

Performance Appraisal Systems and Employees Performance in Commercial Banks in Nairobi City County, Kenya

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Abstract

The study explored the existing performance appraisal process and system to understand their impact on employee performance. Further, the study examined the appraisal system and its impact on perception and feedback. The study was instigated by motivation and goal setting theory. Stratification as techniques of sampling bank branches in Nairobi was used. A representative from every department of the selected bank branch: finance; sales and human resource were sampled randomly. Data collection was done by use of the questionnaire. The data collected for the study was presented using tables and charts and analysed using statistical analysis software of SPSS. Proper analysis and conclusions were based on mean, Pearson's correlation and multiple regression analysis. The results of hypothesis tested using the p-values showed that performance appraisal process and employee performance was insignificant, while feedback and fairness of the appraisal system were noted to be highly significant with employee performance. Hypothesis results of the perception of the appraisal system were insignificant with employee performance. The study recommended that commercial banks should set their performance objectives in line with those of their employees. Banks should have proper and strong communication channels between managers and employees. Banks ought to maintain and improve levels of fairness while conducting performance appraisals to boost and enhance employee performance and efficiency.

Key Words: Performance Appraisal, Performance Appraisal Systems, Employees Performance, Commercial Banks

1. BACKGROUND TO THE STUDY

The primary basis of organization enhancement of performance of employees is based on performance appraisal (PA). Therefore, there is a strong linkage between management, and organization results. The major performance boost factor is the recognition of human nature: positive recognition impact performance positively; vis-à-vis is true. According to Wanjala and Kimutai, (2015) negative PA feedback demotivates the employee performance. Employees with proper perception of PA evaluation only take criticism seriously (Wanjiru, Abaja and Ochieng, 2013). Therefore, the appraiser must be well informed on the credibility of the process, since employees are less likely dissatisfied with the PA result only if they are free to talk about the results. Besides, the employees must also be acquainted with the colleagues' roles in the system before they can effectively contribute to the entire organization. Selection of the appropriate system to use in a PA process is fundamental to the process.

Performance appraisal indicators have to be employed in performance appraisal process. The major variables in PA system are feedback and clarity on employee performance (Ikramullah, Shah, Khan, Hassan, and Zaman, 2012). The PA process has to be participatory and open to boost employee performance. Besides, rewards have to be linked to the process. The feedback given must be noticeable, timely, and impersonal. PA impact the employees by helping them to better understand their jobs, skills, and limitations, a platform for self-reflection. Further, it aids in the identification of development needs, thus increasing communication and mutuality

between employees and management. Moreover, according to Latham (2012), achievement and success are major employee performance indicators. The success of an organization is measured regarding efficiency and teamwork. Better performances are measurable from the highest results obtained from the highest objectives set. Therefore, success is a factor in better performance. However, there is a strong linkage between employee perception on PA evaluation, feedback, fairness, the level of communication, clarity in performance expectation and frequency or interval, and employee performance regarding efficiency and teamwork (Shield, Brown, Kaine, Dolle-Samuel, North-Samardzic, McLean, & Plimmer, 2015). Above all, employee commitment and evaluation, managerial standards and motivation are the most common variables that affect employee performance. Nonetheless, performance evaluation is a technique for assessing and debating on employee's performance of responsibilities allocated. The valuation is centered on outcomes achieved by the employee on their job, not on the employee's persona. Nonetheless, an appraisal is a technique by which the employee's job performance is rated based on cost, quality, time and quantity. Performance evaluation is done by the corresponding manager or supervisor (Wafula, 2015).

Human resource is one of the primary assets that govern the progress of any organization (Arogundade, 2013). The success of an organization is realized with various contributions from every employee. Consequently, one of the key policies of Human Resource Management (HRM) is to link and drive employees towards accomplishing organization's goals and objectives through objective performance appraisal system (Daoanis, 2012). Performance evaluation system, therefore, is a critical tool by which human resources' management practices this regular assessment of employees' contributions as they measure up to the framework set by the organization (Arogundad et al., 2015). As results, performance appraisal system is designed to assess the performance of each worker periodically so that management can make appropriate decisions on promotion, training, growth, and compensation as well as the release of employees consequentially to tolerate the effectiveness and efficiency of the organization (McMahon, 2013). Performance appraisal system primary purposes are to inspire and guide enhanced work performance by associating the employees' past and present performance with the standards of an organizational (Atteya, 2012). However, in the recent times, changes brought about by globalization, Information, Communication, and Technology (ICT), and economic recessions have led to changes in employees' work attitude and organizational commitment, especially in the banking industry.

The appraisal systems are often developed in such a manner that they facilitate regular feedback for the employees. Inculcation of better performance from employees there is need to have employees' periodical updates on their performance about their expectation, current performance, and areas where there is the need for improvement. Such periodicals enhance employees' performance (Leonard & Trusty, 2015). An effective appraisal should consider both sides of performance; thus, feedback should be in both directions (Nurudeen, Kwakye, Berry, Chaikof, Lillemoe, Millham, & Sato, 2015). The success of a team depends on a good corporation and collaboration of all members of the team. This element can only be achieved if the appraisal system permits a 360-degree feedback. This means every employee should get feedback about all aspects that affect work from supervisors, teammates, and subordinates.

The principal aim of the appraisal system is to get the best out of employees. This entails many aspects of valuation such as skills (Mntambo, 2011). The strengths and weaknesses of the employees must also be listed. The areas the employees need to improve on also have to be listed as part of the appraisal. For instance, after identification of the strengths and weaknesses of the employees, the appraisal system should allow for identification of the kind of support that the employee has to be accorded to improve his performance. Support plan should also assist in the creation of improvement plans to assist clients in improving their performance.

The appraisal system should openly be able to outline how the employee performed against a quantifiable dipstick (Mntambo, 2011). Based on the data obtained from assessment, the system should come up with recommendations related to where the employee best fits, does he/she deserves a promotion and the kind of salary hike the person should get. The main elements of performance appraisal systems are to evaluate the extent to which performance targets were met with the aims of reaching greater performance levels and warranting that employee's duties support and further the organization's goals (Sharma, 2013). Therefore, the major elements in the performance appraisal are the extent of how well an employee is applying the required skills and the scope of achieving the desired outcome. The answers have originally been establishing in the performance evaluation process, where their superiors search for real information on how an employee has performed their responsibilities. The first fete of assessment is the surety that the competent team is doing the right thing that is in line with the company's organization.

Therefore, there often exists a central relationship between performance appraisal awareness and the expected interactive outcome of workers which include job approval and enrichment, organizational obligation, and short-comings besides enhanced productivity (Morrow, 2011). Therefore, employees' perception of the performance appraisal system has links with variables responsible for organizational success. Variables of organizational success are also related to the principal performance indicators, which are a quantifiable metric and qualitative that reveals the extent of satisfaction of an organization stated goals and objectives (Karkukly, 2011). These are broken down and set targets for achievement reviewed at regular intervals by departments and individuals. The realization of these aims is reviewed at regular intervals. The performance of employees, on the other hand, is determined by the outcomes and responsibilities accomplished (Gruman and Saks, 2011). Performance evaluation is regarded as the center of performance management. Consequently, its procedures stretch to all organizations management elements such as designs, features, and policies. The primary variable of the determinant of employee performance is employee engagement (Anitha, 2014). Studies have suggested that nurturing employee engagement lead to greater performance levels. Job performance is an element of a fundamental determinant of proximal outcome if performance is to be enhanced (Anitha, 2014).

Training, recruitment, and selection are critical incomplete appraisals for evaluation. Consequently, assessments often recognize elements of education and counseling. Performance appraisal can boost employee motivation by regular feedback process necessary for assessment of working environment thereby fostering productivity, which encourages the strong working areas and modification of the weak areas. Effective appraisal process strengthens the employees' worthiness thus aiding in nurturing their aspirations (Karkukly, 2011). Regarding competitive advantage, performance assists firms and industries attain sustainability. Therefore, performance appraisal system support and offers a platform for competitiveness among the countries. Notably, banks with much-maintained momentum on continuous growth and profitability often demonstrate superior manpower proportion with regards to their effectiveness (Sharma, 2013). Survival of banks needs proper constant on quality with the view to attract more customers and less costly. These elements can only be achieved if banks properly manage their performance appraisal thus increasing employee performance.

2. STATEMENT OF THE PROBLEM

The major challenge facing human resource management is performance appraisal (Delahaye, 2015). Performance appraisal system has received discontentment with supervisors, staff and personnel directors resulting from objectives, interval, and involvement of the appraisal process (Ngari & Nyambura, 2014) and examines the appraisal method as either a vain officialdom exercise or, worse, uncomplimentary influence on the employee-supervisor relationship. This is often generally true of most organizations, whereby surveys characteristically reveal widespread discontent with the appraisal method. More disagreement is the stir in performance evaluation system by human resource managers. The validity and reliability of performance appraisal method have additionally received doubts from researchers, management commentators (Generating, 2013). Some researchers have even prompted that the method is thus inherently blemished specified it should be not possible to excellent it. As a result, managers have usually prompt that a thriving performance appraisal system is one that has led from diligence, careful thinking, and coming up with an integrated with the strategy and wishes of the organization. Inaccuracies in appraisal systems demotivate staff forcing them to depart the organizations (Macfarlane and Shah-Hosseini, 2014). This affects organizations since staff would different sought-after opportunities, therefore, no retention. Once retention is a difficulty, motivation and thus the performance of the workers are going to be affected. Performance appraisal evaluates employees' gift and former output of the arranged down standards. However, it additionally provides feedback on employees' performance to inspire them to enhance their job performance or a minimum of encouraging them to cut back inefficiencies in their work (Aforo & Antwi, 2012). Therefore, it is of essence that performance appraisal is of quality thus on operate as a tool of worker performance.

Due to several challenges within the perception and feedback of the appraisal system, many areas demand unit placed on staff to perform while not corresponding returns, e.g., pressure to fulfill the targets while not the necessary tools to gauge their performance. This has critical extended the amount of frustration as varieties of studies conducted on performance appraisal in commercial institutions have failed to portray the correct results. Nonetheless, such studies have failed to target on the impact of performance appraisal quality on performance of staff (Wanjala and Kimutai, 2015). Within the investment management corporations in an African country, performance evaluation as a tool is used but the standard of performance appraisal cannot be observed and its impact on worker performance. This study can thus sought-after to fill this gap by analyzing the impact of performance appraisal quality on performance of staff in a financial sector with relation to the commercial banking to corporations in Kenya.

3. THEORETICAL FRAMEWORK

3.1. The goal-setting theory

The goal-setting theory, which was developed by Edwin Locke in 1960 to emphasize the need for motivation in businesses, suggests that workers are often motivated significantly to work best when there is some of the rewards at the end of the accomplishment of the task assigned (Pervin, 2015 and Wanjala & Kimutai, 2015). The goal-setting theory relies on the motivation theory and needs theory to outline the expected goals which determine the behavior of the workers. The goals setting theory suggests that a reward on the termination of the duty assigned is key to the motivation of an individual for the completion and performance of the completed task. It is also fundamental that the reward is properly stated. Therefore, according to goal-setting theory, the efficient goal must have four components: difficulty, feedback, proximity, and specificity (Pervin, 2015). As a result, the goal set must be ideal, in which the time between reaching out and termination are close. The ideal time must be moderate in difficulty, that is,

neither too easy, to present some challenge, nor too difficult, to enable the possibility of success. The goal selected must be precise, and the employee must be known what is needed from them to accomplish the goal. Precise goals offer a focus on the goals and away. Consequently, feedback is mandatory so that progress towards the goals is measured. Therefore, feedback becomes the fundamental procedure in the goal-setting theory so that the respective employee may know whether to adjust the effort needed to accomplish the task. The performance of employees is affected by goal-setting theory since the level of motivation determines the extent to reach the set goals (Wanjala and Kimutai, 2015). Efforts are expanded based on goals to be met. Besides goals gives provision of purpose under reaching the targeted goals. The goal-setting theory highlights four major aspects: goal; acceptance or commitment, specificity, difficulty, and feedback.

The goals set for the employee must be acceptable. Goal acceptance is the key step in the creation of motivation (Latham, 2012). Goal commitment, on the other hand, is the extent of determination one employs to achieve the accepted goal. Importance and self-efficacy are the main fundamental aspects that aid enhancement of goal commitment. Self-efficacy is the zeal that the goal accepted can be attained without exception of the expected outcome. Any assigned goal has to be precise and measurable. The goal must have a provision of external referent like where to gauge progress in which in most cases, has to be non-ambiguous and must have little effect on motivation (Latham, 2012). The specificity of the goal emphasizes the on the explicitness of the goal. Goals with clarity in objective are easier to meet than goals broad goals. Meeting the desired level of performance, the goals set must be challenging and precise. Goal specificity does not govern performance, rather intellect and abilities of each. Motivation is key to goal specificity since an employee must be motivated to meet the set goal. In the case where difficulty is paramount, goals are the effective motivation tactic. The goals must be placed adequately high to inspire performance and adequately low to be attainable. Integrity also come into place when goals set are too high to meet, since employees will always tend to be dishonest if they fail to meet their set goals (Latham, 2012). This has resulted in motivation and commitment being suffered in turn. The goal-setting theory instigates on the objective 1 on the involvement of the employees in the performance appraisal process. Goal setting theory is critical since it explains the major objectives of the employees. Furthermore, objective 1 tends to link employees performance to their objectives. The employee involvement in the appraisal process motivates the employee and is hence vital towards achieving their set goals.

3.2 Expectancy theory

The expectancy theory, which was developed by Vroom in 1964, suggests that employee's actions are dependent on their expectations (Taylor, 2014). Therefore, all aspect of employee relationship at their workplaces employs expectancy theory in one way or another. The major areas noticeable are in employee performance, recruitment and selection. Expectancy theory by definition is the performance of an employee in a manner suitable to employer expectation (Shields *et al.*, 2015). Expectancy theory is based on the hypothesis that individuals adjust their behavior in the organization by the anticipated satisfaction of valued goals set by them (Mowday *et al.*, 2013). The individuals modify their behavior in such a way which is most likely to lead them to attain these goals. This theory underlies the concept of performance management as it is believed that performance is influenced by the expectations concerning future events (Mowday *et al.*, 2013).

This theory makes use of three components: the effort-performance probability (EP), the performance-outcome probability (PO), and the value of an outcome (V). This theory suggests that the employee productivity depends on answers to the following questions. Given the abilities, experiences, self-confidence, and employees understanding of his supervisor's

expectations, on a scale of zero to one, what is the probability that your effort will result in a superior performance? (Can I do it?); on a scale from zero to one, how sure are you that when you do a good job, your boss will reward you? (What is in it for me?); and of what value is the outcome to you? (How much do I want it?). According to expectancy theory, employees should base their work on output or quality with interests to feedback from the employer's response. Nonetheless, the employer's response to the work is based on the quality of work in relation. Studies have related performance to many factors. However, the major factors that have been linked to performance are abilities, opportunity, and motivation (Shah *et al.*, 2011). In the main studies, researchers have focused on work motivation as primary determinants in expectancy theory. Motivation has also been expressed in theoretical perspective as the ability, desire and objectionable drive to act. Motivational theories have majorly been grouped into content (need), consolidation (individual persona and results) and process (explains why motivation occurs). To perform a task, employees need necessary resources, but if his expectations are low, his performance might also be low (Shah *et al.*, 2011). Therefore, regardless of organization, employees must be aware of his expectation and the results perceived. Nonetheless, performance evaluation is also crucial in the determination of the future performance of the employee. Therefore, this theory instigates objective number 3 in the assessment of the performance appraisal and its impact on the employee's performance regarding feedback.

4. CONCEPTUAL FRAMEWORK

Independent Variable

Dependent Variable

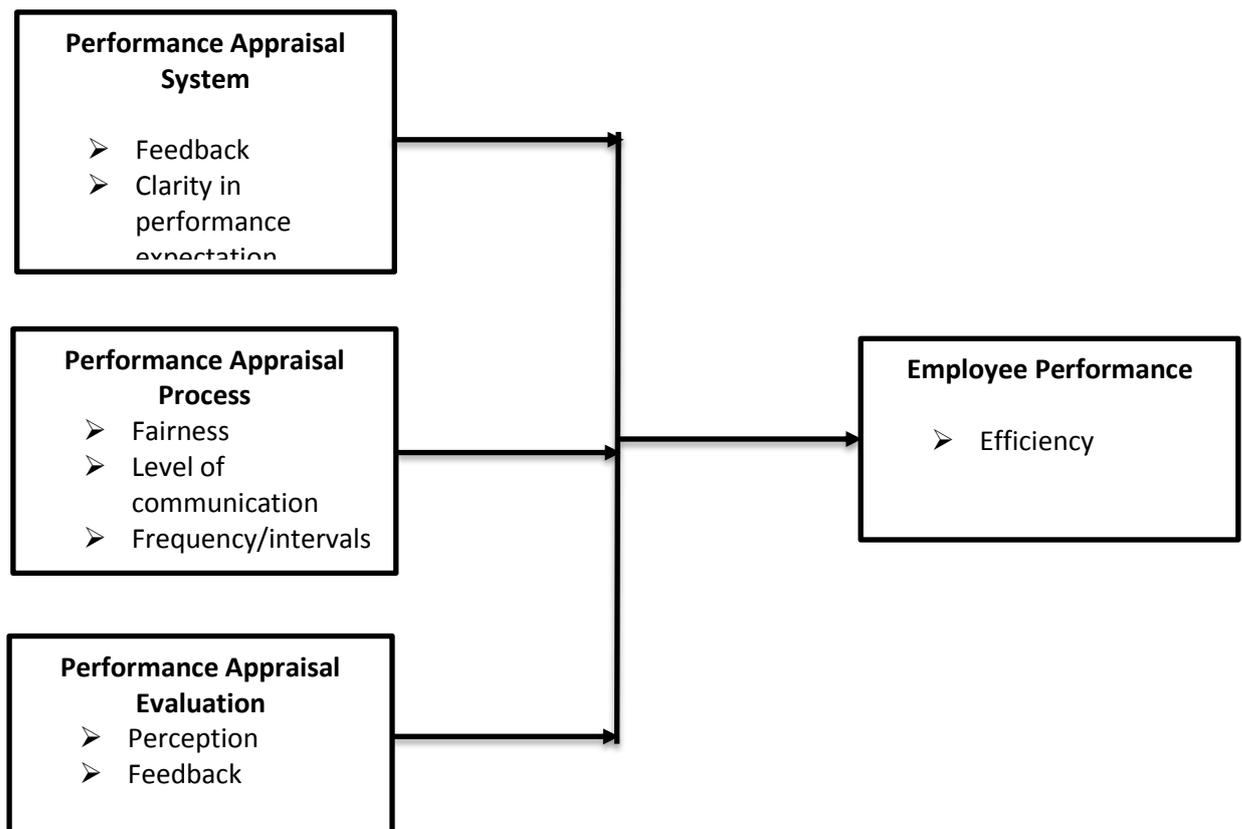


Figure 1: Conceptual Framework

5. Research Methodology

The study used descriptive and causal research designs. Several attributes of performance appraisal were explored and their causative effects evaluated. The study made use of a case study of commercial banks in Nairobi, Kenya: to explore the effect of appraisal systems on the performance of commercial banks employees. The independent variables were performance appraisal system with feedback and clarity in performance expectation as sub-variables; performance appraisal process with fairness, level of communication and frequency or intervals as sub-variables; performance appraisal evaluation with perception and feedback as sub-variables. The dependent variable was employee performance with efficiency as sub-variables.

The study was carried out in one branch per bank from all 41 banking institutions located in Nairobi, Kenya. The data was collected from Commercial Bank branches in Nairobi, Kenya. The study targeted at least 3 representatives from the following department the finance, marketing and human resource departments in the banks. Stratified sampling technique was used to select the branch-bank samples. The sampling procedure used was stratified random sampling. Strata: the bank branches that were targeted. Then three departments: finance, marketing, and human resource department was chosen by the department to be targeted. The research used questionnaires to collect primary data from respondents. Data collected for the study was presented using tables and charts and analyzed using statistical analysis software of SPSS. The hypothesis was tested using p-values at 5% significant level, that is, $p \leq 0.05$, while the mean was analysed. Secondary data analysis was done by seeking experts opinions in the data presented.

6. DATA ANALYSIS RESULTS

6.1 Correlation Analysis

The study sought to find the correlation between the existing performance appraisal process and their impact on employee performance.

Table 1: Correlation between dependent and independent variables

			p.a. Process level of communi cation	p.a. of System feedback is good	p.a. evaluatio n perceptio n	p.a. process frequenc y good	Positive evaluatio n feedback	p.a. System clarity of performa nce expectati on
p.a. employee efficiency	Pearson Correlation		.142**	-.071	-.112*	.079	-.050	.014
	Sig. (2-tailed)		.006	.171	.031	.128	.338	.791
p.a. teamwork	Pearson Correlation		-.049	.001	-.044	-.019	.000	.011
	Sig. (2-tailed)		.347	.991	.398	.710	.993	.840

**Correlation is significant at the 0.01 level (2-tailed).

*Correlation is significant at the 0.05 level (2-tailed).

The results showed in Table 1 indicates that there was a strong correlation between employee efficiency and p.a. Process level of communication in performance appraisal process at ($r = 0.142, p < 0.01$), and the correlation is positive. This indicate that most of the bank employees acknowledge the fact that the increasing the level of communication in p.a. enhances the employee efficiency. Therefore, p.a. process level of communication is insignificant to enhance

employee efficiency is rejected and the alternative is accepted. Thus, good p.a. process level of communication enhances the employees' efficiency.

Furthermore, the existing types of performance appraisal system is insignificant to have a consequent on the impact on employee performance is accepted since the $p - value = 0.791$ or $0.840 > 0.01$ or 0.05 . However, the evaluation of the performance appraisal system is insignificant to impact employees performance in terms of feedback and perception is rejected at $p - value 0.05$, hence employees' performance is highly significant and is affected by the perception of evaluation in PA. PA evaluation perception has a negative correlation with employee efficiency. A similar observation is noted in employee teamwork. Performance appraisal process frequency is positively correlated with employee efficiency and negatively correlates with employee teamwork and is insignificant. Therefore, employees do not consider frequency of the process as necessary in enhancing their performance. Evaluation feedback negatively correlates with employee efficiency and does not correlate with employee teamwork in the bank. Consequently, employees in the banks feel teamwork does not enhance their productivity.

6.2 Regression analysis

Multiple regression analysis was used to determine the effect of performance appraisal systems on performance of employees working with commercial banks in Kenya. The findings of the regression with teamwork as the dependent variable are presented in Table 2.

Table 2: Regression Analysis 1
Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	1.952	.158		12.353	.000	1.642	2.263
	PA. System Feedback Fair	.009	.039	.013	.239	.811	-.067	.085
	P.A Process Level Communication	-.052	.050	-.055	-1.035	.302	-.151	.047
	P.A Evaluation Perception	-.045	.049	-.049	-.933	.352	-.141	.050

a. *Dependent Variable: Employee Performance: teamwork*

The findings indicate that PA system, PA process level communication and PA evaluation perception had insignificant effect on employee performance ($p > 0.05$).

If employees' efficiency is considered as a dependent variable, then multiple regression analysis results yielded results shown in Table 3.

**Table 3: Regression Analysis 2
Coefficients^a**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	1.675	.171		9.810	.000	1.339	2.011
	P.A. System Clarity Performance Expectation	.007	.040	.009	.161	.872	-.073	.086
	P.A. Process Frequency Good	.083	.051	.087	1.648	.100	-.016	.183
	Positive Evaluation Feedback	-.060	.054	-.058	-1.096	.274	-.167	.047

a. Dependent Variable: Employee efficiency

Employee efficiency is positively affected by clarity in performance expectation and goodness in p.a. process frequency. Evaluation feedback negatively affects employee performance. However, the effect is not significant at 95% confidence level. Therefore, as banks enhance how they deliver their evaluation feedback, the employees become less efficient.

7. RECOMMENDATION

This study provides the foundation upon which other researchers can analyze performance appraisal systems in a banking institution in Kenya. The analysis of the data collected revealed that majority of the commercial bank's employees do not set their goals in line with the bank's set goals. Consequently, there has not been clarity in performance expectation amongst many commercial banks employees. Therefore, researchers should further study factors that lead to banks failure in setting their objectives in line with the employees' performance objectives. The level of communication has also been noted to be crucial in job performance since employees in banks acknowledge that increasing level of communication enhances employee efficiency. The study shows the existence of proper communication channels between bank managers and employees, though the results suggested that there were mixed responses from the respondents. Therefore, further research is still feasible to justify if there exist truly the strong communication channels.

Fairness of appraisal system determines the success and acceptance of performance appraisal system by the employees and is a determinant factor on how employees will attach themselves to the organisation. The evaluation perception of employees about performance appraisal system is also a fundamental aspect of performance appraisal. Since the level of perception a critical factor of appraisal awareness on job approval and enrichment of organization goals, further study should also be done to evaluate possible ways on how banks must improve employees' perception to aid their staff in understanding performance evaluation. Positive evaluation feedback often impacts employee performance positively. The study hence gives valuable recommendation for the commercial banks in Kenya: Commercial banks should set their performance objectives in line with those of their employees; Banks should ensure proper and strong communication channels between managers and employees; The banks should

maintain high level of fairness when conducting their performance appraisals to boost employee performance; and Commercial banks should strive to improve on their deliverance of evaluation feedback to enhance employees' efficiency.

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