

# **Influence of Performance Appraisal on Employee Performance in Commercial Banks in Trans Nzoia County – Kenya**

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DOI: 10.6007/IJARBS/v5-i8/1788 URL: <http://dx.doi.org/10.6007/IJARBS/v5-i8/1788>

## **Abstract**

Performance appraisal has increasingly become part of a more strategic approach to integrating human resource activities and business policies and may now be seen as a generic term covering a variety of activities through which organizations seek to assess employees and develop their competence, enhance performance and distribute rewards. The main objective of this study therefore, is to determine the influence of performance appraisal on bank worker's performance in 10 selected commercial banks in Trans-Nzoia County, Kenya. The study adopted descriptive survey research design. A total of 178 research subjects were drawn from the target population using the stratified and the simple random sampling technique. 120 respondents' questionnaires were completed and returned. This represents 67 percent response rate. Data analysis was done through descriptive statistics, specifically use of frequencies and percentages. Data was presented in frequency tables and Chi Square method was used for testing the hypothesis. The findings show that: there is a significant relationship between performance appraisal and worker's performance.

Key words: Performance appraisal, worker's performance, strategic approach, assess

## **1.0 Introduction**

In today's competitive business world, it is understood that organizations can only compete with their rivals by innovating. Organizations can only innovate by managing their human resources well. The human resource system can become more effective by having a valid and accurate appraisal policy used for rating performances of the employees. Unfortunately, the number of organization using an effective performance appraisal policy is limited (Yalcin, 2002).

Performance appraisal is a key in human resource management function which is viewed as a subset of performance management. Rao (2005) argues that performance appraisal is a method of evaluating the behavior of employees in the work place, this normally including both the quantitative and qualitative aspects of job performance. It helps to identify and overcome the problems faced by the employees in their work (Mackey & Johnson, 2000). Although it has many benefits for the organization, Nurse, (2005); states that performance appraisal have the equal probability of having a bad influence on the organization as well as on employee performance.

According to Kuvaas, (2006); performance appraisal or employee appraisal is a method by which the job performance of an employee is evaluated generally in terms of quality, quantity, cost and time typically by the immediate line manager or supervisor. A performance appraisal is a part of the process of guiding and managing career development in both private and public sectors. It involves the task of obtaining, analyzing and recording information about the relative worth of an employee to the organization.

Accurate appraisals are crucial for the evaluation of recruitment, selection, and training procedures that lead to improved performance. Appraisals can determine training needs and occasionally, counseling needs. They can also increase employee motivation through the feedback process and may provide an evaluation of working conditions, thus, improving employee productivity, by encouraging the strong areas and modifying the weak ones.

When effective, the appraisal process reinforces the individuals' sense of personal worth and assists in developing his/her aspirations. According to Maud, (2001); Performance helps firms, industries and nations to achieve sustainable competitive advantage. Industry is a thrust area for countries in their quest for competitiveness. It must be noted that banks which have maintained the momentum of continuous growth, and profitability showed better ratio of manpower effectiveness. Each element has crucial sub-components which serve as building blocks for productivity, (Rao, 1994).

To thrive or survive, banks need to continuously improve quality, attract more customers, and become more cost conscious. In other words, banks need to better manage their PA and increase Employee performance. Over the years, there are many practices, tools, techniques, systems, and philosophies that aim to help organizations to gain the competitive advantage of higher performance.

There has been a widespread use of performance appraisal in work organizations all over the world. This widespread use of Performance Appraisal Systems (PAS) can be attributed to human resource specialists, academics and consultants who proclaim that performance appraisal is a critically needed tool for effective human resource management (Locker and Teel, 1997).

Formal PA has become a widespread instrument of human resource management. Surveys reported in the 1970s and 1980s already indicated that between 74 percent and 96 percent of U.S. organizations, and a comparable proportion of British firms had a formal PAS in place. Large, complex organizations are especially likely to conduct formal appraisals (Berry, 2003). Not surprisingly, many banks in Thailand are vigorously implementing Performance Management System (PMS) to help them better manage their employee's performance and in

turn, it affects organizational performance. Since it is the key process through which work is accomplished, it is considered the “Achilles heel” of managing human capital (Pulakos, 2009). Therefore, it is very important to manage performance appraisal effectively.

Torrington and Hall ,(1998) indicated that appraisal in the banks of Malawi is related to employee productivity because of the following reasons; they can be used to improve current performance, provide feedback, increase motivation, identify training needs, identify potentials, let individuals know what is expected of them, focus on career development, award salary increases, and solve job problems. Further he stated that performance appraisals help in a very practical way to manage an organization’s staff effectively, allow one to know what employees have achieved and can achieve, know what employees’ weaknesses are, understand how each employee’s role fits into the overall business, compare the efficiency of different staff members, set realistic goals and identify ways business can be expanded or enhanced. It also allows staff to; feel valued, understand what is expected of them, understand the business they are involved in, understand their weaknesses, identify their strengths, identify areas they need further training in as well as offer opinions and insights that may improve the business as a whole.

Boswell and Benson, (2000) identified two uses of PAs in their study of East African banks as evaluative and developmental purposes. The evaluative function includes the use of PA for salary administration, promotion decisions, retention-termination decisions, and recognition of individual performance, layoffs and the identification of poor performance. Ostroff, (1993) conceptualizes the above usage of PA as administrative purpose. Cleveland et al. (1989) contend that evaluative functions involve between-person decisions. Developmental functions, on the other hand, include the identification of individual training needs, providing performance feedback, determining transfers and assignments, and the identification of individual strengths and weaknesses. These are proposed to encompass within-person decisions. Since work is an important aspect of people’s lives at work; understanding the factors involved in PA is crucial to improving employee performance.

This study is also important, because in a rapidly developing country like Kenya there is need to understand the attitude of workers towards their work: determining the performance of bank employees could lead to improvement in work place that would help them to remain satisfied with their job. Therefore it was important to carry out the study to find out the status of performance appraisal in the Kenyan context

### **1.1 Problem Statement**

Employees are a very important resource in any organization. ‘This can be attributed to the way their performance is appraised, recognized and relevant motivation put in place (Nurse, 2005). The banking sector has witnessed significant reforms from the 1990s’with right sizing efforts and now the performance contracts that has become a yardstick through which employees’ performance is measured. These among other changes have necessitated a study on influence of PA (performance appraisal) on employee performance as it has not been established

whether the reforms carried out have influenced negatively or positively the performance in commercial banks.

There is evidence that PA positively and significantly influence performance (Boyne, 2003). However, comparatively less attention has been given to the nature of PA practices among commercial banks in Kenya and specifically in Trans Nzoia County. Employees have been job hopping to counties, teaching profession which offer good terms of service. More research studies have been concentrated in the west, thus giving developing countries a miss despite the challenges they face in PA on employee performance. This study sought to examine the influence of PA on employee performance in commercial banks in Trans Nzoia County-Kenya.

## **2.0 Literature Review**

### **2.1 Theoretical Framework**

#### **Goal theory**

Goal theory was adopted for this study. The theory proposes that human beings are more motivated to act when there is a reward at the end of the performance of a task or behaviour. Motivation theories and need theories are all theories brought forward in view of understanding what underlying goals determine which kind of behaviour. The goal theory proposes that a reward at the end of a task or behaviour acts as a motivation for the performance of that said task or behaviour. However the reward should be clearly stated. The end state can be the reward in itself. It is proposed that an efficient goal must have four components: proximity, difficulty, specificity and feedback. An ideal goal is a goal where the time between the reaching out and the end state is close. It is moderate in difficulty, neither too easy, to present some challenge, nor too difficult, so that success seem possible. The goal should be specific. The individual must understand what is expected out of him, to start out for the goal. A specific goal gives direction of focus to that specific goal and away from distractions. Feedback is necessary for measuring progress towards the goal. Feedback makes it possible to know whether the level of efforts is adequate and in the proper direction or needs corrections. The relevance of this theory to the research study can be credited to the works of Lathan and Locke (1979) that highlights four mechanisms that connect goals to performance outcomes. First, goals direct attention to priorities that is when specific goals are set for workers it drives their attention to priorities of achieving the goals. Second, they stimulate effort, in other words when sets of goals are attached to specific reward system it stimulates workers to work better and effectively. Third, they challenge people to bring their knowledge and skills to bear to increase their chances of success. Fourth, the more challenging the goal, the more people will draw on their full repertoire of skills.

### **2.2 Background to the study**

The Kenya Vision 2030 for financial services is to have a vibrant and globally competitive financial sector driving high-levels of savings and financing Kenya's investment needs. As part of its macro-economic goals, savings and Investment rates will rise from 17% to 30% of GDP. This will be achieved through measures that include increasing of bank deposits from 44% to 80% of GDP and reducing the cost of borrowed capital, i.e. interest rates. The country will also decrease the share of population without access to finance from 85% at present to below 70%, and increase stock market capitalization from 50% to 90% of GDP. Saving of up to 10% of GDP for investment will be raised from remittances and FDI (Foreign Direct Investment) and sovereign bonds. Reforms in the banking sector will be undertaken to facilitate the transformation of the large number of small banks in Kenya to larger, stronger banks. Credit referencing will be introduced..

Kenya aims to create a globally competitive and adaptive human resource base to meet the requirements of Vision 2030. Kenya's main potential lies in its people – their creativity, work ethic, education, and their entrepreneurial and other specialised skills. To ensure significance of human resource, every organization has to decide upon the content to be appraised before the program is approved. Generally, content to be appraised is determined on the basis of job analysis. Content to be appraised may be in the form of contribution to organizational objectives (measures) like production, cost saving, return on capital etc. Other measures are based on behavior, which measure observable physical actions, movements. Then there are objectives which measure job related results, like amount of deposits mobilized. Finally, there are traits which are measured in terms of personal characteristics observable in employee job activities. Content to be appraised may vary with the purpose of appraisal and type and level of employees (Chepkoech, 2011).

### **2.3 Effect of Performance Appraisal on Employee Performance**

According to Rudman (2003), PA is a critical factor in an organization in enhancing the performance of the employee. Further, there is a strong connection between how firms manage their employees and the organizational results they achieve. Boswell and Benson (2000); contend that the human nature is in constant need of recognition and when they are recognized, either positively or negatively; it spurs them to do more. It is contended that one of the instruments through which managers motivate their employees is the use of an effective PAP (Performance Appraisal Policy).

Cook and Crossman, (2004), highlight that an employee whose performance is under review often become defensive. Whenever employee performance is rated as less than the best or less than the level at which employee personally perceives his/her contribution, the manager is viewed as being biased. Disagreement about the contribution and performance ratings can create a conflict ridden situation that festers for months (Mani, 2002). Nurse, (2005) states that negative feedback from PAP not only fail to motivate the typical employee, but can also cause employees to perform worse.

Only those employees who have a high degree of self-esteem appear to be stimulated by criticism to improve their performance (Anderson, 2002). It is primarily a way for explaining what could be done better and how the employee should perform better in future. Boswell and Benson (2000) state that it is important that the appraiser be well informed and credible, as employees are more likely to view the PAP as accurate and fair. Employees are likely to feel more satisfied with their PA results if they have the opportunity to talk freely and discuss their performance. Tyson & York (2000) state that when employees understand how their individual roles function within the framework of a team, they can more effectively contribute to the entire organization. Right decision on what performance appraisal technique to use is essential for the rest of the process. For motivating employees by providing them feedback on how they are doing, the MBO or work-standards approach seem to be a good choice. If they involve real participation, it is most likely to lead to an inner commitment to improved performance. MBO method of performance appraisal may, on the one side, overcome some of the problems that arise when assuming that the employee traits needed for job success can be reliably identified and measured. Instead of assuming traits, MBO method focuses on actual outcomes. These methods of performance appraisal can give employees a satisfying sense of autonomy and achievement. However, they can also lead to unrealistic expectations about what can and cannot be reasonably accomplished. It has been shown in numerous studies (Locke, et al.), that goal-setting is an important element in employee motivation. Goals can stimulate employee effort, focus attention, increase persistence, and encourage employees to find new and better ways to work. From a Total quality management (TQM) perspective, traditional performance appraisal can possibly hurt quality and teamwork, because it can make employees compete against one another. Solution might be rating teams rather than individuals.

People need to know how well they are doing at their jobs and where they could improve. It is important to keep in mind that appraisals do not equate to criticism. It may be necessary to explain the importance of completing tasks within timelines or changing the technique of doing a task. Unfortunately, many performance appraisals only frustrate the employee by adding more tasks to what appears to be an already overloaded agenda (Armstrong, 1999).

Recent trend – introducing electronic monitoring systems (and performance appraisal software), should not be left unnoticed. Even though the whole system goes further than mere appraising performance; it deserves mention in this work. Despite its negative effects on employees, it is used more than ever before. Managers fail to realize that electronic monitoring is not able to replace the role of supervisor. It is likely to increase worker stress and decrease employee job satisfaction. Although this may lead to increased productivity, this is frequently accompanied by a decrease in quality and customer service. A study among monitored employees showed a rise in cases of extreme anxiety, severe fatigue or exhaustion, a loss of feeling in the finger/wrists, shoulder soreness and depression. The stress associated with electronic monitoring in these cases clearly has real world effects. The stress that employees experience may cost employers more on medical bills in the long run.



### 3.0 Research Methodology

#### 3.1 Research Design and Target Population

The research utilized a quantitative research approach. According to De Vaus (2002), quantitative research is an empirical research approach in which hypothesis testing is used to discover relationships and facts that are general. A quantitative approach focuses on the study of samples and populations and relies heavily on numerical data and statistical analysis (Neuman, 2000). The study concentrated on employees of commercial banks in Trans Nzoia County therefore it was a case study. This involved the application of descriptive survey design. For this study, the design enabled the researcher to collect data from a sample of the population in order to describe the effect of Performance appraisal and employee performance in commercial Banks in Trans Nzoia county- Kenya. This research design enabled the researcher to examine the influence of performance appraisal on employee performance.

The population targeted for the study was 320 employees from 10 selected commercial banks in Trans Nzoia County- Kenya. The population frame was accessed from a list provided by bank branch managers. The employees were further disaggregated into two levels based on their rank in the branch. Out of this classification 10 and 310 were ranked as branch managers and the middle level employees respectively with a combined total of 320 employees. The research study concentrated both on all managers and middle level employees. A large number of employees were used because the banking output is measured by the accomplishment of the employees which is basically the core business of the banks.

The researcher picked a sample size of 178 (one hundred and seventy eighty) employees. Yamane scientific formula was used to get this sample size which was appropriate for the purpose of this study.

**Yamane formula;**

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

$$n = \frac{320}{1+320(0.05^2)}$$

$$n = \frac{320}{1+32(0.8)}$$

$$n = 177.7777$$

$$n = 178 \text{ respondents.}$$

N=320 population targeted for the study.

The study used questionnaires to collect data from the respondents.

A pilot study was carried out to establish the validity of research instruments whereby employees and managers of two banks in Eldoret, a town in the neighboring county, were piloted for the study.

#### 4.0 Research Findings and Discussion

Out of the 178 questionnaires distributed, 120 respondents completed and returned their questionnaires, putting the response rate at 67%.

**Table 1.1 Effect of PAP on Employee Performance (N=120)**

	Frequency	Percentage
YES	110	91.7%
NO	10	8.3%
<b>Total</b>	<b>120</b>	<b>100%</b>

Table 1.6 respectively illustrates that the majority of respondents 110 (91.7%) were of the opinion that performance appraisal policy had an influence on employees' performance and a small minority of respondents 10 (8.3%) were dissatisfied. The influence is either positive or negative depending on the outcome which could be in favor of the employee or not. In case the employee is positively appraised, he/she is likely to improve and better his/her performance. Conversely, where the appraisal is negative the employee is likely to withdraw, get stressed and ultimately burn out and therefore lower the performance. According to Mani (2002), in many organizations, performance appraisal results are used, either directly or indirectly, to help determine reward outcomes. That is, the performance appraisal results are used to identify the potentially good performing employees who should receive financial benefits, bonuses and promotions. Mackey and Johnson (2000) assert that performance appraisal results are used to identify the poor or weak performers who may require some form of Counseling, or in extreme cases, demotion and dismissal. Anderson (2002) suggests that if a supervisor gives an employee a poor score on his/her appraisal, the employee may feel a loss of motivation in the workplace. Consequently, this can influence on the employee's performance.

The table below shows the chi square results for the test of the effect of performance appraisal perception on employee performance.



**Table 1.2 Chi-square test on effect of performance appraisal perception on employee Performance**

	<u>Positive Perception</u>	<u>Negative Perception</u>	<u>Total</u>
	<u>Frequency</u>	<u>Frequency</u>	
<u>YES</u>	<u>57</u>	<u>26</u>	<u>83</u>
<u>NO</u>	<u>24</u>	<u>13</u>	<u>37</u>
<u>TOTAL</u>	<u>81</u>	<u>39</u>	<u>120</u>

Table 1.2 shows the perception of the effect of performance appraisal on employee performance. The value of calculated Pearson Chi -square = 7.466, when degrees of freedom,  $df = 1$ , and level of Significance is 0.05. The table value of chi-square is 5.991. The null hypothesis is that there is no perceived significant relationship between performance appraisal and employee performance, and this would have been the case if the calculated value was less than the table value of chi-square. However the calculated value of 7.466 is more than the table value of chi-square of 5.991. Therefore, we reject the null hypothesis and accept the alternative hypothesis that performance appraisal is perceived to influence employee performance.

## **5.0 Summary, Conclusions And Recommendations**

### **5.1 Summary**

The study revealed that the performance appraisal policy can be an effective tool in employee performance if it is perceived to be objective and fair in facilitating their upward mobility. It also revealed that most banks involve their employees in performance appraisal process and this led to improved employee performance.

The result therefore showed that there is a significant relationship between performance appraisal and employees' performance. This implies that one of the major factors that affect the worker's performance in banks is the performance appraisal conducted over time.

### **5.2 Conclusions**

The findings demonstrated that the performance appraisal policy can be an effective tool in employee performance if it is perceived to be objective and fair. The findings also revealed that employee participation in the performance appraisal policy was high and this led to employee performance and perception of the process and outcome as being fair. More so, it was found that PA is an important tool used to assess employees' efficiency in workplace and it usually takes the form of periodic review to evaluate work performance.

### 5.3 Recommendations

The results of the study indicated that most employees preferred performance appraisals to be used for training and development purposes. It is recommended that managers should improve on the training and development needs analysis component of performance appraisal policy in order to meet the aspirations of employees. A well trained and developed workforce is required for increased employee performance and organizational growth. It would also lead to efficiency and effectiveness of banking activities

Any changes made to ratings of employees during the performance appraisal process should be communicated clearly and early to all concerned. This would go a long way to prevent conflict situations and create a healthy atmosphere for team work in commercial banks.

Methods of helping poor performers to improve upon their performance, such as counseling and job rotation as well as transfers should be put in place by top management as policy interventions in banks.

Lastly, top management and managers of Banks who conduct the performance appraisal need to be equipped with methods of motivating employees through the performance appraisal policy. Kuvaas (2006) indicates that motivation is an important element to employee performance. Furthermore, performance appraisal policy creates a learning experience that motivates employees to develop themselves and improve on their performance. If all these recommendations are followed properly, it is expected that the performance appraisal policy of various banks will be improved upon in turn will have an influence on employee performance.

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