PERFORMANCE APPRAISAL SYSTEMS AND EMPLOYEE PRODUCTIVITY IN COMMERCIAL BANKS IN NAIROBI COUNTY, KENYA

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ABSTRACT

Performance appraisal is a component of performance management which is intended to increase efficiency and productivity and provides an opportunity to continuously review agreed-upon objectives. However, some studies have called for the abolishment of performance appraisals citing numerous shortcomings that exist with performance appraisal systems. Some studies have shown that many line managers felt that performance appraisals did not add value or help achieve business objectives while many workers found it a nuisance. In Kenya, performance appraisal has been embraced by both the public and private sectors as a tool for performance improvement. Assessment of its effectiveness, however, has been hampered. This study sought to determine the effect of performance design and methods, employee perception and performance based rewards on employee productivity. The general objective of this study was to establish the effect of performance appraisal systems on employee productivity in commercial banks in Kenya focusing on those based in Nairobi County. This study was carried out at the head offices of these commercial banks. The research targeted572 workers selected from the following departments: human resource, finance, information technology and marketing. The respondents included heads of departments, section heads and supervisors. Stratified random sampling was used to determine a sample size of 115 respondents. The study used descriptive research design which involved collection of information from a common group through questionnaires to a representative sample of that group. Data collected was coded, entered and analysed using the Statistical Package for the Social Sciences (SPSS). Descriptive statistics were used in reporting and was interpreted through the use of charts, graphs and tables. In order to test reliability of the instruments, internal consistency techniques was employed using the Cronbachs Alpha Coefficient of 0.6-0.7.The study established that employees in commercial banks in Kenya were appraised by personnel in higher ranking positions than them. It was also established that performance appraisal problems are dealt with as they arise. In addition, most employees in the banking sector have a positive attitude towards performance appraisals since they create job confidence and this maximizes output. The major implication of these findings is that performance appraisals are largely a success in commercial banks in Kenya. This study recommends the continued use of performance appraisals. To further improve the performance appraisal process, this study also recommends that management adopt successful management styles that involve team building, motivation and instilling skills. In addition, the appraisal system should be evaluated periodically, performance expectations of employees clearly stated and management communicates the importance of performance appraisal to the employees.

Key Words: *performance appraisal systems, employee productivity, commercial banks, Nairobi County, Kenya*

INTRODUCTION

Sutermeister (1976) defines employee productivity as output per employee hour with quality being considered while Dorgan (1994) defines it as increased functional and organizational output including quality. Productivity is evaluated in terms of the output of a specific employee in a specific period of time. Often, this is evaluated in comparison to an average of employees doing similar work. Since the triumph of any organization mainly depends on the commitment of its human resources (Akinyele, 2010) employee productivity is an important consideration for businesses. Taljaard (2002) avows that for an organization to stay competitive and ensure that the company has a long term future, it is important to improve performance on an on-going basis

The Performance Appraisal Systems are assumed to motivate the employees to strive hard to attain goals, objectives and targets set for them in order to be rewarded. In other words, it serves as basis of promotion and salary increases. It may also lead to punitive measures where unproductive employees may be demoted or even dismissed after they fail to meet their targets. The secret of getting people to perform is simple, thus agree with the employees you supervise on clear goals, coach them to succeed and tell them how great they did. This would increase their morale to meet their targets and own the organization. Workers are thus supposed to be appraised with intentions to identify their strengths and weaknesses in order to empower them for the benefit of the organization. Performance Appraisal is thus a management tool to assess performance in meeting organizational goals (Mullins 2010). The information gathered may be used for various reasons such as: Promotions. Identify training needs, delegation, deployment and reward/sanction.

Performance appraisal is a systematic process of review and evaluation of an individual's and team's contribution to the achievement of the organization's objectives (Mondy et al 2004) A performance appraisal system is a vital instrument that the organization can use to improve the quality of workforce performance (Mwema and Gachunga, 2014) The Performance Appraisal system is a component of Performance Management (PM). Performance Management is intended to increase efficiency and productivity and aims at providing an opportunity to continuously review agreed upon work objectives, the subordinate work related behaviour and agreed upon action to correct any deficiencies. It also provides a basis for career planning process in the light of strengths and weaknesses identified and provide information on which to base reward decisions. A good Performance Management System (PMS) will also result in the motivation and performance improvement of the individual employee leading to positive impacts in the improvement of the organisations performance.

Performance Appraisal is therefore intended to measure employee's performance against the requirements or targets of the current job and provide objective assessment based on job related factors (Aguinis 2009).The achievements of satisfactory ratings or above satisfactory performance averages have been used as evidence to reward individual performance in the U.K civil service (Marsden,2007) The responsibility of appraising staff rests with their managers or supervisors who need training to acquire the necessary knowledge and skills.

P.A is an on-going process that involves informal discussions between the subordinate and the superior throughout the year.

Performance Appraisal Design and Methods

Performance Appraisal Systems are embraced by organizations to improve performance, increase productivity, efficiency and profits. Performance Appraisal is practiced in both public and private corporations to improve performance and productivity. For effective Appraisal, updated job descriptions and current work objectives must be used.At the end of the Appraisal period, formal appraisal is done using standard appraisal forms to produce a report that summarizes the extent to which the agreed objectives were achieved. This report serves as a basis for the formal appraisal discussion of past performance and future plans. According to Mondy(2004), evaluations at the end of the appraisal period may call for the reprimands or rewards where salary increases will be linked with performance rating. In reprimand, the manager lets the employee know how he feels about his/her. He reaffirms that you think well about them but not of their performance in this situation.

Performance appraisal systems include the 360 degree appraisal and Management By Objective (MBO). According to Drucker (1954) an MBO system calls for each level of managers to identify their goals .This PAS involves a careful study and understanding of the goals and objectives of an organisation. It calls for individual employees and managers to set targets, discuss them, and reach into an agreement before implementation commences. The manager and employee then agree upon specific and obtainable goals with a set deadline. The 360 degree appraisal system involves the feedback of the manager, supervisor, team members and any direct report. In this PAS information is solicited from a variety of workplace sources on an employee's work-related behaviour and performance. This process includes feedback from the employee's subordinates, peers, supervisors as well as self-evaluation by the employee him/herself. Greguras and Robie (1998) tracked how each rater in the 360 degree appraisal system (direct report, peer manager) affects the reliability of the feedback.

Employee Perception

According to Roberts (2003) a majorfactor that attenuates the effectiveness of participation is unequal employee treatment. If employees perceive bias or favouritism in managerial behaviour it accelerates negative perceptions. The way employees perceive their work can have a big influence on the efficiency and profitability of accompany. Employee perceptions can predict the performance of a company as a whole. Performance appraisals are essential for effective evaluation and management of staff. Since perceptions influence people's judgment and attitudes towards particular phenomena, it could be that employees hold diverse opinions about the performance appraisal systems in the organization. According to Boachie-Mensah (2012) employees may have a negative perception towards PAS of an organization since it may be influenced by subjectivity and characterised by major errors which have serious managerial implications.

Pident (2000) proposes that individuals' responses to change can be analysed through the concept of attitudes. In this case, the concept comprises of three dimensions. The cognitive dimension, which involves beliefs that express positive or negative judgment about something, the affective dimension which covers feelings and emotions about something, and the behavioural dimension based on past behaviour or future action intentions in relation to the object of change. Ansari (2011) avows that the highly competitive environment of today's business organizations underlines the importance of developing an efficient and productive workforce and retaining it. Among the various factors affecting employee productivity is perception. Therefore, the more favourable attitudes employees have of their job, the better the company will perform. Management should strive to put practices in place that will improve the employees' perception of their jobs. One way this can be done is by being clear about the expectations and therefore enabling the employees to see the overall results the company is aiming for and how each employee plays a role in achieving those results. Lee and Bruvold (2003) avow that if performance appraisal satisfaction reflects perceived investment in employee development, employees will probably reciprocate by way of higher affective commitment to the organization.

Performance Based Rewards

Reward management is concerned with the formulation and implementation of strategies and policies that aim to reward people fairly, equitably and consistently in accordance with their value to the organization (Armstrong, 2006) Reward management is a means to an end. It is based on the assumption that an organizations reward system is closely related to the performance of its individual staff. Heneman (2002) comments that the evaluation of the effectiveness of a strategic reward system is often overlooked but that it is an indispensable final step in the process of implementing a compensation programme. Armstrong (2006) states that a good rewards and remuneration system ensures that each person receives appropriate financial and non-financial recognition for the personal contribution they are making and the overall value for their position to the organization.

Financial rewards may be provided that are related to performance. These are regarded as contingent pay. Employee benefits include pension, sick pay, insurance cover, company cars, and annual holiday. Mehta (2014) indicates that financial reward can help increase employee efficiency. Organizations in the world are recognizing the significant opportunity to improve the return on their human resources investment by aligning organization plans with business strategy and enhancing the value delivered to employees. This process is crucial to business success and the ability of the organization to attract and retain top performance and critical skill employees in an increasingly competitive environment .researchers have shown that managers can employee different strategies would have a different motivational effect on different people. The system also incorporates non-financial rewards like recognition, praise , achievement, responsibility and professional growth and in many cases performance management process (Armstrong, 2001) In general, employees perform more energetically when they feel strongly connected to and valued by the organization.

Commercial Banks in Kenya

The study was conducted at commercial banks in Kenya focusing on those based inNairobi County. The Central Bank of Kenya has classified Kenyan Commercial Banks into tiers based on a weighted composite index of their net assets, capital and reserves, customer deposits, number of loans and deposit accounts. Tier 1 is made up of the largest banks based on this index. These banks are also some of the oldest and most established banks in the country. The banks include: Equity Bank, Standard Chartered Bank, Kenya Commercial Bank, Barclays Bank, Cooperative Bank and Commercial Bank of Africa. Equity bank was founded in 1984 and was originally a provider of mortgage finance for customers in low income population. It is the largest commercial bank in Kenya by customer base with an asset base of US $ 3.21 as of June 2014. Standard Chartered Kenya is a subsidiary of the British multinational financial conglomerate known as Standard Chartered. It opened its first two branches in the country in 1911. The bank has an asset base of US$ 2.54 as of June 2013. Kenya Commercial Bank can trace its roots to July 1896 when its parent group KCB Group was formed as a branch of the National Bank of India. As of 2015 it was the largest bank in the country by asset base with more than US$ 3.681in assets. Barclays Bank Kenya can trace its roots to a National Bank of South Africa branch opened at Mombasa in 1916. It has an estimated asset base of US $ 2.329 billion (Ksh232trillion) as at March 2015. The institution serves the needs of large and small business customers as well as individuals and has 120 branches in various locations across Kenya. The bank is a subsidiary of Barclays Bank PLC, a British multinational banking and financial services company headquartered in London.

Tier 2 banks comprises of mid-level sized banks based on the weighted composite index. They include: Family Bank, I&M Bank, NIC, Prime Bank, Bank of Africa, Bank of Baroda, Bank of India, CFC Stanbic, Citi Bank, Diamond Trust Bank, Ecobank, Guaranty Trust Bank, Housing Finance and National Bank. Tier 3 banks are small banks in the country based on net assets, capital and reserves, customer deposits, number of loans and deposit accounts.

STATEMENT OF THE PROBLEM

Performance appraisal involves setting standards, assessing employees' actual performance relatively to the standards set and providing feedback in order to motivate or eliminate performance deficiencies. Akinyele (2010) argues that the triumph of any organization mainly depends on the commitment of its human resources. To facilitate continued efficiency and effectiveness of members of staff, each organization has to carry out employee performance appraisal from time to time to keep them in check and replace, motivate, re-train or take any other appropriate action. Kuvaas (2006) explored the relationship between performance appraisal satisfaction and employee outcomes in the form of work productivity, organizational commitment and turnover retention. The study, which was conducted in Norwegian savings banks, concluded that performance appraisal satisfaction was directly related to employee productivity and commitment. The study also revealed a negative relationship between performance appraisal satisfaction and productivity in some employees. Mutai (2012) notes that a series of underperformance at commercial banks in Kenya despite an enhanced performance appraisal system being in place forms the basis of a problem that needs investigation. Since the introduction of performance contracts in the public and private organisations in Kenya, the role and the effect of PA have remained unclear. Although in Kenya performance appraisal has been embraced by both the public and private sectors as a tool for performance improvement and productivity, assessment of their productivity has been limitedand the actual application of these PAS in financial institutions is begging research at commercial banks in Kenya.Ideally, performance contracts involve negotiating and setting targets that employees are supposed to accomplish within the agreed period which is normally a year. Quarterly reports are submitted by the individual employees to the management through their supervisors.Despite setting important guidelines, there was insufficient research to explain how organizations monitor progress and how they address non-performing sections. Furthermore, Coens and Jenkins (2000) call for the abolishment of appraisals citing the numerous shortcomings that exist with PA systems while Case studies conducted at the library of the University of Ghana revealed that many workers were not only unaware of the importance of the PA system but actually found it a nuisance (Martey 2002). In addition to this, in one study conducted in Hong Kong, China, many line managers felt that performance appraisal did not add value or help achieve business objectives (Mullin. 2010) Performance appraisal is a requirement which goes hand in hand with performance contracting which the bank signs with employees. Without a formal study it's not possible to assess whether or not workers achieve the performance contract targets.This study thereforesought to investigate the effect of performance appraisal systems on employee productivity at Commercial Banks in Kenya.

GENERAL OBJECTIVE

The general objective of this study was to investigate the effect of Performance Appraisal systems on employee productivity in commercial banks in Nairobi County, Kenya.

SPECIFIC OBJECTIVES

1. To determine the effect of performance appraisal designs and methods on employee productivity in commercial banks in Nairobi County Kenya.
2. To examine the effect of employee perception towards performance appraisal systems on productivity in commercial banks in Nairobi County Kenya.
3. To establish the effect of performance-based rewards on employee productivity in commercial banks in Nairobi County Kenya.

THEORETICAL LITERATURE REVIEW

Management by Objectives Theory (MBO)

This theory was first popularised by Drucker (1954) who questioned why in both the classical and human relations schools of management, effectiveness was automatically considered to be natural and expected outcome. According to him, effectiveness was more important than efficiency and was the foundation of every organization.He thereby developed MBO. According to Drucker Performance Appraisal involves a careful study and understanding of the goals and objectives of an organisation. This calls for individual employees and managers to set targets, discuss them, and reach into an agreement before implementation commences. It is therefore monitored, evaluated and reviewed according to principles of management.An important part of MBO is the measurement and comparison of the employee's actual performance with the standards set. Ideally, when employees have been involved in goal setting, they are more likely to accomplish their responsibilities and therefore meet the expectations. Performance Appraisal therefore calls upon managers and individual subordinates to agree on objectives and targets throughout the year through a partnership where responsibilities are shared and expectations defined. This partnership makes appraisal more objective, transparent Therefore the conceptual frame work of performance appraisal involves studying and understanding the objectives of the organization, setting performance targets and agreeing upon the set targets, frequent performance reviews to monitor progress, giving feedback and rewarding. This process if analysed correctly will reflect the actual performance of the individual employees in the entire organization.MBO at its core is the process of employers/supervisors managing their subordinates by introducing a set of specific goals that both the employee and the company strive to achieve. The principal of MBO is for employees to understand their roles and responsibilities so they can understand how their activities relate to the achievement of the organizations goals. One of the independent variables in this study is performance appraisal designs and methods and their role on employee productivity. This variable will derive from the Management By Objectives theory.

Equity Theory

This theory was proposed by John Stacey Adams in 1963. The theory suggests that the higher an individual's perception of equity, the more motivated they will be and vice versa. The theory shows that inequities, perceived or real, can harm an employee's motivation. Employees who feel they are being treated inequitably will be emotionally motivated to gain equity. This may be through decreased input or push for more pay. Furthermore, employees may be unwilling to do any extra work and only do their jobs and little else. These outcomes can harm an organizations bottom line. Equity theory therefore shows that employees' perceptions do matter. Adams theory calls for a fair balance to be struck between an employee's input and output. Input may refer to hard work, skill level, acceptance and enthusiasm while outputs may refer to salary, benefits and recognition. One of the independent variables in this study is employee perception and the role it plays on employee productivity. This variable will derive from the equity theory.

Hierarchy of Needs Theory

This is a theory proposed by Abraham Maslow in 1954 and is usually portrayed in the shape of a pyramid with the most fundamental needs at the bottom. It is a motivational theory in psychology comprising a five tier model of human needs often depicted as hierarchical levels within a pyramid. Maslow asserted that people are motivated to achieve certain needs and that some needs take precedence over others. Our most basic needs, according to the theory, is physical survival. Maslow avows that individuals must satisfy lower level needs before progressing to meet higher level growth needs.

The theory suggests that before the organizations needs are met, the basic needs of the employee's must be met. A tired and hungry employee must first fulfil their basic physiological needs first. Employees need to feel emotionally and physically safe and accepted within the organization to progress and reach their full potential. One of the independent variables in this study is performance based pay and the role it plays on employee productivity. This variable will be anchored on Maslow's hierarchy of needs theory.

Two Factor Theory

Also known as the hygiene theory, it states that there are certain factors in the work place that cause job satisfaction while a separate set of factors cause dissatisfaction. This theory was developed by Fredrick Herzberg who theorized that job satisfaction and job dissatisfaction act independently of each other. According to the theory, individuals are not content with the satisfaction of lower-order needs like salary and pleasant working conditions. Rather, individuals look for the gratification of higher level psychological needs having to do with achievement, recognition, responsibility, advancement and the nature of the work itself.

Herzberg (1966) suggested that man lives at two levels; the physical and psychological levels. His study was based on good and bad experiences of work of 200 engineers and accountants to test man's two needs, his need as an animal and avoid pain and his need as a human to grow psychologically. The respondents were urged to recall good and negative experiences during working time. Herzberg came up with two factor theory. Several factors such as achievement, recognition, work itself, responsibility, advancement and growth led persistently to employees satisfaction while other factors led to dissatisfaction such as company policy, supervision, work condition, salary, status, security among others. The theory suggests that to improve job attitudes and productivity, administrators must recignize and attend to the two sets of characteristics and not assume that increase in satisfaction leads to decrease in dissatisfaction. The dependent variable in this study is employee productivity. This variable will derive from the two factor theory.

EMPIRICAL REVIEW

Performance Appraisal Design and Methods and Employee Productivity

Mwangi (2013) explored the general use of performance appraisal systems among commercial banks in Kenya. Though the study found that performance appraisals was carried out in the banks mostly quarterly the study did not quite show the link between the performance appraisals and employee productivity. Cole (2002) highlighted the challenges training needs have on the performance of employees and how working conditions influenced employee performance. It is argued that aspects of each system constrain the ability of the appraisal process to produce accurate, unbiased, and reliable assessment of individual behavior and performance. The following characteristics of the appraisal process are discussed: first, observation, reward opportunities, and systemic issues such as function and expectations within the context of the organization; second, the appraiser's automatic attention processes, categorization and memory, and information search and recall; and third, appraisees' automatic and controlled modes of behavior. Recommendations for improving the appraisal process are presented.

Nyamboga (2016) evaluated the use of performance appraisals at National Bank of Kenya. The study found that the 360 degree appraisal method and management by objectives among other methods of performance appraisal greatly influenced employee performance at the bank. Fletcher (2010) states that Performance appraisal has widened as a concept and as a set of practices and in the form of performance management has become part of a more strategic approach to integrating HR activities and business policies. As a result of this, the research on the subject has moved beyond the limited confines of measurement issues and accuracy of performance ratings and has begun to focus more of social and motivational aspects of appraisal. This article identifies and discusses a number of themes and trends that together make up the developing research agenda for this field. It breaks these down in terms of the nature of appraisal and the context in which it operates. The former is considered in terms of contemporary thinking on the content of appraisal (contextual performance, goal orientation and self-awareness) and the process of appraisal (appraiser-appraisee interaction, and multi-source feedback). The discussion of the context of appraisal concentrates on cultural differences and the impact of new technology. In reviewing these emerging areas of research, the article seeks to explore some of the implications for appraisal practice at both organizational and individual levels.

Maritim (2007) argues that organizational reforms and training were key to ensure good performance and productivity. It is therefore necessary to carry out skills audit in order to establish skill gaps. This will enable the MR department to organise for training and development in order impart skills which will improve performance in public corporations.Public corporations should therefore ensure that employees have appropriate knowledge, skills and attitudes to increase productivity in the institutions. The study suggests that relevant training should be given to employees and to the right persons because some of the workers in the Post Bank were given trainings which were irrelevant to their job descriptions. This amounted to waste of time and resources that could have been used to maximise profits.

Employee Perception and Productivity

The findings of Greenburg (2006) identified the ability of a supervisor to make an accurate evaluation of a subordinate's performance as an important influence on fairness perception. An employee's supervisor has always been the obvious choice for performance evaluation. In his study, Kim (2015) observes that the success of the performance appraisal system may depend on how to manage employees' perceptions of its fairness, not the system per se. Using the 2005 Merit Principles Survey, the study tests the efficacy of perceived fairness of performance appraisals as a key determinant of intrinsic motivation. The purpose of the article is twofold: to identify factors of perceived fairness of performance appraisal and to assess the differential impact of each factor of perceived fairness of performance appraisal on intrinsic motivation. An exploratory factor analysis generated three separate but interrelated notions of perceived fairness variables: distributive, procedural, and interactional fairness.

Using these three perceived fairness variables, a hierarchical regression analysis was performed. The results showed that although all three perceived fairness variables positively associated with intrinsic motivation, they accounted for only 5% of variance in prediction. When control variables were added, only perceived procedural fairness appeared to positively affect intrinsic motivation. The results raise the question of the role of performance appraisals as a motivational tool for performance improvement. This is contrary to what Drucker (1954) proposes in his Management By Objectives theory which proposes appraisal by colleagues above, alongside and below the employee. This seeks to enhance fairness and dispel the notion that appraisals are biased and punitive.

Kirai and Kisang (2016) sought to establish the effects of performance appraisals on employee motivation at Equity Bank in Kenya. The key finding was that objectivity of performance appraisal and feedback positively influenced employees' motivation. The study, however, did not explore the link between motivation and employee motivation.According to Mullin (2010) a good performance appraisal system depends on the attitudes of the employees towards the appraisal tool in the public sector, the aspect of accountability for their operations and the service delivery indicators used to measure the "Es" of effectiveness, economy and efficiency. In general, productivity indicators provide information that cannot be used in an absolute sense but instead it is important to have meaningful and useful comparatives against which performance can be measured. Performance indicators can be effective if they are used within a framework and only if reasons of unsatisfactory performance are investigated and remedial actions taken.

Fumha in Gupta (2008) refers to it as a problem in the public sector in that it still reflects a service, rather than performance, ethics, loyalty, years of service and a clean reputation to determine promotion much more than performance measurement by output and customers feedback. In the modern organizations, performance appraisal systems are used to measure performance of employees where those who meet their targets are promoted and those who don't are demoted, dismissed or transferred if not recommended for training. The workers have therefore something to fear and perceive appraisal systems as punitive.

Performance Based Rewards and Productivity

According to DeNisi and Pritchard (2006) organizations should have components in the performance development reviews that can motivate employees to double their efforts and enhance their contribution to the organizational goals and objectives. Reward is what employees get for services rendered. According to Armstrong and Tina (2005) one of the aims of broad bushed reward strategy is to use the development of employee relationship and the work environment which will enhance commitment and engagement so as to provide more engagement and opportunities for people to be valued and recognized by the organization.

Research has shown that rewarding employees will often lead to increased motivation and performance (Amodt, 2007).McClelland (1961) identified three motivators hat he believed we all have: a need for achievement, a need for affiliation and a need for power. This theory can help managers identify the dominant motivators in employees and use these motivators to craft/design the job and in extension, the appropriate performance appraisal systems. Amodt (2007) observes that the basis for reward systems are conditioning principles inwhich state that employees will engage in behavior for which they are rewarded and avoid behavior for which they are punished. Therefore, upon appraisal, those employees found to be performing well will get performance based rewards which may include pay rise, bonuses, promotions and favourable transfers. According to Armstrong and Tina (2005) one of the aims of reward strategy is to use the approach to the development of employment relationship and the work environment which will enhance work commitment and engagement. Mani (2015) states that one would expect a valid, reliable performance evaluation system to give employees and managers data about employees' strengths and needs for development. If this data is used to reinforce employees' strengths and to plan and provide developmental assignments in areas of need, then one might also expect improvements in morale, motivation, and productivity. The study explores employees' and administrators' perceptions of a system with these goals, a system specifically designed to appraise performance of North Carolina “Subject to the Personnel Act” (SPA) employees at East Carolina University. The data show that a large proportion of employees, but no supervisors, are dissatisfied with the system; that neither the number of subordinates nor the time spent evaluating employees under the system affects supervisors' satisfaction with the system; and that employees' perceptions of the fairness of the system is related to trust and satisfaction with their supervisors but not with compliance with the program's procedures. Although various factors motivate employees and supervisors, pay is very important. So the legislature's failure to appropriate funds to reward employees who excel undermines the system's effectiveness. There is a need for further research to explore the relationships between employees' ratings and their race and sex.

RESEARCH METHODOLOGY

Research Design

This study used Descriptive research design which involves collection of information from a common group through questionnaires administered to a representative sample of that particular group. Descriptive survey offers an opportunity to gather information from a wide population and within a limited period of time. Descriptive studies portray the variables by answering who, what and how questions (Babbie, 2002). Its advantage is that it is used extensively to describe behaviour, attitude, characteristics and value. According to Kothari (2008) descriptive design is the precise measurement and reporting of the characteristics of phenomena under investigation and describes phenomena, situations and events. Since this study was investigating the effect of performance appraisal systems on employee productivity in commercial banks in Kenya, descriptive research was the most appropriate.

Target Population

Cooper and Schindler (2003) define target population as the list of elements from which sample size is actually drawn. The study was carried out at all the 41 commercial banks in Kenya. The list of the commercial banks can be found on appendix VI where they are listed according to tiers. Tier 1 has 6 banks, tier 2 has 14 banks and tier 3 has 21 banks. This study targeted employees working at the head offices at each of the commercial banks. The research targeted 20% of banks in each of the three tiers. 20 % falls within the recommendations made by Mugenda and Mugenda (2003). Therefore, one bank was selected from tier 1, three banks from tier 2 and four banks from tier 3. Simple random sampling was used to select the seven banks where each bank had an equal chance of being selected. Tier 1 included Barclays Bank. Tier 2 included: Family Bank, I&M Bank and Bank of Africa. Tier 3 involved: Consolidated Bank, Dubai Bank, Habib Bank and Credit Bank. The study therefore targeted 572 section heads selected from the following departments: human resource, finance, information technology and marketing.

Sample Design

The sample size for this study was 115 workers comprising section heads in the human resource, finance, information technology and marketing departments. The sampling design that was used in this study was the stratified random sampling. According to Mugendaet al (2003) stratified random sampling refers to a probability technique that assumes each population category has an equal chance of being selected for the study.

Data Collection

This section will look at the data collection instruments that the researcher used to collect data as well as the data collection procedure. The researcher used the questionnaire to collect data. The questionnaire was prepared in advance and adequate copies were distributed to the workers at the head offices of the Commercial Banks through the Human Resource Officers. The questionnaire comprised both closed and open ended questions. The questions in the questionnaire covered all the three objectives in the study. This study aimed to collect primary data. According to Cooper and Schindler (2003) primary data refers to what is collected directly by the researcher for the purpose of the study. For the primary data questionnaires were used for the purpose of data collection. They included structured questions and were administered through drop and pick method to respondents who worked at the commercial banks. The structured questions were used in part to conserve time and to facilitate easier analysis of the data and included both closed and open questions. The questionnaires were administered with a self-addressed return envelope to help increase response rate. This was followed by personal visits and phone calls.

Data Analysis and Presentation

This study collected qualitative data. Descriptive and inferential statistics were used to analyse quantitative data with the help of Statistical Package for Social Sciences (SPSS). Descriptive statistics include percentages, frequency distribution and measure of central tendencies (mean). The data was presented in the form of tables, graphs and charts. According to Mugenda and Mugenda (2003) descriptive statistics enable the researcher to meaningfully describe a distribution of measurements and also describe, analyse and summarise data.This study also used multivariate regression analysis to establish the relationship between the independent and dependent variables. The regression model in this study was:

$$Y= \beta 0 +\beta 1X1 +\beta 2X2 + \beta 3X3 + \varepsilon$$

Where: Y= Employee productivity; X1= Performance appraisal design and methods; X2= Employee perception; X3=Performance based rewards; ε= Error term; β0,β1,β2,β3 = unknown parameters.

RESEARCH RESULTS

The findings illustrate that majority of employees in commercial banks are females. These findings indicate that most of the employees in commercial banks are of ages between 31-40 years. This shows that the bank is mainly dominated by young adults. These findings indicate that most of the employees at commercial banks have university education and are well educated to know the appraisal systems that suit them and their colleagues. These findings also show that most of the employees had been in their respective departments for 6-10 years implying that they were well acquainted with the performance appraisal system that were used and could suggest on better ways to improving the same. The findings indicate that the employees were appraised by personnel in higher ranking positions than them and mostly their immediate managers.

Employees indicated on the use of 360 degree feedback as a means of ensuring that appraisals are all rounded. Personal ranking was also suggested by some of the respondents while others indicated use of flexible appraisal system on a regular basis. The findings further indicate that managers and team leaders provide constructive feedback as required and that the organization carries out training seminars and workshops on its employees. Performance appraisal problems are dealt with as they arise and that performance appraisal review meeting is conducted in a friendly and helpful way. Findings show that employees have positive attitude towards the tasks they perform and that there is cooperation between the managers and the staff in the bank. Employees do support the use of appraisal tools in the bank and the performance appraisal systems encouraged them to be committed to their work.

Employees are given the opportunity to give opinion on effectiveness of performance appraisals. Performance appraisal system had creates in more awareness of the programme, increase their job confidence and therefore maximize their outputs. Performance appraisal systems are a quick way of getting promotions especially when they perform well. Furthermore, the findings show that most common performance based rewards are increased basic pay and lump sum others are Recognition and praise, promotion and sick leave insurance cover. Employees want to be rewarded financially or via some other means especially through promotions. According to employees, performance based rewards should inspire and motivate them.

REGRESSION ANALYSIS

According to the regression equation established, taking all the determinants to be zero (performance appraisal designs, employee perception and performance based rewards) employee productivity will be 3.221. The standardized Beta Coefficients give a measure of the contribution of each variable to the model. A large value indicating that a unit change in this predictor variable has a large effect on the criterion variable. The t and sig (p) values give a rough indication of the impact of each predictor variable- a big absolute t value and small p value suggests that a predictor variable is having a large impact on the criterion variable. At 5 % level of significance and 95 % level of confidence, performance appraisal design had a beta coefficient of 1.24, employee perception had a beta coefficient of 1.31, performance based rewards had a beta coefficient of 1.42. The Beta coefficients indicate the extent to which employee productivity at commercial banks in Kenya change due to a unit change in the independent variables. The positive Beta coefficients indicate that a unit change in the independent variable leads to a positive change in employee productivity. Therefore the regression with Beta values is:

$$Y= 3.221 + 1.24X1 + 1.31X2+1.42X3+ \varepsilon$$

Table 1: ANOVA

Model	Sum of squares	df	Mean square	f	Sig.
Regression	37.897	3	12.632	28.983	.000
Residual	18.742	43	.436		
Total	56.638	46			

a. Predictors (constant): Performance Appraisal design and methods. Employee productivity, performance based pay
b. Dependent variable: employee productivity

The study further determined the beta coefficient of effective of performance appraisal versus employee performance. Table 2 shows that there is a negative relationship between the variables.

Table 2: Model Summary

Model	**R**	**R square**	**Adjusted square**	**R Std. Error of The Estimate**
1	0.865	0.745	0.755	0.814

The value obtained for R which is the model correlation coefficient was 0.865 which was higher than any zero order value in the table. This indicates that the model improved when more variables were incorporated when trying to analyse the determinants of employee productivity. The model shows a goodness fit as indicated by the coefficient of determination (R^2) with a value of 0.745. This implies that the independent variables: performance appraisal designs, employee perception and performance based rewards explains 75% of the variations of employee productivity. The remaining 21 % is determined by other factors not considered in the study. The statistical F test is used to determine how well the regression equation fits the data. In this study, the F value of 56.52 was significant at the 5 % level indicating the independent variables helped top explain some of the variation in employee productivity. ANOVA results indicate that the overall model was significant- the independent variables were good joint explanatory determinants of employee productivity.

CONCLUSIONS

The choice of appraisal techniques is paramount in determining how well the process is received since it is only with better comprehension of the method that the exercise can bear more fruits. The study concludes that banks have a performance appraisal system. The study also concludes that employees are appraised by personnel in higher ranking positions than them and mostly their immediate managers. The methods for appraisal are 360 degree feedback, Personal ranking and appraisal system on a regular basis. Managers and team leaders provide constructive feedback as required and that the organization carries out training seminars and workshops on its employees. The study further concludes that performance appraisal problems are dealt with as they arise and that performance appraisal review meeting is conducted in a friendly and helpful way.

The study concludes that employees have positive attitude towards the tasks they perform. There is cooperation between the managers and the staff in the bank. Employees do support the use of appraisal tools in the bank and the performance appraisal systems encourage them to be committed to their work. Employees in banks are given the opportunity to give opinion on effectiveness of performance appraisals. Performance appraisal systems are a quick way of getting promotions especially when employees perform well. The study finally concludes that commercial banks mainly use increased basic pay and lump sum as performance based rewards. Employees in commercial banks want to be rewarded financially or via some other means especially through promotions as performance based rewards inspire and motivate them.

RECOMMENDATIONS

From the above findings, the researcher recommends that the management should adopt successful management styles which involve building teams, networks of relationships, and developing and motivating others which would instil skills to the employees and which have a critical role in improving the level of performance of the employees. In addition, the study also recommends that job rotation, coaching and counselling would be effective methods of training staff in organizations which should be adopted by commercial banks. The appraisal process should however be evaluated periodically to determine how they conduct performance appraisals. Moreover, the performance expectations of the employees need to be clearly stated and determinants of performance identified. This would reduce the impression that they were not sure of the methods that were to be used to measure their performance. This will also help improve the overall performance of appraisal programs and increases both motivation and performance of employees in any other banking. Finally, management at commercial banks should communicate the importance of performance appraisal to its employees so as to accept it and see it as a means of improving their performance rather that punishing them.

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