for the evaluation, then the design of the appraisal form and the process of conducting the performance will influence the effectiveness of this particular process.

On the contrary, 42.9% of the seven managers who responded agreed and strongly agreed with the statement 'I am able to set goals that are relevant to employees'. This can be taken to mean that they didn't involve employees in preparing the appraisal form. This is another reason as to why when asked if they can use the appraisal form as intended, 57.1% strongly agreed. Exclusion of employees in setting goals and designing the appraisal form ultimately affects the process of conducting and this further affects the effectiveness of the National Bank of Kenya at National Bank of Kenya.

4.9 The Employee's Perception Towards Training

The qualification of the rater is determined by the ability of the rater to observe the work of his/her subordinates and the adequacy of the training gained on how to conduct the performance evaluation of the subordinates. On the other hand, the fairness of the performance evaluation by raters is a function of the ability of the raters to evaluate his/her subordinates based on the criteria set by the bank in its personnel policy manual with regard to performance evaluation. In this respect, the following table shows the employees' perception of adequacy on training, preparedness and qualification of the raters during performance evaluation.

Table 4.10 Summary of the employee's perception towards training

| Level of Agreement | My supervisor possesses adequate knowledge & training to conduct evaluation properly | | I need more training on performance appraisal interviews | | I am sufficiently trained on all skills of performance appraisal process | | My appraisal skills are regularly refreshed and updated through training | | I need more training in conducting performance appraisal interviews | | I record good/poor behavior relevant for performance evaluation of employees | |
|--------------------|--|----------|--|----------|--|----------|--|----------|---|----------|--|----------------|
| | Count | % | Count | % | Count | % | Count | % | Count | % | Count | % |
| Strongly Disagree | 7 | 14.6 | . | . | 9 | 18.8 | 13 | 23.6 | . | . | . | . |
| Disagree | 15 | 45.8 | 10 | 20.8 | 20 | 41.7 | 32 | 58.2 | 2 | 28.6 | 3 | 42.9 |
| Neutral | 14 | 29.2 | 3 | 6.3 | 9 | 18.8 | 4 | 7.3 | . | . | 1 | 14.3 |
| Agree | 11 | 22.9 | 27 | 56.3 | 10 | 20.8 | 3 | 5.5 | 3 | 42.9 | 3 | 42.9 |
| Strongly Agree | 1 | 2.1 | 8 | 16.7 | . | . | 3 | 5.5 | 2 | 28.6 | . | . |
| Total | 48 | 100 | 48 | 100 | 48 | 100 | 55 | 100 | 7 | 100 | 7 | 100 |
| MODE | | 2 | | 4 | | 2 | | 2 | | 4 | | 2&4 |

It is possible to observe in Table 4.10 above that about 45.8% of the participants disagreed with the statement that 'their supervisors possess adequate knowledge and training to properly implement their performance evaluation' whereas about 22.9% of the respondents agreed with the statement and a further 29.2 % of the respondents argued that they neither agreed nor disagreed. A further analysis showed that about 56.3% of the respondents agreed with the statement 'i need more training on performance appraisal interviews' whereas about 16.7% of the respondents strongly agreed with the statement and a further 6.3% of the participants became neutral with the statement. With respect to the sufficient training, about 41.7% of the respondents disagreed with the idea that they are sufficiently trained on all skills of performance appraisal. Majority of the respondents disagreed (58.2%) with the statement 'their appraisal skills are regularly refreshed through training'.

Forty two point nine percent of managers who were interviewed agreed that they needed more training on how to conduct performance **appraisals**. However, 42.9% of the managers who responded agreed that they regularly record incidents of good or poor behaviour relevant for performance appraisal. An equal percentage disagreed with the same statement meaning all of them are not prepared in equal measures. Performance evaluation is a tough job in such a way that it requires careful observation of the work of the subordinates and clear documentation. Most of them agreed that the raters do not have adequate training and skills to seriously undertake the issue. Others contend that even if raters are qualified to evaluate the performance of their subordinates, they are not motivated and hence negligent to perform the job. As a result of these reasons, most respondents do not believe in the qualification of their raters and this clearly affects the effectiveness of the performance appraisal system.

4.10 The Employee's Perception Towards Performance Feedback

The degree to which the supervisors systematically document the work behaviors of ratees during appraisal period and the visibility of the performance ratings among subordinates highly affects accuracy of the raters in giving feedback. In this regard, an attempt was made to know the extent to which employees perceive that the raters document the work behavior of their employees during the period of evaluation and the extent to which they communicate the result of the appraisal to their employees on the regular basis. The results of the analysis are summarized in the following table.

Table 4.11 Summary of employee perception towards performance feedback

| Level of Agreement | Information generated through PA is used to give feedback so that you know where you stand | | Information generated through PA is used to motivate subordinates through recognition & support | | Information generated through PA is used to diagnose organizational & individual problems based on performance results | | I have ways to appeal a performance rating that I think is biased or inaccurate | | The feedback I receive is helpful in improving my on-the-job performance & in attaining goals | | PF I give useful feedback | |
|--------------------|--|----------|---|----------|--|----------|---|----------|---|----------|---------------------------|----------|
| | Count | % | Count | % | Count | % | Count | % | Count | % | Count | % |
| Strongly Disagree | 17 | 35.4 | 17 | 35.4 | 15 | 31.3 | 14 | 29.2 | 15 | 31.3 | . | . |
| Disagree | 26 | 54.2 | 27 | 56.3 | 26 | 54.2 | 23 | 47.9 | 22 | 45.8 | . | . |
| Neutral | 1 | 2.1 | 2 | 4.2 | 4 | 8.3 | 3 | 6.3 | 6 | 12.5 | 1 | 14.3 |
| Agree | 3 | 6.3 | 2 | 4.2 | 2 | 4.2 | 5 | 10.4 | 4 | 8.3 | 2 | 28.6 |
| Strongly Agree | 1 | 2.1 | . | . | 1 | 2.1 | 3 | 6.3 | 1 | 2.1 | 4 | 57.1 |
| Total | 48 | 100 | 48 | 100 | 48 | 100 | 48 | 100 | 48 | 100 | 7 | 100 |
| MODE | | 2 | | 2 | | 2 | | 2 | | 2 | | 5 |

It can be revealed from Table 4.11 above that, majority of the respondents (about 54.2%) disagree with the statement 'Information generated through performance appraisal is used to give feedback so that you know where you stand' and 56.3% of the respondents disagreed with the statement that 'Information generated through performance appraisal is used to motivate subordinates through recognition & support'. Moreover, about 54.2% of the participants disagreed with the statement that 'Information generated through performance appraisal is used to diagnose organizational & individual problems based on performance results'. A massive 31.3% strongly disagreed with the statement that 'the performance feedback they received was helpful in improving their on-the-job performance & in attaining goals while another 45.8% disagreed with the same statement. 57.1% of the managers strongly agreed that they are able to give useful feedback which is paradoxical because their juniors cannot acknowledge receiving any useful feedback.

Moreover, as a result of the failure of the supervisors to show the results of the ratings, employees were not in the position to know and improve their weaknesses and/or capitalize on their strengths. Therefore, the organization should work hard to design a system whereby employees can have access to their results and make it transparent so the employees will be able to know their weaknesses and strengths. Transparency of the evaluation result is usually accompanied by appropriate documentation of the performance of employees which demands supervisors much time but provides them objectivity and minimizes the problem of behavior bias. All these are detrimental to an effective performance evaluation process.

4.11 The Employee's Perception towards linking performance appraisal system to pay or Rewards

Several analysts have argued that performance-based pay schemes improve the administration of branches and departments. Under a performance-based pay scheme, managers must know the quality of employees in all sections (Hoerr, 2006). This type of evaluation, it is argued, means managers must summatively evaluate their subordinates, rather than formatively evaluate, and so more objective decisions about employee quality are made. Research showed that in performance-based pay systems, many managers report they evaluated employee more harshly than they would have in a non-performance-based system, (Murnane and Cohen 1986) is used to support this argument. As a safety precaution, Solomon and Podgursky (2009) advocate managers becoming recipients of school wide performance-based rewards, to ensure they remain objective in their evaluation. In this respect, the following table shows the employees' perception on linking pay or rewards during performance evaluation process.

Table 4.12 Summary of employee perception towards linking performance appraisal system to pay or rewards

| Level of Agreement | There is a clear, direct and compelling linkage between performance and pay in the PAS | | There is a clear and reasonable process established for grieving both evaluation & performance based-pay results | | I believe the amount of performance based-pay I can earn through high evaluation ratings will make a noticeable difference in my future performance | | Performance based-pay on performance ratings is the most effective method for motivating employees to improve/sustain performance | | Performance based pay is given on a flat rate to every employee | |
|--------------------|--|----------|--|----------------|---|----------|---|----------|---|------------|
| | Count | % | Count | % | Count | % | Count | % | Count | % |
| Strongly Disagree | 22 | 45.8 | 20 | 41.7 | 10 | 20.8 | 10 | 20.8 | 13 | 27.1 |
| Disagree | 18 | 37.5 | 20 | 41.7 | 22 | 45.8 | 12 | 25 | 9 | 18.8 |
| Neutral | 1 | 2.1 | 2 | 4.2 | 3 | 6.3 | 9 | 18.8 | 6 | 12.5 |
| Agree | 6 | 12.5 | 6 | 12.5 | 13 | 27.1 | 16 | 33.3 | 18 | 37.5 |
| Strongly Agree | 1 | 2.1 | . | . | . | . | 1 | 2.1 | 2 | 4.2 |
| Total | 48 | 100 | 48 | 100 | 48 | 100 | 48 | 100 | 48 | too |
| MODE | | 1 | | 1&2 | | 2 | | 3 | | 3 |

From the Table 4.12 above it was possible to observe that, about 45.8% of the participants strongly disagreed with the statement that 'there is a clear, direct and compelling linkage between performance and pay in the performance appraisal system.' A paltry 12.5% agreed with the same statement. This means that there is lack of clarity in linking performance and pay though it might exist. About 37.5% of the respondents also disagreed with the statement and a further 2.1 % of the respondents argued that they neither agreed nor disagreed. A further analysis showed that about 41.7% of the respondents strongly disagreed and disagreed with the statement that 'there is a clear and reasonable process established for grieving both evaluation & performance based-pay results whereas about 12.5% of the respondents agreed with the statement. This means that performance

pay-results cannot be contested even if the employees are not satisfied. 45.8% of the respondents disagreed with the statement that performance pay bonuses will make a noticeable difference in their future performance. This clearly shows that monetary benefits is not the only and preferred way of motivating employee to perform better. This is further supported by 20.8% of the participants who strongly disagreed that performance based-pay based on performance ratings is the most effective method for motivating employees to improve or sustain performance. 25% of the respondents also disagreed with this statement.

Thirty seven point five percent of respondents agreed that performance based pay is given on a flat rate to every employee. However, 27.1% disagreed with this particular statement. This is a clear indication that this particular performance appraisal system rewards performers and non-performers on equal measures. This will demoralize high performing employees because the system is not able to recognize them and at the same time advantage non-performers. Hence, since the dominant mode of these issues related with linking performance to pay is one and two which is strongly disagree and disagree, the researcher concluded that linking pay to performance affects the effectiveness of performance appraisal system at National Bank of Kenya.

4.12 Qualitative Analysis

The open ended questions and the interview schedule generated data which was analyzed qualitatively. It was based on non quantifiable information therefore is different from quantitative analysis which focuses on numbers. These two techniques are often used together resulting to a mixed mode of data analysis. Most of the open ended questions were not answered adequately respondents claiming questions which required thinking consumed their time.

Respondents who answered the question, 'how can performance appraisal system be improved at National Bank of Kenya?' gave the following varied suggestions. Involving employees in designing the appraisal form and making appraisal process a daily undertaking was a suggestion given by majority. This again clearly showed that they were left out in this vital process and the researcher had identified this as a factor which was influencing effectiveness of performance appraisal system. More than half of the respondents suggested that more trainings and external exposure had to be done to improve on the process. Setting clear goals was also suggested by a majority of respondents as a way of improving on the process. Fairness and unbiased evaluation by supervisors was also a suggestion of many who gave their views on how to improve performance evaluation. Majority of respondents also suggested that the system should be designed in such a

way that it can reward highly performing employees and also be able to differentiate between performers and non-performers. Giving timely and useful feedback was also a way of improving the process that majority of the respondent's suggested. This, they argued that it will help employees improve on their weak areas and capitalize on strong areas.

Majority of the respondents who answered the question, 'what are the real problems facing performance evaluation in your department?' gave a range of problems which the researcher found out that they were related with the factors he was investigating. These problems which respondents identified are; lack of clear and fair reward mechanisms, lack of clear goals and objectives, no room for appeal as supervisors are taken as final, lack of participation and negative attitudes among employees, employee acceptance is also questionable since some of them felt that the process is undertaken as a formality. Results of the performance evaluation were not implemented so as to come up with an improvised process also emerged as a problem. Majority of the respondents also claimed that meaningful feedback was not given and the whole process was done as compliance rather than a way of motivating staff to perform better.

Managers who responded agreed that there exists an evaluation policy which is clearly stated in the personnel policy manual. At the same time majority of the managers felt that the performance evaluation is not effectively fulfilling its objectives supporting the researcher's earlier statement that the objectives were vague and highly subjective. Both the subordinates and managers strongly agreed that the performance appraisal system at national bank of Kenya cannot effectively differentiate between performers and non-performers. This clearly supports the researcher's finding that design of the appraisal form and the process of conducting affects effectiveness of performance appraisal system at National Bank of Kenya. Majority of the managers agreed that face to face was the best method they used to communicate feedback. This face to face method is accompanied by a copy of what the employee had earlier filled as a duplicate.

CHAPTER FIVE

SUMMARY OF FINDINGS, DISCUSSIONS, CONCLUSIONS AND RECOMMENDATION

5.1 Introduction

This chapter presents findings of the study, discussions, conclusions and recommendations. All these are subject to the analysis of the researcher based on the field data. The purpose is to infer correctly on the factors affecting the effectiveness of performance appraisal system in National Bank of Kenya, Head Office Nairobi.

5.2 Summary of Key Findings

It is the obligation of the Top Management in any organization to design a participatory Performance Appraisal System that would handle all the appraisal activities in the Human Resources Department in the organization. The need for appropriate appraisal system can not be over emphasized in a complex organization like a bank because modern management is today run on a result-based management approach. The main objective of this study was to find out the factors affecting the effectiveness of performance appraisal system in National Bank of Kenya, Head Office Nairobi.

The study came up with a number of important findings that should be taken up by banks and other institutions in the design or overhaul of their performance appraisal systems. First, the research established that the employees were aware of the performance appraisal system used at National Bank of Kenya but the system does not address the important purpose upon which it was designed. Secondly, the study also established five major factors that affect the effectiveness of performance appraisal system in National Bank of Kenya. These factors included;

Firstly, the attitude of the supervisors and the appraised which needs to be changed. Majority of the subordinate staff disagreed and remained neutral on attributes related to their attitude while managers agreed with these attributes in a way to justify on how they deliver on their managerial duties. Secondly, is the design of the appraisal form and the process of conducting the performance evaluation. Analysis results revealed that the appraisal form was designed without participation of employees and its goals were not meaningful measures to the employees. From this description, it was possible to infer that the standards against which employees' performance were judged were vague and highly subjective if these employees didn't understand its goals as meaningful measures. Thirdly was preparedness and training of employees. Lack of sufficient training across all

cadres of employees was revealed through the analysis which the researcher carried out. The other important factor that affected effectiveness of performance appraisal system at National Bank of Kenya was performance feedback. A good number of respondents strongly agreed that they hardly received meaningful feedback therefore they could not capitalize on their strengths and improve on the weak areas. Finally; it was linking rewards to the performance appraisal results. The analysis of the results revealed that although this practice existed, employees were given bonuses related to performance on a flat rate. This in particular showed that the system could not distinguish between performers and non performers. Majority of the respondents also claimed that the performance results were biased and that these particular bonuses will not be enough to motivate them to perform better or sustain the same performance in future.

Concerning how the performance appraisal process can be improved, employees gave a number of robust suggestions which included; designing a participatory performance appraisal system, periodic trainings on new areas, setting smart goals, encouraging supervisors to give unbiased results, distinguishing highly performing employees and availing timely and useful feedback.

5.3 Discussion of the Findings

This section links the literature earlier reviewed with the researcher's findings in the analysis.

5.3.1 Perception of Employees on the Design of Performance Appraisal Form and how it Influences the Effectiveness of performance appraisal system at National Bank of Kenya

In the study made by Clinton Longenecker (1977) on 120 seasoned managers drawn from five different large US organizations entitled "why managerial performance appraisal are ineffective", the majority (83%) of the respondents argued that managerial performance appraisal is destined to fail because of unclear performance criteria or ineffective rating instrument used. This mostly emanates from ambiguity of goals that will be the basis for the evaluation of the process. This statement is supported by the fact that majority (42.8%) of the respondents did not agree that they know the standards used to evaluate their performance meaning the performance criteria was unclear.

Concerning the goals, a staggering 57.1% neither agreed nor disagreed if the goals were meaningful measures. From this description, it is possible to infer that the standards against which employees' performance are judged are vague and highly subjective if these employees dont

understand its goals as meaningful measures. If ambiguity surrounds goals that will be the basis for the evaluation, then the design of the appraisal form and the process of conducting the performance will influence the effectiveness of this particular process.

5.3.2 Perception of Employees on the Attitude of Appraisers and Appraisee's and how it Influences the Effectiveness of performance appraisal system at National Bank of Kenya

From the study it was noted that attitude has immensely affected the effectiveness of performance appraisal system. This was demonstrated through the numerous negative attitudes among employees. Majority of respondents strongly disagreed with the statement that information generated through performance evaluation strengthens the relationship between the supervisors and the subordinates. They contend that rather than strengthening their relationship it leads to controversies and contradictions. Majority do not even think that the results are clear and unbiased and further disagree that their supervisors assess their performances objectively.

Managers too are the implementers who have a positive attitude by agreeing that they objectively assess their subordinates. This statement was disputed by their juniors who they don't think so. This leaves us with the dilemma of who was saying the truth and therefore qualifying this factor as one of those affecting the effectiveness of the performance appraisal system at National Bank of Kenya.

5.3.3 Perception of Employees on Training and how it Influences the Effectiveness of performance appraisal system at National Bank of Kenya

Nearly all authors agree in the fact that rater must be trained to observe, gather, process, and integrate behavior-relevant information in order to improve performance appraisal effectiveness. This is not the case at National Bank of Kenya because majority of the managers strongly agreed that they needed more training on how to conduct performance appraisal interviews. They even went further and argued their appraisal skills are never refreshed through training. Kondrasuk et al. (2002) also said that the condition of training for all involved individuals must be fulfilled. According to them this means that training is frequently updated and involves appraisal aspects as for example give and take feedback, personal bias, active listening skills and conflict resolution approaches. This feature also lacks at National Bank of Kenya because majority of respondents can remember being trained once over a period of two years. Since employees are not updated through

refresher training, this means that employees are not prepared and therefore their level of acceptance is low and this will affect the effectiveness of the appraisal system.

5.3.4 Perception of Employees on Performance Feedback and how it Influences the Effectiveness of performance appraisal system at National Bank of Kenya

To feedback to the employee generally aims at improving performance effectiveness through stimulating behavioral change. Thus is the manner in which employees receive feedback on their job performance a major factor in determining the success of the performance appraisal system (Harris, 1988). Majority of the respondents strongly disagreed that over time they received meaningful feedback meaning effectiveness of the appraisal system was not being achieved through stimulating behavioral change. Hearing information about the self discrepant from ones self-image is often difficult and painful. Thus, because feedback may strike at the core of a person's personal belief system it is crucial to set conditions of feedback so that the appraisee is able to tolerate, hear, and own discrepant information (Dalton, 1996).

5.3.5 Perception of Employees on linking Results of Performance Appraisal System to Pay and how it Influences the Effectiveness of performance appraisal system at National Bank of Kenya

Hoerr (2006) argues that any non-merit-based system is unfair for exceptional employees because they are judged on inefficient criteria. This will cause, it is argued, talented employees to leave the Banking system because excellence is not fairly rewarded (Odden, 2007). This is likely to happen at National Bank of Kenya because highly performing employees are not fairly rewarded as performance related bonuses are given on a flat rate. An effective system should reward fairly and retain talent. This has been comprised hence affecting the effectiveness of the performance appraisal system.

5.4 Conclusions

It is shown in the analysis that the standards against which employees performance are judged are vague and highly subjective. Hence, the lack of clarity and objectivity of the criteria used to measure the performance of the employees creates role ambiguity and frustration among the workers to undertake their job. As a result, majority of the respondents questioned the legality and appropriateness of the current form used to measure their performance which affects administrative

decisions. Hence, at least, employees do not perceive that their performance is measured; they believe that the performance record does not reflect their true performance.

The second idea for improvement concerns the frequency of feedback. Each rater should be compelled to implement more feedbacks. A solution could be that raters integrate so called achievement updates on a weekly basis which then touch upon good and bad issues, while so called achievement assessments take place bi-monthly, are more formal and aim at getting a more clear depiction of issues troubling both sides. More formally, it could be decided if quarterly a short performance review with objective updating is integrated into the performance appraisal process.

But the most important conclusion is that the performance-based pay system and the opinion of employees about it must be analysed urgently. Then of course the system needs to be adjusted according to the results. Otherwise the bank runs risk in the long term to destroy all positive motivational effects that such a system can have if it was well designed.

It might be important, too, that the bank eliminates the impact of age. This could for example be done by giving employees some form of performance appraisal training as they enter the bank. This training must not be as detailed as for raters but should inform about the goals, the process and introduce the instrument. By doing this, the bank would make use of the chance that a completely new understanding and support for the performance appraisal system could grow from bottom upwards.

Furthermore, it should be thought about implementing regular feedback-checks with regard to performance appraisal. This is especially important before developing and implementing a new component. Otherwise one learns not until it is in praxis that money and time spend were actually useless. Such negative after-effects could be overcome with the help of surveys, good ideas and suggestions could be gathered and employees feel that the bank attaches great importance to their opinion. Thus, the quality of the performance appraisal and the acceptance of its users could easily be improved.

5.5 Recommendations

From the findings and conclusion of this study, the following recommendations are very crucial for developing effective performance appraisal systems in banks in Kenya. The performance appraisal systems should be based on the following important purpose: They should be the tool used to evaluate employees' performance and a decision support system used in improving the weak areas

and capitalizing on the strengths of the employees. This will ensure that the employees are improved over time.

The system should be able to guide the banks in identifying employees training needs, their execution and evaluation on whether they achieve their intended objectives. Periodic training must be conducted to ensure that the process is up to date. The systems should be used to evaluate the employees which are ready for promotion and other motivational rewards. The system should also be used to evaluate the employees who should be coached and prepare them for deployment, transfers or new assignments.

During the design of performance appraisal system in banks, the management should consider all factors of an effective system so as to achieve the goals upon which they are designed. The major factors should include among others: Frequency of the appraisal, organizational objectives, training of the appraisers, accurate record keeping system, employees performance measurement, self appraisal approach, employees performance review, employees strengths and weakness, the system as an employees motivator, the system should be able to provide feedback to employees, the system should be void of biasness and the process and procedures for the systems should be ratable. The bank should encourage the participation of its employees in the design of the form that is used to evaluate the performance of the workers and it should take into account the differences among jobs in terms of their requirements and characteristics.

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 also be designed in such a way 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.

In order to bring goal clarity and objectivity, the organization should strive to develop a system whereby the performance evaluation criteria are jointly determined by both the rater and the ratee. In addition, effective two-way communication must be part of the performance planning process prior to any evaluation to set the standard by which employees' performance will be judged.

The bank should use criteria which are measurable, objective, and job related. This is because of the fact that using the universal performance measurement standards adversely affect the motivation and moral of the high performances and it may also frustrate them since their contribution is not well recognized and rewarded. In order to overcome these problems it is better to use the output oriented performance appraisal rather than the trait based or behavior based appraisal system.

In order to solve the system problems in performance evaluation ,it is important to systematically and regularly review system operations to make sure that process and practices are being followed and effective. The bank should make sure the employee acceptance of the system and trust of the appraisal system.

5.6 Suggestions for Further Research

The following related areas can be researched on to add up to the knowledge of what this study has achieved. First, there is a need to carry out a comparative evaluation of the effectiveness of performance appraisal system in both government owned and private banks in Kenya.This will help in bringing out the differences which when harmonized can result to an effective appraisal system void of obvious problems. Secondly,research should be done to evaluate the impact of computerizing performance appraisal systems both in government owned and private banks in Kenya. This will help human resource managers understand the role of modern technology in designing performance appraisal system.Lastly, a study should be done to establish integration of performance appraisal system with other sub-systems like financial management systems in the organization.Such a study will help organizations learn and understand the integration of all the systems meant to run their activities.

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Appendix i
Letter of Transmittal

**TOROITICH JEREMIAH MUTAI,
THROUGH THE UNIVERSITY OF NAIROBI,
DEPT OF EXTRA MURAL,
P.O BOX 30197-00100,
NAIROBI.**

Dear Respondent;

The questionnaire given to you is designed to collect information about the factors influencing the effectiveness of employee performance evaluation system in National Bank of Kenya, Head office Nairobi. The information shall be used as a primary data in my case research which I am conducting as a partial requirement of my study at the University of Nairobi for completing my Master of Arts in Project Planning and Management.

The research is to be evaluated in terms of its contribution to our understanding of the performance evaluation practices of organizations in contemporary Kenya and its contribution to improvements in these practices. Therefore, I will be willing to submit a copy of my final report to you when it is ready. As this project is meant for academic purposes, I will be willing to get your permission for release of the information if such permission is required by your organization.

Therefore, your genuine, honest, and prompt response is a valuable input for the quality and successful completion of the project. All respondents should note that the information given will be treated with confidentiality.

Thank you, for your cooperation and timely response in advance

Yours Faithfully,

Jeremiah Mutai.

Appendix ii

Questionnaire Form a

To be filled by Ratees or Appraisee's

This questionnaire is designed to collect information about the factors influencing the effectiveness of employee performance evaluation system in National Bank of Kenya, Head office Nairobi. The information shall be used as a primary data in my case research which I am conducting as a partial requirement of my study at the University of Nairobi for completing my Master of Arts in Project Planning and Management.

The research is to be evaluated in terms of its contribution to our understanding of the performance evaluation practices of organizations in contemporary Kenya and its contribution to improvements in these practices. Therefore, I will be willing to submit a copy of my final report to you when it is ready. As this project is meant for academic purposes, I will be willing to get your permission for release of the information if such permission is required by your organization.

Therefore, your genuine, honest, and prompt response is a valuable input for the quality and successful completion of the project. All respondents should note that the information given will be treated with confidentiality.

General Instructions

- (1) There is no need of writing your name
- (2) In all cases where answer options are available please tick (V) in the appropriate box.
- (3) For questions that demands your opinion, please try to honestly describe as per the questions on the space provided
- (4) PAS will always stand for Performance Appraisal System

Thank you, for your cooperation and timely response in advance

(A) Respondent's information

1. Kindly State your gender.

Male I I Female I I

2. Kindly indicate your age bracket

Between 18-26 I I 27-36 I I 37-45 I I Above 45 I I

3. What is your current designation at National Bank of Kenya?

Support staff I I

Clerk I I

Officer

Assistant Manager I I

4. In which Department/Branch are you currently working in?

Harambee Avenue Branch

Finance Department

Operation Department

Credit Department

Human Resource Department

Procurement Department

Marketing Department

5. For how long have you worked at National Bank of Kenya?

0-4 years

5-9 years

10-19 years

20-30 years

30 and above

6. What is your highest level of Education?

Phd

Masters

Degree

Diploma

Certificate

Other (please specify)

(B) Existence of Performance Appraisal System (PAS) and its Purpose

(1) Are you aware of the performance appraisal system currently in use at NBK?

Yes No

(2) What are the main purposes of performance appraisal system at NBK?(You can tick more than one)

| Main purpose is for, to | Strongly Disagree | Disagree | Neither Agree nor Disagree | Agree | Strongly Agree |
|-----------------------------|-------------------|----------|----------------------------|-------|----------------|
| Identify training needs | () | () | () | () | () |
| Renewal of service contract | () | () | () | () | () |
| Promotion | () | () | () | () | () |
| Rewards | () | () | () | () | () |
| Counseling and redeployment | () | () | () | () | () |
| New assignment | () | () | () | () | () |
| Discipline and transfers | () | () | () | () | () |
| Formality | () | () | () | () | () |
| Any other (Specify) | | | | | |

(3) Does this performance appraisal system achieve its objectives

Yes No

(4) Which of the following factors influence the effectiveness of this performance appraisal system at NBK?

| Factor influencing effectiveness of PAS | Strongly Disagree | Disagree | Neither Agree nor Disagree | Agree | Strongly Agree |
|---|-------------------|----------|----------------------------|-------|----------------|
| Attitude of the employees | () | () | () | () | () |

| | | | | | |
|----------------------------|-----|-----|-----|-----|-----|
| | () | () | () | () | () |
| The employee Training | () | () | () | () | () |
| The performance feedback | () | () | () | () | () |
| Linking rewards/pay to PAS | () | () | () | () | () |
| Any other (specify) | | | | | |

(5) In my own opinion any of the above factors is detrimental to the achievement of performance appraisal targets at National Bank of Kenya.

Agree Disagree

Kindly indicate your level of agreement in the following sections

(C) Attitude of the Employees

| Question | Strongly Disagree | Disagree | Neither Agree nor Disagree | Agree | Strongly Agree |
|--|--------------------------|-----------------|-----------------------------------|--------------|-----------------------|
| The performance appraisal process results in a clear and unbiased appraisal | () | () | () | () | () |
| The performance appraisal process results in better communication between myself and my supervisor | () | () | () | () | () |
| My supervisor utilizes the evaluation system to assess my performance objectively and without bias | () | () | () | () | () |
| If I have problems with my performance evaluation I can communicate my concerns | () | () | () | () | () |

| | | | | | |
|-------------------------|--|--|--|--|--|
| openly to my supervisor | | | | | |
|-------------------------|--|--|--|--|--|

(D) The design of the appraisal form

| Question | Strongly Disagree | Disagree | Neither Agree nor Disagree | Agree | Strongly Agree |
|---|--------------------------|-----------------|-----------------------------------|--------------|-----------------------|
| I know the standards used to evaluate my performance | () | () | () | () | () |
| My supervisor clearly expresses goals and assignments | () | () | () | () | () |
| The goals developed for my performance period are meaningful measures | () | () | () | () | () |
| I accept the goals I have been assigned | () | () | () | () | () |

(E) Employee Training

| Question | Strongly Disagree | Disagree | Neither Agree nor Disagree | Agree | Strongly Agree |
|---|--------------------------|-----------------|-----------------------------------|--------------|-----------------------|
| My supervisor possesses adequate knowledge and training to properly implement my performance evaluation | () | () | () | () | () |
| I need more training in performance appraisal interviews | () | () | () | () | () |
| I am sufficiently trained in all skills needed in performance appraisal process | () | () | () | () | () |
| I am able to use the appraisal instrument as | () | () | () | () | () |

| | | | | | |
|--|-----|-----|-----|-----|-----|
| intended | | | | | |
| My appraisal skills are regularly refreshed and updated through training | () | () | () | () | () |

(F)Performance Feedback

| Question | Strongly Disagree | Disagree | Neither Agree nor Disagree | Agree | Strongly Agree |
|--|--------------------------|-----------------|-----------------------------------|--------------|-----------------------|
| Information generated through Performance evaluation in NBK is used to give feedback so that you know where you stand | () | () | () | () | () |
| Information generated through Performance evaluation in NBK is used to motivate subordinates through recognition and support | () | () | () | () | () |
| Information generated through Performance evaluation in NBK is used to diagnose both organizational and individual problems based on performance results | () | () | () | () | () |
| I have ways to appeal a performance rating that I think is biased or inaccurate | () | () | () | () | () |
| The performance feedback I receive is helpful in improving my on-the - job performance and in attaining my goals | () | () | () | () | () |

(F) Linking Rewards/Pay to Performance Appraisal System

| Question | Strongly Disagree | Disagree | Neither Agree nor Disagree | Agree | Strongly Agree |
|---|--------------------------|-----------------|-----------------------------------|--------------|-----------------------|
| There is a clear, direct and compelling linkage between performance and pay in the performance appraisal system | () | () | () | () | () |
| There is a clear and reasonable process established for grieving both evaluation and performance-based pay results | () | () | () | () | () |
| I believe the amount of performance-based pay I can earn through high evaluation ratings will make a noticeable difference in my future performance | () | () | () | () | () |
| Performance-based pay based on performance ratings is the most effective method for motivating employees to improve/sustain performance | () | () | () | () | () |
| Performance-based pay is given on a flat rate to every employee | () | () | () | () | () |

(G) Open Ended Questions

(1) Do you have any ideas on how to improve performance appraisals?

(2) In your opinion, what are the real problems that you observe regarding performance evaluations practices of your organization?

Appendix iii

Questionnaire Form b

To be filled by Appraisers or Supervisors

This questionnaire is designed to collect information about the factors influencing the effectiveness of employee performance evaluation system in National Bank of Kenya, Head office Nairobi. The information shall be used as a primary data in my case research which I am conducting as a partial requirement of my study at the University of Nairobi for completing my Master of Arts in Project Planning and Management.

The research is to be evaluated in terms of its contribution to our understanding of the performance evaluation practices of organizations in contemporary Kenya and its contribution to improvements in these practices. Therefore, I will be willing to submit a copy of my final report to you when it is ready. As this project is meant for academic purposes, I will be willing to get your permission for release of the information if such permission is required by your organization.

Therefore, your genuine, honest, and prompt response is a valuable input for the quality and successful completion of the project. All respondents should note that the information given will be treated with confidentiality.

General Instructions

- (1) There is no need of writing your name
- (2) In all cases where answer options are available please tick (V) in the appropriate box.
- (3) For questions that demands your opinion, please try to honestly describe as per the questions on the space provided
- (4) PAS will always stand for Performance Appraisal System

Thank you, for your cooperation and timely response in advance

(A) Respondent's information

1. Kindly State your gender

Male Female

2. Kindly indicate your age bracket

Between 18-26 27-36 37-45 Above 45

3. What is your current designation at National Bank of Kenya?

General Manager

Senior Manager

Chief Branch Manager

Manager

4. In which Department/Branch are you currently working in?

Harambee Avenue Branch

Finance Department

Operation Department

Credit Department

Human Resource Department

Procurement Department

Marketing Department

5. For how long have you worked at National Bank of Kenya?

0-4 years

5-9 years

10-19 years

20-30 years

30 and above

6. What is your highest level of Education?

Phd

Masters

Degree

Diploma

Certificate

Other (please specify)

(7) In your opinion, do you think that it is essential to conduct performance evaluation in your organization?

Yes No

(8) What is/are your reason for question No.7 above?

(9) Kindly indicate your level of agreement in the following questions

| Question | Strongly Disagree | Disagree | Neither Agree nor Disagree | Agree | Strongly Agree |
|---|--------------------------|-----------------|-----------------------------------|--------------|-----------------------|
| I feel comfortable with the scales used to evaluate performance | () | () | () | () | () |
| I am motivated to correctly evaluate employees' behavior | () | () | () | () | () |
| I regularly record incidents of good/poor behavior relevant for the performance evaluation of employees | () | () | () | () | () |
| I need more training in conducting performance appraisal interviews | () | () | () | () | () |
| I am able to give useful feedback | () | () | () | () | () |
| I am able to clearly set goals that are relevant for the employee's position | () | () | () | () | () |
| I am able to use the appraisal instrument as intended | () | () | () | () | () |

(10) Do you have any ideas on how to improve performance appraisals?

(11) In your opinion, what are the real problems that you observe regarding performance evaluations practices of your organization?

Appendix iv

Interview Schedule

1. Is there a performance Evaluation policy in your organization? What are the objectives of the performance appraisal as stated in the policy manual?
2. Do you think that the performance evaluation system of your organization is serving its purpose?
3. Do you think that the performance evaluation system differentiates effective performers from non-performers at all levels
4. Can you please describe the performance appraisal practices of your organization?
5. What are the major problems that your department is facing with respect to performance evaluation?
6. How do you communicate the performance appraisal Results of the employees in your organization?
7. Finally, is there anything that you want to comment about the performance appraisal system of your organization?