Performance Appraisal in The Nigerian Banking Sector: The Individual and Joint Variables Analyses

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Abstract
This study examines the impact of performance appraisal on employees’ productivity in the Nigerian banking industry, with a sample of one hundred and ninety five (195) drawn from banks with branches in Ado Ekiti, the capital city of Ekiti State. The samples were gotten via random sampling of the entire 360 staff members of the bank branches in Ado Ekiti. Regression analysis was employed for data analysis and F-statistics for the hypothesis testing. The study found that sound management of performance appraisal (PA) system will guarantee good employee productivity, with R value of 0.842, adjusted R² of 0.701. That is, a very strong and positive relationship exists between performance appraisal and employee productivity. Also, a very good PA system will explain 70% of degree of changes in employees’ productivity. The F-ratio statistics was 86.268. The study concluded that, for Nigerian banks to earn sound employees’ performance, a conscious effort towards an improved Performance Appraisal system is required.

Keywords: Performance Appraisal; Employee productivity; Nigerian banking sector and Sound management

1. Introduction
Performance appraisal can be seen as a discrete, formal, organisationally sanctioned event, usually not occurring more frequently than once or twice a year, which has clearly stated performance dimensions and/or criteria that are used in the evaluation process. Also, it can be viewed as an evaluation process, in that quantitative scores are often assigned based on the judged level of the employee’s job performance on the dimensions or criteria used, and the scores are shared with the employee being evaluated. Measurement issues are important for the performance appraisal process, as are issues of rater motivation, so that effective appraisal systems are those where the raters have the ability to measure employee performance and the motivation to assign the most accurate ratings. According to Murphy and Cleveland, (1995), for an excellent discussion of the role of rater motivation in this process) ‘Performance management’ is a broad set of activities aimed at improving employee performance. Although performance appraisal information provides input for the performance management process, performance management focuses on ways to motivate employees to improve their performance. Again, the goal of the performance management process is performance improvement, initially at the level of the individual employee, and ultimately at the level of the organization. The ultimate goal of performance appraisal should be to provide information that will best enable managers to improve employee performance.

Performance appraisal in the modern organization is a system by which employees are provided with feedback about their performance and help the organization to make decisions about rewards and sanctions (Babalola, 1998 and Umoh, 2001). Performance Appraisal systems need to be effective in improving or sustaining employee performance and development otherwise they are a tremendous waste of time and resources spent on development and implementation (Zingheim and Schuster, 2007; Ojo, Oyeniyi and Adeniji, 2007). The aim of an organisation is to achieve its goals and objectives, and out of the four elements that make up the organization resources i.e. Man, Money, Materials and Machines; Man is considered the most important since he is responsible for the success or failure of the organization (Abedi, 2004; Aghassi, 1999; Alo, 1999; Banjoko, 1996 and Palakos, 2004). Performance Appraisal is the most powerful instrument for mobilizing employees in organizations in order to achieve the strategic goals of the organizations. Previously, researchers like Bartlett and Kang (2004); Schuler, Farr and Smith (2008) and Seifert, Yukl and McDonald (2003) opined that performance appraisal is a step where the management finds how effective it has been at hiring and placing employees. Formal appraisal has become a widespread instrument of human resource management. Bladen (2001) saw Performance Appraisal as the process of evaluating the performance and qualifications of the employee in terms of the requirement of the job for which he is employed, for the purpose of administration including placement, selection for promotion, providing financial rewards and other actions. According to Boswell and Boudreau (2001), Performance Appraisal can be described as a systematic attempt to distinguish the more efficient workers from the less efficient workers and to discriminate among strength and weaknesses an individual has across many job elements. Coens and Jenkins (2000) described Performance Appraisal as a measurement of how well someone performs job relevant tasks.

Most modern organisations rely upon some forms of performance appraisal system to provide employees with feedback about their performance and to help the organization make decisions about such things as pay increases and promotions (Cleveland, Murphy, and Williams, 1989; Landy and Farr, 1980; Oshionebo, 2000). Research on
performance appraisal dates back at least as far as the early 1920’s, and has continued to the present day. Therefore, it would seem reasonable to assume that practitioners could look to this research and find out how to design and implement performance appraisal systems that would help organizations improve individual performance. Yet this is not the case. In fact, practitioners continue to complain about how academic research in this area has been of limited usefulness, and how academic continues to bemoan the state of affairs on the practice front (Colquitt, Conlon, Wesson, Porter, and Ng, 2001; Smither and Walker, 2004; Sorush, 2000). The broad objective of the study is to assess Performance Appraisal system in the banking industry with a view to determining whether or not it will impact on employees’ performance. This study therefore investigated the implication of imbalanced performance appraisal system on employees’ morale at work in the Nigerian banking industry.

2. Literature Review

Performance management, in its broadest context, is a managerial process that links corporate objectives, performance standards and evaluation, to which the performance review, or Performance Appraisal are often applied (Pickeet, 2003). Performance Appraisals are introduced for multiple purposes. Bemardin and Beatty (1984), highlighted several objectives of Performance Appraisal, such as to improve the use of resources and serve as a basis for personnel actions. Cleveland, Mohammed, Skattebo and Sin (2003), described four purposes of Performance Appraisal: to make distinctions among people, distinguish a person's strengths from his or her weaknesses, implement and evaluate human resource systems in organisations, and document personnel decisions. Cleveland, et al. (2003) also described that appraisals are used to make between-person decisions, for instance promotions or termination decisions or salary administration and this purpose of the Performance Appraisal will remain the focus of the present study. However, success of any Performance Appraisal system depends upon its degree of fairness. The relationship between job satisfaction and job performance has been the concern of many studies. Job satisfaction refers to the employee's pleasurable or positive emotional state as a result of the appraisal of one's job and job experiences (Schmidt 2007). For the long-term effectiveness of the organisational system, employees’ satisfactory perceptions towards Performance Appraisals are important (Longenecker and Nykodym 1996). If employees are not satisfied with Performance Appraisal, they will not see the added value (Dobbins, Cardy and Platz-Vieno 1990). Some other studies suggested that appraisal satisfaction is a key factor leading to job satisfaction (Moussavi and Ashbaugh 1995).

Performance Appraisal also effects turnover intention; that is, leaving the present job to look for another job and actual turnover (Egan, Yang and Bartlett 2004). One of the prominent purpose of appraisals is to positively affect future performance (Swanson and Holton 2001). As posited by Egan et al (2004), the basic purpose of conducting Performance Appraisal is to improve the performance of the affected employee. The Performance Appraisal purpose like communication of super-ordinate goals, the capacity of Performance Appraisal to increase employee’s perceptions of being valued, being part of an organization team and the social exchange argument (Lee and Bruvold 2003), also affect turnover intention.

People are important resource, argues Lawler (2000) and like all resources, they must be managed properly so as to assist them to perform at their peak. Human Resources Management (HRM) according to Lawler (2000) refers to all the processes and activities aimed at utilizing all employees (also referred to as staff, personnel, human resource or human resources, human assets and human capital) to achieve organizational ends. They suggested that HRM involves:

i. Staffing (whereby the organisation employs the right people to help it achieve its goals)

ii. Performance Management (that this people’s actions add value to the organisation, they are rewarded and trained appropriately)

iii. Retention (through staffing and performance management)

iv. Compliance (with government legislation and ensuring appropriate policies and procedures are implemented) and

v. Change management.

As organisations get bigger, a formal performance appraisal system aids administrative decisions such as pay increases and promotions, redundancy or termination, development needs, and for the employees the process may assist in career choices and may increase their commitment and satisfaction due to improvements in organisation’s communication (Maji, 2006). To get the best and most out of this resource of people, they must be motivated. However Maji (2006) argues that people cannot be motivated but motivate themselves and managers can provide the environment for them to be motivated. There are many ways to provide a motivational environment for employees, and these include developing their skills, giving them feedback and rewarding in ways that means something to them. Therefore, performance appraisal (part of performance management) can be used as a tool to assist managers in motivating their employees. Performance management includes any management activity aimed at improving performance through training and developing employees, establishing
As reported by Pulakos (2004), a recent survey indicates that only one in ten employees believe that their firm’s appraisal system helps them to improve performance. Clearly, there is a problem. What has led to this state of affairs? There is no one simple answer. The gap between research and practice has been documented by many writers, therefore we should not be that surprised to see such a gap in the area of performance appraisal. But academic research in some areas of management (such as selection and compensation for example) has been able to inform practice, and so we must look for additional reasons. One possible explanation is that academic research has provided answers, but that practitioners are simply not aware of the relevant research findings. This problem appears to be fairly widespread in the field of management (Rynes, Brown, and Colbert, 2002), and it no doubt plays a role in the appraisal area as well. But we believe that another major reason for this gap is that much of the academic research on performance appraisal has been focused on measurement issues (although we will discuss some recent exceptions), which has not really been helpful to practitioners who must find ways to improve performance.

3. Methodology

Providing an empirical investigation into this study, with a view to achieving the set objective and providing answers to the research question, a survey research was adopted. However, since bank branches are subsets of a whole (the bank) and branches don’t embark on partial performance appraisal, but rather encourages a detailed and centralised system of appraisal, where common yardsticks are employed, any selected branch of bank would be seen as a true reflection of activities in the bank.

The target population of this study is the entire full time/regular staff of selected banks in Nigeria. The choice of full time staff is borne out of the fact that only these categories of staff are exposed to appraisal, as contract/casual staff do not have the benefit of being appraised. It is worthy to note that only 24 banks survived the recapitalisation hurdle introduced in the late 2005 to early 2006. However, out of all these banks, only 16 of them whose branches are located within Ado Ekiti metropolis shall be considered.

Major branches are mentioned here, since some of them have multiple branches within the metropolis; more importantly, some of the branches in the University community. The total population however is 380 respondents. Selecting sample from this population in each of the 16 banks, Taro and cited in Muo (2000) was adopted in determining the number of sub-samples to be chosen within the sixteen sampled banks to determine the number of respondents.

\[ n = \frac{N}{(1 + Ne^2)} \]

Where;

- \( n \) = anticipated samples
- \( N \) = population size
- \( e \) = acceptable error term (0.5)

\[ n = 380/1 + 380(0.05)^2 \]

\[ n = 195 \]

The sample size for this study was 195 respondents. These samples were selected using the simple random sampling technique with the aid of a random table. That is a scientific table purposely introduced by researchers and academicians for the purpose of random sampling. Arriving at this figure therefore, the same model was applied to the population of each of the branches and their respective samples derived.

Primary data was used in this study. This was because variables under examination are personal issues and require each of the involved respondents to give clear information about the variable. Sourcing for these data
therefore, a well structured questionnaire shall be employed. Considering the subjectivity of Performance Appraisal a 5 point scale Likert – type research instrument was adopted. By implication, required data shall be gathered from questionnaires administered on the respondents. The Research instrument used was the standardised Mamburg’s questionnaire, adapted from the work of Aghassi (1999) in his study of employees’ productivity in the Hospital Business.

In an attempt to ensure that questions associated with variables identified in the study (as reflected in the research instrument) reflects same responses at different times and intervals and still lead to the same result. Questionnaire was administered randomly on first sight first chosen 10 respondents each from 5 selected banks in Lagos state. This brought about a total number of samples for the pilot study into 50 respondents. The 5 banks were selected using a non probabilistic technique. That is, convenience sampling. This was carried out and repeated twice; results from the three experiments were compared and a Pearson correlation value of +0.763 was derived, meaning that the instrument was validly constructed and could be adjudged good for the purpose for which it was designed. To test for reliability therefore, a pretest study is required. As such, an interim pilot survey was done via a test retest undertaken three times by asking questions on what different respondents feel about the meaning of questions contained in the study. However, ambiguity is avoided to the barest minimum in the content of the research instrument (Okafor, 1999 and Ojo, 2003).

There are two major variables in this study. That is:

Employee Productivity = Dependent Variable (y)
Performance Appraisal = Independent variable (x)

Meanwhile, for the purpose of this study and the need to have what it takes to test for the stated hypotheses, the model for this study shall be expanded to include:

Performance Appraisal assessment
i. Constructiveness of PA system (x1)
ii. Participation of employee (x2)
iii. Independence of employee (x3)
iv. Leader – member exchange (x4)
v. Satisfaction with feedback (x5)
vi. Thoroughness of feedback (x6)
vii. Justice of outcomes (x7)

As a result of this, employee productivity shall be proxy by responses to questions associated with it in the research instrument and each of the performance appraisal factors also considered as independent. From this however, the model below becomes useful:

\[ Y = a_0 + b_1x_1 + b_2x_2 + \ldots + b_nx_n + U \]

Where:

- \( a_0 \) is the intercept
- \( b \) is the coefficient of independent variables and
- \( U \) is the error term.

In order to analyse the data of study, multiple regression analysis was employed. However, from the regression results, coefficient of multiple correlations “R” and multiple determinations “\( R^2 \)” was employed to give robust explanation of variable relatedness and association. Also, coefficient of the independent variables as well as the t – values was equally examined. Testing the hypothesis, F-statistics was adopted. This is so because \( n > 30 \). The confidence level was (\( P<0.05 \)). This is evident considering the fact that performance appraisal is a subjective and behavioural issue and respondents may not be able to give exact information about the basis behind outcomes of performance appraisal in organisations, since only few individuals at the top management position level takes final decision on performance appraisal system.

4. Results and interpretation

18% of the respondents have less than 5 years of work experience in the service of Nigerian banks. The implication is that fewer members of the respondents have spent less than five years. Also, 56% of the respondents have spent between 6 to 10 years in service and 26% spent more than 10 years in service. Considering the fact that appraisal is an annual (even bi-annual in some banks; Zenith for example), the least number of times a respondent of this study would have been appraised is 5 times. This is considered a sufficient number of times for the required experience for the respondents and it would help the quality of their responses. There is a seeming balance in staff distribution by gender, arising from the percentage distribution of male: 57% and female: 43%. This revealed that both males and females are involved at almost equal proportion in the study, which of course would assist in getting a fair deal of information from respondents. There were more junior staff (88%) than their senior counterparts (22%) involved in the study. Naturally, banks operate a pyramid structure, where we have fewer people at the top and the base densely populated. Meanwhile, both senior and junior level staff members require appraisal to move along the cadre, but it could be inferred by interaction with some senior
staff members of the selected banks that appraisal at the higher level is more political than objective. The fact that we have more junior than senior staff on the respondents’ list will enhance quality of responses to be achieved.

For the purpose of achieving the objective of study, individual items of Performance appraisal were analysed and regressed against productivity. The coefficients of the result are as shown in table 1.

Table 1: coefficients of individual Performance Appraisal items

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td>Lower Bound</td>
</tr>
<tr>
<td>(Constant)</td>
<td>.552</td>
<td>.246</td>
<td>.186</td>
<td>2.242</td>
</tr>
<tr>
<td>PA SYSTEM CONSTRUCTIVENESS (xi)</td>
<td>.161</td>
<td>.045</td>
<td>.186</td>
<td>3.534</td>
</tr>
<tr>
<td>EMPLOYEE PARTCPATN (x2)</td>
<td>.029</td>
<td>.037</td>
<td>.032</td>
<td>.766</td>
</tr>
<tr>
<td>EMPLY INDPND (x3)</td>
<td>.103</td>
<td>.039</td>
<td>.105</td>
<td>2.609</td>
</tr>
<tr>
<td>LDR/MBR XCHANGE (x4)</td>
<td>.755</td>
<td>.051</td>
<td>.672</td>
<td>14.845</td>
</tr>
<tr>
<td>SATFCTN WITH FDBK (x5)</td>
<td>.104</td>
<td>.045</td>
<td>.098</td>
<td>2.335</td>
</tr>
<tr>
<td>THORUOGHNESS OF FDBK (x6)</td>
<td>.156</td>
<td>.057</td>
<td>.156</td>
<td>2.765</td>
</tr>
<tr>
<td>JUSTICE OF OUTCM (x7)</td>
<td>.188</td>
<td>.068</td>
<td>.150</td>
<td>2.772</td>
</tr>
</tbody>
</table>

Source: Author’s field survey (2013)

From table 1, a multiple regression model in the form of equation 4.1 can be derived as:

\[
\text{Productivity} = 0.552 + 0.186x_1 + 0.032x_2 + 0.105x_3 + 0.672x_4 + 0.092x_5 + 0.156x_6 + 0.150x_7 + 0.246
\]

The model above indicates that all individual items of performance appraisal system significantly impact on employees’ productivity, but with different degree of significance. The items are therefore ranked below according to their significant level:

<table>
<thead>
<tr>
<th>Rank</th>
<th>Variable of PA items</th>
<th>t – value</th>
<th>significant level</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>leader-member exchange</td>
<td>14.845</td>
<td>0.0000</td>
</tr>
<tr>
<td>Second</td>
<td>Constructiveness of the PA system</td>
<td>3.534</td>
<td>0.0000</td>
</tr>
<tr>
<td>Third</td>
<td>Justice of outcome</td>
<td>2.772</td>
<td>0.006</td>
</tr>
<tr>
<td>Fourth</td>
<td>Thoroughness of feedback</td>
<td>2.765</td>
<td>0.006</td>
</tr>
<tr>
<td>Fifth</td>
<td>Employee Independency</td>
<td>2.609</td>
<td>0.10</td>
</tr>
<tr>
<td>Sixth</td>
<td>Satisfaction with feedback</td>
<td>2.335</td>
<td>0.20</td>
</tr>
<tr>
<td>Seventh</td>
<td>Employee participation</td>
<td>0.766</td>
<td>0.445</td>
</tr>
</tbody>
</table>

Source: Author’s field survey (2013)

The implication of this is that leader member exchange (relationship) is the most significant of all individual items of Performance Appraisal system contributing to employees’ productivity in the Nigerian banking system. This is in line with the position of Egan, Yang, and Bartlett (2004), who concluded that Performance Appraisal system is nothing but a reflection of the subsisting relationship between subordinates and their bosses. Thus, the conclusion is that, the fact that an employee believes that he is friendly with his/her boss, a kind of confidence exist and the possibility of wanting to do more cannot be overruled. The fact that Performance Appraisal system constructiveness is secondly ranked is an attestation to the position of Pritchard and Payne (2003), that the moment an employee is sure that a Performance Appraisal system is constructive enough to unravel all their deeds of the past and that the appraiser knows much about them, they tends to be more productive and pay more attention to their assigned task. Justice of outcome, thoroughness of feedback, employee independency, satisfaction with feedback and employee participation being significant here is an attestation to the works of Asbell (2004) and Bacal and Associates (2008); where they all agreed that employees attach significant importance to these variables to the extent that their productivity is hinged on the premise. Meanwhile, all the above positions are contrary to the position of Pulakos (2004), who posited that employees do not believe that their appraisal is a true reflection of their productivity at work, but a mere annual rituals to satisfy some god sons and daughters and punish employees that are perceived not to be loyal to the course of existing cabals in the system. In all, the Nigerian banking system employees still believes in the Performance Appraisal system.
Table 2: Joint Analysis of Performance Appraisal items

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.842(a)</td>
<td>.710</td>
<td>.701</td>
</tr>
</tbody>
</table>

b Dependent Variable: PRODUCTIVITY
Source: Author’s field survey (2013)

From the result in table 2, analysis of the joint variables of Performance Appraisal system depicts a coefficient of multiple correlations (R) of 0.842, which implies a very strong and positive relationship between Performance Appraisal system variables and employees’ productivity in the Nigerian banking industry. This implies that, as Performance Appraisal system improves, employees’ productivity also improves. However, the coefficient of multiple determinations (R\(^2\)) of 0.701 implies that, for every unit change in employees’ productivity, Performance Appraisal system contributes 70.1%. The result of this is an attestation to the position of Pritchard and Payne (2003), that for improved employee productivity, sound performance appraisal system is significantly responsible.

Table 3: Test of Hypothesis by ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>168.632</td>
<td>7</td>
<td>24.090</td>
<td>86.268</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>68.975</td>
<td>176</td>
<td>.279</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>237.606</td>
<td>183</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a Predictors: (Constant), JUSTICE OF OUTCM, SATFCTN WITH FDBK, EMPLOY INDPND, LDR/MBR XCHANGE, EMPLOYEE PARTCPATN, PA SYSTEM CONSTRUCTIVENESS, THORUOGHNESS OF FDBK
b Dependent Variable: PRODUCTIVITY
Source: Author’s field survey (2013)

The F – ratio statistics value of 86.268 (p=0.000) implies that the joint and individual performance appraisal system significantly impacts on employees’ productivity in the Nigerian banking industry. That is, justice of outcome, satisfaction with feedback, employee independency, leader/member exchange, employee participation, Performance Appraisal system constructiveness and thoroughness of feedback will jointly impact significantly on employees’ productivity in the Nigerian banking industry. Meanwhile, the level of significance of individual variables is revealed in table 3.

From the result of data analyses, it can be summarised that the Performance Appraisal system, both individually and jointly (justice of outcome, satisfaction with feedback, employee independency, leader/member exchange, employee participation, Performance Appraisal system constructiveness and thoroughness of feedback) will significantly impact on employees’ productivity.

5. Conclusion

It can be deduced that to maximize the strength of any appraisal processes, appraisals should be focussed on results that are under the control of the employee, clear and consistent goals and standards should be well communicated to the employees and employees voice and participation should be allowed in the appraisal processes.

From the study, the following reasons are deduced for performance review,

i. Performance Appraisal is used for validating the selection process in the banking industry.

ii. Performance Appraisal is used to access the impact of training and developmental programmes.

Conclusively, the study identified that for Nigerian banks to earn good performance from their employees, adequate attention should be paid to the Performance Appraisal system. However, it was noted that banks almost operates a special way of appraisal (by setting deposit target for their employees) and that mere meeting the targets often guarantee employee movement to the next level.

The outcome of this study recommended that For a manager who is poised for sound employees productivity, the Performance Appraisal system should be attended to as a matter of urgency and that organisations should embark on Post-Appraisal interview with every employee where efforts should be made to discuss the performance rating during the period under review in identifying the shortfall as well as changes required for better performance. The employee must also be guided and directed on ways by which performance can be improved.

References


