Evaluation of Performance Appraisal Tools on Employee Performance: Case of National Bank of Kenya Limited

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ABSTRACT

Performance appraisal is one of the major bundles in Human Resource Management. Successful performance appraisal system is one that has resulted from hard work, careful thinking, planning and integrated with the strategy and needs of the organisation. Inaccuracies in appraisal can de-motivate employees forcing them to leave organizations. Due to many challenges within the economy, more demand is put on employees to perform without corresponding returns e.g. pressure to meet the targets without the necessary tools to evaluate their performance by appraising them and this has increased the level of frustration. At National Bank Kenya Limited (NBK), performance appraisal as a tool is utilised. However the quality of performance appraisal and its effect on employee performance cannot be ascertained. The purpose of the study was to analyse the various performance appraisals on employee performance case of NBK. This research adopted a descriptive research design. The target population in the research was 100 employees working in the headquarters of the bank. Stratified random sampling technique was used to select the sample which was 30%. The researcher used the questionnaire as primary data collection instrument. SPSS (Version 21) was used to analyze the data and presented by tables. The study found that performance appraisal is very important in influencing successful job performance. It was deduced that the 360-degree appraisal method and management by objectives (MBO) among others greatly influenced employee performance at National Bank. It was also noted that the appraisal forms should capture more data such as evaluation of the employees' communication and interpersonal skills/teamwork, adaptability of the employee to work environment, dependability clause and space for short and long-term goals.

Key Words: Performance appraisal tools, Employee Performance, National Bank of Kenya Limited.

1.0 Background of the Study

Performance appraisal is one of the major bundles in Human Resource Management. This is based on many researches Ayaz (2010) that most winning organization in the 21st century will be those to focus on integrated HR processes and systems. Marquardt (2004) notes that performance appraisal is one of the most critical function that brings global success. They are used to measure the abilities and resources of employees and to let an employee know where he/she stands so that he/she will be stimulated to improve his performance. According to DeNisi and Pritchard (2006), performance appraisal is a discrete, formal, organizationally 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. Cokin (2004) argue that performance appraisal system is important for organizations, as it mainly focuses on employees to develop their capabilities. Moreover, it does not only do capacity building but it helps managers in timely predictions and taking actions promptly to uncertain changes. Assumptions of corporate management show that performance appraisal make people to be really engaged in the business of the organisation.

One of the critical objectives of performance appraisal is to provide feedback to foster employee growth. Squires and Adler (2008) suggest that an appraisal system must not only evaluate what has been accomplished, but also guide future development, leverage existing strengths, and address skill deficiencies. Thus, a third important component of effective performance appraisal relates to the frequency and nature of supervisor feedback. To be most effective, a continuous performance-based feedback process should exist between superiors and subordinates and should include two-way communication and negotiation between the supervisor and employee. Similarly, Kane (2005) suggest that, in providing feedback, supervisors should allow employees the opportunity to share their insights and evaluations concerning their own performance. Thus, effective performance feedback should involve, inform, and motivate employees and also create improved supervisor-employee communications.

Currently, many organisations are implementing or planning to implement, reward and/or recognition programmes believing that these will help bring about the desired cultural change. In some organisations, large amounts of money are being invested in these types of activities and some managers are required specifically to set aside a certain amount from their budgets for this purpose. This rationale is based on the assumption that these types of incentives will encourage employee loyalty, foster teamwork and ultimately facilitate the development of the desired culture that encourages and supports knowledge sharing. Others maintain that to encourage knowledge-sharing organisations should design reward and recognition systems that stimulate sharing of all kinds: goals, tasks, vision as well as knowledge (Wright, 2004).

1.1 National Bank of Kenya

The bank was established through the act of parliament in 1968 as a 100% government-owned financial institution. In 1994, the Kenyan Government reduced its shareholding to 68% by selling 32% shareholding to the public. The government further divested from NBK over the years, until its present shareholding of 22.5%, as of October 2010

NBK is a large financial services provider in Kenya, serving individuals, small-to-medium companies and businesses (SMEs) and large corporations. Headquartered in Nairobi, the bank owns one subsidiary company: Nat Bank Trustee and Investment Services Limited. As of December 2011, National Bank of Kenya's asset base was valued at approximately US$821 million (KES: 68.7 billion), with shareholders' equity valued at about US$125 million (KES: 10.5 billion). In April 2011, National Bank of Kenya was ranked number eight, by assets, among the forty-four licensed commercial banks in the country at the time. The stock of National Bank of Kenya is listed on the Nairobi Stock Exchange, where it trades under the symbol

The bank aims to excel in the banking industry and like all organizations it is well aware that its success mainly depends on the performance of its employees to enable it to achieve its goals and objectives. Since every organization depends on employees, the most powerful control mechanisms are those that motivate them to direct their own behavior; (Burstein 1983). By aligning individual and team objectives with departmental goals, employees will have greater ownership of departmental goals. According to Seldon, Ingraham and Jacobson (2001), the management must manage employee performance in an attempt to direct organizational behavior toward task or goal accomplishment.

A performance management system requires that employees and managers to jointly prioritize and determine goals and objectives, establish how employees or teams contribute to organizations goals, identifies strengths and weaknesses of an individual's performance and recognize by rewarding high performers. To ensure that employees understand what is expected of them and how they are performing organizations use performance appraisal.

1.2 Statement of the Problem

Performance appraisal is one of the most problematic components of Human Resource Management (Allen & Mayfield, 2003). All involved parties (supervisors, employees, and HR administrators) typically are dissatisfied with their organization's performance appraisal system and view the appraisal process as either a futile bureaucratic exercise or, worse, a destructive influence on the employee-supervisor relationship (Momeyer, 2006). This is certainly true of most organizations, wherein surveys typically reveal widespread dissatisfaction with the appraisal process (Huber, 2003). Few issues in management stir up more controversy than performance appraisal. There are many reputable sources - researchers, management commentators, and psychometricians who have expressed doubts about the validity and reliability of the performance appraisal process. Some have even suggested that the process is so inherently flawed such that it may be impossible to perfect it. Despite these indictments, managers are reluctant to abandon performance appraisal which they still regard as an essential tool of HR management.

Caruth and Humphreys (2006) suggest that a successful performance appraisal system is one that has resulted from hard work, careful thinking, planning and integrated with the strategy and needs of the organisation. According to Coens and Jenkins (2002), inaccuracies in appraisal can de-motivate employees forcing them to leave organizations. This affects organisations since employees opt to seek opportunities elsewhere thus no retention. Yee and Chen (2009) say that performance appraisal evaluates employees' present and previous output within the laid down standards, but it also provides feedback on employees' performance in order to motivate them to improve on their job performance or at least encourage them to reduce inefficiencies in their work. Therefore, it is of essence that performance appraisal is of quality so as to function as a tool of employee motivation.

A number of studies have been conducted on performance appraisal in Kenya (Owuor, 2005; Richu, 2007; Awori, 2007 and Jematia 2008). None of these however have ever focused on the effect of performance appraisal tools on performance of employees. At NBK, performance appraisal as a tool is utilised however the quality of

performance appraisal cannot be ascertained and its effect on employee performance. This study therefore sought to fill this gap by evaluating the effect of performance appraisal on performance of employees at NBK focussing on 360-Degrees Appraisal and Management by Objectives (MBO).

2.0 Literature Review

Productivity and employee performance can be increased through the appraising the employees (Brown & Benson, 2003). Performance appraisals are known to have a dual capacity of motivating and de-motivating employees based on how they are designed and implemented. The study will help the financial sector to identify areas of intervention in performance appraisal to enhance employee performance in organisations, retain staff and improve service delivery.

Performance Appraisal is an effective instrument in HRM, which if performance is correctly and logically reviewed, organizations will receive personnel who will then achieve goals. The act of motivating employees is in the heart of organizations. Employee performance is one of the policies of managers to increase effectual job management amongst employees in organizations. Performance Appraisal process can also be a bitter process which can create emotional pressures, stress and sometimes can adversely affect the morale and lead to de-motivation, (Zachary, 2010).

2.1 '360-Degree' Appraisal

As Brown and Heywood (2005) posited, '360 degree' feedback is the most comprehensive and costly type of appraisal. It includes self-ratings, peer review, and upward assessments where feedback is sought from everyone. It gives people a chance to know how they are seen by others; to see their skills and style; and may improve communications between people. 360 degree feedback helps by bringing out every aspect of an employee's life. Cooperation with people outside their department, helpfulness towards customers and vendors, etc. may not be rewarded by other types of appraisal. This system also helps those who have conflicts with their managers.

360 degree feedback generally has high employee involvement and credibility; may have the strongest impact on behaviour and performance; and may greatly increase communication and shared goals. It provides people with a good all-around perspective. The Managing Individual Effectiveness (MIE) system at Bellcore is used for self-development. It gets feedback from peers, managers, subordinates, and the ratees themselves. According to Marsden, (2007), the results are better working relations; better communications; more information on management performance and style; increased effectiveness and productivity of individuals and the organization as a whole; knowledge of training needs; a better grasp of organizational priorities; and greater employee input in designing self-development plans.

Folger, Konovsky and Cropanzano (2002), noted that, for success, expectations must be communicated clearly; employees must be involved early; resources must be dedicated to the process, including top management's time; confidentiality must be assured; and the organization, especially top management, must be committed to the program. This system requires a third party, such as a consultant, to begin the process, which may take months to start up. 360 degree feedback may be given directly to the employees, who have the option of discussing with their managers; or it may be given to the managers for use in a feedback meeting. Whichever method is chosen, training for the managers and ratees is necessary.

The manager or supervisor's role can vary especially in sharing of the actual numerical results which is left to the person being "rated," with the manager or supervisor receiving a brief summary from the consultant to aid in following through with action plans. The action plan itself should be shared with the manager or supervisor, who should take on the follow-through process, scheduling meetings over the upcoming months to review progress. Various stakeholders, such as the employee's immediate superior, other superiors who are not the bosses but who are in contact with the employee on a daily basis, the top management and the employee's subordinates, all provided data on his performance (Marsden and Richardson, 2004). This feedback is then passed onto the employees to increase productivity.

2.2 Management By Objectives (MBO)

Staff appraisal can be a contentious issue in organizations. This may be particularly so in professional and public sector organizations where the presentation of appraisal by management, as being about development and growth, can be thought by staff to be a cover for less noble intentions (Rees and Porter, 2001). They further state that the spirit of achievement, is based on the integration of organization and employee goals--that is, congruence between the organization's objectives and the individual interests and talents. Such congruence engenders a closer identification of the employee with the system. A climate of achievement is also generated by mutual trust and goal setting between the employee and his immediate manager. The climate of achievement, like organizational morale, is not a factor that is easily measured, but the resulting productivity and efficiency are readily identified.

Management by objectives (MBO) is a systematic and organized approach that allows management to focus on achievable goals and to attain the best possible results from available resources (Armstrong and Baron, 2010). It aims to increase organizational performance by aligning goals and subordinate objectives throughout the organization. Ideally, employees get strong input to identify their objectives, time lines for completion, etc. MBO includes ongoing tracking and feedback in the process to reach objectives. The MBO approach overcomes some of the problems that arise as a result of assuming that the employee traits needed for job success can be reliably identified and measured. Instead of assuming traits, the MBO method concentrates on actual outcomes. If the employee meets or exceeds the set objectives, then he or she has demonstrated an acceptable level of job performance. Employees are judged according to real outcomes, and not on their potential for success, or on someone's subjective opinion of their abilities.

The guiding principle of the MBO approach is that direct results can be observed, whereas the traits and attributes of employees (which may or may not contribute to performance) must be guessed at or inferred (Storey, 2007). The MBO method recognizes the fact that it is difficult to neatly dissect all the complex and varied elements that go to make up employee performance. MBO advocates claim that the performance of employees cannot be broken up into so many constituent parts - as one might take apart an engine to study it. But put all the parts together and the performance may be directly observed and measured.

3.0 Methodology

According to Malhotra (2007), research design is an overall framework of a research that explains the direction and method to be used in the study to gather the information needed, either from primary or secondary sources. This research adopted a descriptive research design. Descriptive research design is used in cases where a researcher expects to have target group explain or describe certain issues about important variables of the study. According to Gongera (2014) it is important and appropriate to use data where subjects are observed in either natural set ups without manipulating the environment. It can be used when collecting information about people's attitudes and opinions. It is an efficient way to obtain information needed to describe the attitudes, opinions and views of employees in the financial sector in view of performance appraisal tools and the effect on performance. The design was deemed appropriate because the main interest was to explore the viable relationship and describe how the factors support matters under investigation.

According to Hair and Bush (2006), target population is a specified group of people or object for which questions can be asked or observation made to develop required data structures and information. Therefore, the target population in the research was 100 employees of NBK headquarters who were conversant with how performance appraisal tools were operationalized. From each stratum the study used simple random sampling to select 30 respondents by taking 30% from each stratum. Kotler (2011) argues that if well chosen, samples of about 30% of a population can often give good reliability. The selection was as follows. Stratified random sampling technique was used to select the sample. According to Babbie (2010) stratified random sampling technique produce estimates of overall population parameters with greater precision and ensures a more representative sample is derived from a relatively homogeneous population. Stratification is aimed to reduce standard error by providing some control over variance. The researcher used a questionnaire as primary data collection instrument. The purpose of using questionnaire is because of the direct response and feedback from the respondents in an easy manner and short period of time. The quantitative data was analyzed by statistical package for social sciences (SPPS V 21). Descriptive statistics was used to profile sample characteristics and major patterns emerging from the data which was presented in tables as shown in the research findings.

4.0 Findings

4.1 360-Degree Appraisal method

Table 1 360-Degree Appraisal method

	Mean	Standard Deviation
360-degree appraisal method enable people to see their skills and style	3.7841	0.7712
360-degree appraisal method may improve communications between people and Cooperation with people outside their department	3.7684	1.394
360-degree appraisal method is helpfulness towards customers, vendors and also those who have conflicts with their managers.	3.6872	0.3229
360 degree feedback generally has high employee involvement and credibility	3.6457	0.4191
360-degree appraisal method provides people with a good all-around perspective	3.5874	0.7149
360 degree feedback helps by bringing out every aspect of an employee's life.	3.2148	0.9599
360-degree appraisal method has the strongest impact on behaviour and performance	3.1975	0.6067
360-degree appraisal method gives people a chance to know how they are seen by others	3.1264	0.1233

The findings in Table1 indicate that the respondents agreed that 360-degree appraisal method enable people to actualize their skills and style, improve communications between people and Cooperation with people outside their departments, helpfulness towards customers and vendors and also those who have conflicts with their managers, has high employee involvement and credibility and provides people with a good all-around perspective as shown by a mean score of 3.7841, 3.7684, 3.6872, 3.6457 and 3.5874 respectively. The respondents were neutral on 360 degree feedback where the method brings out every aspect of an employee's life, impact on behaviour and performance and gives people a chance to know how they are seen by others as shown by a mean score of 3.2148, 3.1975 and 3.1264 respectively.

4.2 Management by Objectives (MBO)

Table 2 Management by Objectives (MBO)

	Mean	Standard Deviation
A climate of achievement is generated by mutual trust and goal setting between the employee and his immediate manager at the estate.	4.0012	0.1233
Employees are judged according to real outcomes, and not on their potential for success, or on someone's subjective opinion of their abilities.	3.9634	0.9599
If the employee meets or exceeds the set objectives, then he or she has demonstrated an acceptable level of job performance.	3.8974	0.3229
A successful program with the communication necessary to achieve desired results requires commitment and dedication.	3.6541	0.7712
Instead of assuming traits, the MBO method concentrates on actual outcomes.	3.2154	1.3940
The MBO method recognizes the fact that it is difficult to neatly dissect all the complex and varied elements that go to make up employee performance.	3.0675	1.2042
The guiding principle of the MBO approach is that direct results can be observed, whereas the traits and attributes of employees (which may or may not contribute to performance) must be guessed at or inferred.	3.0181	0.8173

According to the findings in Table 2, the respondents agreed that a climate of achievement is generated by mutual trust and goal setting between the employee and his immediate manager at the work environment, employees are judged according to real outcomes, and not on their potential for success, or on someone's subjective opinion of their abilities, if the employee meets or exceeds the set objectives, then he or she has demonstrated an acceptable level of job performance, a successful program with the communication necessary to achieve desired results requires commitment and dedication as indicated by a mean score of 4.0012, 3.9634, 3.8974 and 3.6541 respectively. The respondents were neutral on the assumption of traits, the MBO method concentrates on actual outcomes, the MBO method recognizes the fact that it is difficult to neatly dissect all the complex and varied elements that go to make up employee performance and the guiding principle of the MBO

approach is that direct results can be observed, whereas the traits and attributes of employees (which may or may not contribute to performance) must be guessed at or inferred as expressed by a mean score of 3.2154, 3.0675 and 3.0181 respectively.

4.4 Trends in employee performance

Table 3 Trends in employee performance

	Mean	Standard Deviation
Goal achievement	4.1572	0.6842
Ideas and innovations	3.9785	0.8855
Quality of work performed	3.8742	0.5054
Absenteeism	3.7951	0.3276
Timeliness	3.5497	0.3646

According to the findings in Table 3, the trend of goal achievement, ideas and innovations, quality of work performed, absenteeism and timeliness has improved as shown by a mean score of 4.1572, 3.9785, 3.8742, 3.7951 and 3.5497 respectively.

4.5 Regression Analysis
A multivariate regression model was applied to determine the form of relationship between Performance Appraisal and employee performance at NBK.

Table 4 Model Summary.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.792 (a)	0.627	0.554	0.289

a Predictors: (Constant), 360 -Degrees, MBO

The Adjusted R^2 is the coefficient of determination and tells how the dependent variable varies with the independent variables. The model summary results show an adjusted R^2 value of 0.554. This implies that there was a variation of 55.4% between the employee performance at NBK and the predictors. This means that the predictors: 360-Degrees, MBO, this explains the significant relationship of predictors and employee performance at NBK.

Table 5 ANOVA- Analysis of Variance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	12.700	4	3.175	4.733	0.002(a)
	Residual	14.091	21	0.671		
	Total	26.791	25			

a Predictors: (Constant), 360 -Degrees, MBO
b Dependent Variable: Employee performance

The study used ANOVA to establish the appropriateness of the regression model to give reliable results. An f-significance value of p=0.002 was established. This shows that the regression model has a less than 0.002 likelihood of giving a wrong prediction. Hence the regression model has a confidence level of above 95%.

Table 6 Coefficients Results

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.087	0.401		2.713	0.008
	360 - Degrees	0.213	0.081	0.272	2.627	0.010
	MBO	0.242	0.106	0.246	2.289	0.025

a Dependent Variable: Employee performance

Results show that there is a positive relationship between employee performance and all the predictors as shown: 360-degrees (β = 0.213), MBO (β = 0.242). The study further found out that there is a statistically significant relationship between the employee performance and 360-Degrees as shown: (p=0.010<0.05) and MBO (p=0.025<0.05). This therefore implies that the two variables; 360-degrees and MBO Appraisal tools are critical in enhancing employee performance at NBK. A unit increase in either of these variables would definitely increase or improve employee performance at respective units.

5.0 Summary, Conclusion and Recommendations

5.1 Summary of Findings
The study established that 360-degree appraisal method was effective (67.9%). The study found that 360-degree appraisal method enables workers to see their skills and style, improve communications between people and Cooperation with people outside their departments, helps customers and vendors who have conflicts with their managers, has high employee involvement and credibility as well as providing people with a good all-around perspective as shown by a mean score of 3.7841, 3.7684, 3.6872, 3.6457 and 3.5874 respectively.

The study found out that management by objectives enhance employee performance at National bank limited to a great extent (71.4%). The study also found out that a climate of achievement is generated by mutual trust and goal setting between the employee and his immediate manager at the bank, employees are judged according to real outcomes, and not on their potential for success, or on someone's subjective opinion of their abilities, if the employee meets or exceeds the set objectives, then he or she has demonstrated an acceptable level of job performance, a successful program with the communication necessary to achieve desired results requires commitment and dedication as indicated by a mean score of 4.0012, 3.9634, 3.8974 and 3.6541 respectively.

5.2 Conclusion
From the findings, the study concludes that performance appraisal is very important in influencing successful job performance. The study concludes that 360-degree appraisal method affect the performance of employees at National Bank limited by enabling people see their skills and style of work ethics and conformity. The study noted that management by objectives enhance employee performance at National Bank limited and that a climate of achievement is generated by mutual trust and goal setting between the employee and his immediate manager at the bank and employees are judged according to real outcomes and not on their potential for success or on someone's subjective opinion of their abilities.

5.3 Recommendations

The study recommend that the human resource management at the bank should ensure that the 360-degree appraisal method help bring out every aspect of an employee's life and gives workers a chance to know how they are seen by others. The management should put in place strategies that enhance cooperation among the employees. This could take the form of holding frequent interdepartmental meetings and allowing employees to air their views frequently.

The study recommends that because the usefulness of performance appraisal as a managerial tool depends partly on whether or not the performance appraisal system is able to provide sufficient data on employee performance, sufficient data is a critical aspect of the appraisal process. Hence the appraisal form should capture more data such as evaluation of the employees' communication and interpersonal skills/teamwork, adaptability of the employee to work environment, dependability clause and space for short and long-term goals. The study recommends that management by objectives should be adopted by organizations in employee appraisal programs because when the employee and organization integrate their goals results to a positive productivity and efficiency in the organization.

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