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Effects of Performance Appraisal Quality on Performance of Employee in the Financial Sector: A Case of Investment Management Firms in Kenya

Lorna Nyambura Ndirangu[1], James Mark Ngari[2]

[1]Head of Operations, Sanlam Investment Management, P. O. Box 7848-00100, Nairobi, Kenya
[2]PhD, Senior Lecturer, Faculty of Business and Communication, St Pauls University, Limuru, Kenya, P.O. Box 00217 Private Bag Limuru

Abstract: ***The main purpose of this study was to evaluate the effect of performance appraisal quality on employee performance in investment management firms in Kenya. The research used descriptive research design and the population of study was 347 management employees of investment management firms. 182 respondents was selected representing a population of 347 possible respondents using stratified random sampling by taking 30% of the target population in each stratum. The questionnaire was administered through drop and pick to the employees in the selected departments. The quantitative data in this research was analyzed by descriptive statistics using statistical package for social sciences. Completeness of qualitative data collected was checked for and cleaned ready for content analysis and results presented in prose form. In addition, multiple regressions were used to measure the strength of the relationship between the dependent and independent variables. The study found that clarity of performance expectations affected the job performance to a great extent. Feedback mechanism and open door policy affected job perform to a great extent. Integrity and reliability/dependability affected job perform to a great extent. In addition, distributive fairness affected job performance to a moderate extent.The study found that ideas and innovations, absenteeism/tardiness and timeliness had improved for the last five years. The study that appraisal motivates staff by clarifying objectives and setting clear future objectives with provision for training and development needs to establish the performance objective. Communication provides employees with the chance of exercising a level of process control. Trust in supervisors is important for determining satisfaction with the appraisal system. Appraisals based on personal traits have little value for providing diagnostic feedback to employees or for designing training and development programs to ameliorate identified skill deficiencies.***

Keywords: Performance Appraisal, Quality, Performance of Employee, Financial Sector, Investment Management

1. Introduction

For an organisation to survive in a turbulent and dynamic global work environment, performance ought to be measured especially its human resource. 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.

Performance appraisal systems are designed to serve the company's and employee's interests. They are used to inventory 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 (Walsh, 2006). 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. Furthermore, it is an evaluation process, in that quantitative scores are often assigned based on the judged level of the employee's job performance on the dimensions or criteria used, and the scores are shared with the employee being evaluated. 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 (Reid & Hubbell, 2005).

Performance appraisal history can be traced in the early 20th century and formal performance appraisals systems being established in the mid 1950s with personality-based systems being widely used. Most performance appraisal tools used globally have been developed in the United States and majority of the performance appraisal research drawn from United Kingdom and United States. However, general argument repeatedly stated in academic work is that without taking into account the specificities of cultural and institutional contexts and constraints, the Western-type performance appraisal systems are doomed to fail in transition and developing countries. Research suggests that having a technically sound appraisal system and procedure is no guarantee that the process will be of quality and effective. In Asia, the popularity of the balanced scorecard (BSC) is noted but is relatively a new concept for developing countries (Creelman & Makhijani, 2005; Pandey, 2005).

Investment management is the professional management of various securities (shares, bonds and other securities) and assets (e.g., real) in order to meet specified investment goals for the benefit of the investors. Investors may be institutions (insurance companies, pension funds, corporations, charities, educational establishments etc.) or private investors (both directly via investment contracts and more commonly via collective investment schemes e.g. mutual funds or exchange-traded funds). Asset management and investment management is used interchangeably. In Kenya, there are 16 investment managers registered with Retirement Benefits Authority. For a firm to remain competitive, much emphasis is placed on performance returns on the funds managed. Given that background these decisions are made by the fund managers and employees and their performance need to be measured. Most of these firms have adopted performance appraisal systems which are used to evaluate employees' performance. However, little research has been undertaken to evaluate impact of performance appraisal quality on employee performance. In conclusion, comprehensive study of the performance appraisal quality and employee performance is limited (Addison, 2007). The results and findings from this research would generate new conclusion to enrich the existing literatures on performance appraisal quality and employee performance in Kenya.

2. Statement of the Problem and conceptualization

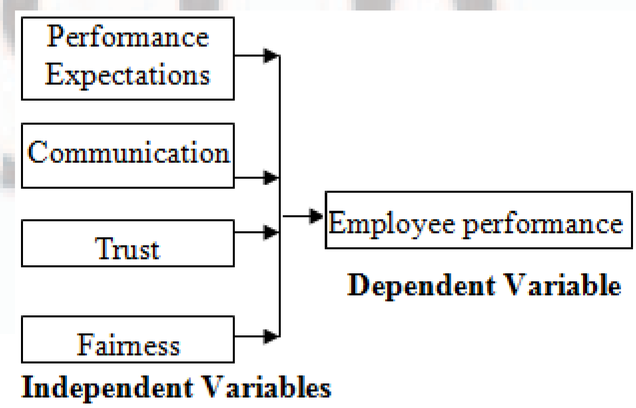
Performance appraisal is one of the most problematic components of human resource management (Allen & Mayfield, 2003). All involved parties (supervisors, employees, and HR administrators) typically are dissatisfied with their organization's performance appraisal system (Smith *et al.*, 2006) and view 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 demotivate employees forcing them to leave the organizations. This would affect the organisations since employees would sought other opportunities thus no retention. When retention is an issue, motivation and therefore the performance of the employees will be affected. Yee and Chen (2009) says 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 of essence that performance appraisal is of quality so as to function as a tool of employee performance.

Due to many challenges within the economy, more demand are 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 have increased the level of frustration (Rakuom, 2010). A number of studies have been conducted on performance appraisal in a Kenya (Owuor, 2005; Richu, 2007; Jematia 2008). None of these have ever focused on the effect of performance appraisal quality on performance of employees. In the investment management firms in Kenya, performance appraisal as a tool is utilised however the quality of performance appraisal cannot be ascertained and its effect on employee performance. This study will therefore sought to fill this gap by analysing the effect of performance appraisal quality on performance of employees in financial sector with reference to the investment management firms in Kenya. The study was guided by the following specific objectives;

i. To assess the effect of clarity of performance expectations on performance of employees in the investment management firms
ii. To establish how the level of communication affect performance of employees in the investment management firms
iii. To determine the influence of the level of trust in the supervisor on performance of employees in the investment management firms
iv. To establish the effect of fairness of the performance appraisal process on performance of employees in the investment management firms

The study sought to establish the effects of performance appraisal quality on performance of employee in the financial sector with reference to investment management firms in Kenya. The researcher targeted the three cadres of the employees including senior managers, middle level management and lower cadre in each firm. The reason for choosing the investment management firms is because quality of performance appraisal cannot be ascertained and its effect on employee performance. The study used the conceptual framework below to test the relationship between the independent and the dependent variables.



3. Materials and Methods

This research adopted a descriptive research design. Descriptive research design is used in cases where researcher expects to have target group explain or describe certain issues about important variables of the study. According to Mugenda and Mugenda (2003) 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 quality and the effect on performance. The target population in the research was management employees of investment management firms who are 347. The management employees are chosen since they are the one conversant with how performance appraisal quality affects performance of employees in the firm. From the population frame the required number of subjects, respondents, elements or firms was selected in order to make a sample. A sample population of 182 is arrived at by calculating the target population of 347 with a 95% confidence level and an error of 0.05

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 questionnaire had closed-ended or structured questions which eased the processes of analysing data from the respondents. Thus, the results gathered from respondents increased the speed and accuracy of recording, as well as more comparable.

Validity and reliability analysis were conducted to check for consistencies in the data gathered. An internal consistency technique was applied for reliability using Cronbach's Alpha. Coefficient of 0.7 is a commonly used as the cut of point of acceptable reliability (Nunnally, 1978). The researcher administered the questionnaire individually to all respondents. Care and control by the researcher was exercised to ensure all questionnaires issued to the respondents are received. To achieve this, the researcher maintained a register of questionnaires, which was sent, and which was received. The questionnaire was administered using a drop and pick later method to the sampled respondents. The quantitative data in this research was analyzed by descriptive statistics using statistical package for social sciences. Descriptive statistics includes mean, frequency, standard deviation and percentages to profile sample characteristics and major patterns emerging from the data. Completeness of qualitative data collected was checked for and cleaned ready for content analysis and results presented in prose form. Data was presented in tables, charts and graphs. In addition, multiple regressions were used to measure the strength of the relationship between the dependent and independent variables.

The regression equation is:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where Y is the dependent variable (Employee performance), β_0 is the regression coefficient/constant/ Y -intercept $\beta_1 - \beta_4$, are the slopes of the regression equation, X_1 is the Clarity of Performance Expectations independent variable, X_2 is the Level of Communication independent variable, X_3 is the Trust in the Supervisor independent variable, X_4 is the Fairness of performance appraisal process independent variable, while ε is an error term normally distributed about a mean of 0 and for purpose of computation. The equation was solved by the use of statistical model where SPSS was applied.

4. Results, Analysis, Discussions and Conclusions

The study targeted a total of 182 respondents. However, only 160 respondents responded and returned their questionnaires contributing to 87.91% response rate. According to Mugenda and Mugenda (2003) a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent; therefore, this response rate is adequate for analysis and reporting. The researcher made use of frequency tables, graphs and charts to present data.

4.1 Reliability Analysis

Prior to the actual study, the researcher carried out a pilot study to pretest the validity and reliability of data collected using the questionnaire. The pilot study allowed for pre-testing of the research instrument.

Table 1: Reliability Coefficients

Scale	*Cronbach's Alpha*	*Number of Items*
Clarity of performance expectations	0.784	5
Level of communication	0.849	4
Level of trust	0.685	4
Fairness of the performance appraisal process	0.923	15

The reliability of the questionnaire was evaluated through Cronbach's Alpha which measures the internal consistency. The Alpha measures internal consistency by establishing if certain item measures the same construct. Cronbach's Alpha was established for every objective in order to determine if each scale (objective) would produce consistent results should the research be done later on. The findings of the pilot study shows that all the four scales were reliable as their reliability values exceeded the prescribed threshold of 0.7 (Mugenda and Mugenda, 2003).

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4.2 Clarity of Performance Expectations

This is a scope to which employees are familiar with the purpose and role of the performance appraisal. It involves precision and clearness of the role of performance appraisal that will play in shaping an employee's fate within the organization and the performance appraisal process. The study sought to find out the extent that clarity of performance expectations affected the job performance. From the findings, 49.38% of the respondents indicated that clarity of performance expectations affected the job performance to a great extent, 28.13% of the respondents indicated that clarity of performance expectations affected the job performance to a very great extent, 20% of the respondents indicated that clarity of performance expectations affected the job performance to a moderate extent and 2.5% of the respondents indicated that clarity of performance expectations affected the job performance to a little extent. If the expectations are not clear, they may ultimately affect the employee outcome i.e. motivation and satisfaction of the performance appraisal (Brown et al. 2010).

The study sought to find out how clarity of performance expectations affected the job performance. From the findings, clarity of performance expectations affected the job performance by motivating staff by clarifying objectives and setting clear future objectives with provision for training and development needs to establish the performance objective. These conflict with assessing past performance and distribution of rewards based on past performance (Bach, 2005).

4.3 Level of Communication

The level of communication between the employees and their supervisors that specifies the opportunities to evaluate information and acquire supply, in combination with clarity about performance appraisal processes provide employees with the chance of exercising a level of process control. The study sought to find out the extent that level of communication affected job performance. From the findings, 55.63% of the respondents indicated that level of communication affected job performance to a great extent, 23.13% of the respondents indicated that level of communication affected job performance to a very great extent, 17.50% of the respondents indicated that level of communication affected job performance to a moderate extent and 3.75% of the respondents indicated that level of communication affected job performance to a little extent. Providing an employee with the chance to express his or her opinion is appreciated in it and certifies his or her belongings in the organization (Brown, Haytt, & Benson, 2010).

The study sought to find out how level of communication affected job performance. From the findings, level of communication changes the attitudes and behaviours of employees. Therefore, it is of essence to identify and measure factors for instance what was changed, was there more or less behaviour, what is different after the communication and so on (Weick, 2001).

4.4 Trust in the Supervisor

Trust is the perception of one about others, decision to act based on speech, behaviour and their decision (Hassan et al,, 2010). The study sought to find out the extent that level of trust in the supervisor affected the job performance. From the findings, 58.75% of the respondents indicated that level of trust in the supervisor affected the job performance to a moderate extent, 28.75% of the respondents indicated that level of trust in the supervisor affected the job performance to a great extent, 813% of the respondents indicated that level of trust in the supervisor affected the job performance to a very great extent, 3.13% of the respondents indicated that level of trust in the supervisor affected the job performance to a little extent, 1.25% of the respondents indicated that level of trust in the supervisor affected the job performance to a very little extent. Mani's (2002) study suggests that trust in supervisors is important for determining satisfaction with the appraisal system. When employees trust their supervisor, they grasp positive outlooks about their supervisor's motives, judging that their manager will act in their finest attention. The degree to which employees trust their direct supervisor is correlated with job satisfaction, job performance, and exercising discretionary effort (Dirks & Ferrin, 2002).

4.5 Fairness of Performance Appraisal Process

Employees want to be treated fairly throughout the performance appraisal process as this is considered to have an effect on the quality of the results of the process (Fortin, 2008).

The study sought to find out thev extent that fairness of performance appraisal process affected job performance. According to the findings, 42.50% of the respondents indicated that fairness of performance appraisal process affected job performance to a great extent, 30.00% of the respondents indicated that fairness of performance appraisal process affected job performance to a moderate extent, 22.50% of the respondents indicated that fairness of performance appraisal process affected job performance to a very great extent, 3.75% of the respondents indicated that fairness of performance appraisal process affected job performance to a little extent and 1.25% of the respondents indicated that fairness of performance appraisal process affected job performance to a very little extent. Employee perceptions of the fairness of various organizational decision making processes such as performance appraisal have been shown to be related to individual and organizational outcomes (Colquitt et al. 2005).

5. Regression Analysis

In this study, a multiple regression analysis was conducted to test the influence among predictor variables. The research used statistical package for social sciences to code, enter and compute the measurements of the multiple regressions

Table 2: Results of multiple regression between employee performance (dependent variable) and the combined effect of the selected predictors

Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*
1	.923	.852	.806	.1029

R-Square (coefficient of determination) is a commonly used statistic to evaluate model fit. R-square is 1 minus the ratio of residual variability. The adjusted $R^{2,}$ also called the coefficient of multiple determinations, is the percent of the variance in the dependent explained uniquely or jointly by the independent variables. 80.6% of the changes in the employee performance variables could be attributed to the combined effect of the predictor variables.

Table 3: Analysis of variance results of the regression analysis between employee performance and predictor variables

Model		*Sum of Squares*	*df*	*Mean Square*	*F*	*Sig.*
1	Regression	11.32	4	2.830	4.911	0.001
	Residual	89.32	155	0.576		
	Total	100.640	159			

The probability value of 0.001 indicates that the regression relationship was highly significant in predicting how level of communication, clarity of performance expectations, trust in the supervisor, and fairness of performance appraisal process influenced employee performance. The F critical at 5% level of significance was 4.911 since F calculated is greater than the F critical (value = 2.3719), this shows that the overall model was significant.

Table 4: Regression coefficients of the relationship between employee performanceand the four predictive variables

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	3.835	0.521		7.361	0
	Fairness of performance appraisal process	0.748	0.231	0.241	3.238	0.025
	Level of communication	0.822	0.159	0.632	5.17	0.005
	Clarity of performance expectations	0.631	0.193	0.154	3.269	0.032
	Trust in the supervisor	0.471	0.203	0.142	2.32	0.056
a. Dependent Variable: employee performance						

The regression equation above has established that taking all factors into account (level of communication, clarity of performance expectations, and trust in the supervisor, and fairness of performance appraisal process) constant at zero employee performance will be 3.835. The findings presented also show that taking all other independent variables at zero, a unit increase in level of communication would lead to a 0.822 increase in the employee performance. Further, the findings shows that a unit increases in fairness of performance appraisal process would lead to a 0.748 increase in employee performance. In addition, the findings show that a unit increase in clarity of performance expectations would lead to a 0.631 increase in employee performance. The study also found that a unit increase in the scores of trust in the supervisor would lead to a 0.471 increase in employee performance. Overall, trust in the supervisor had the least effect on employee performance and level of communication had the highest effect.

The study concludes that appraisal motivates staff by clarifying objectives and setting clear future objectives with provision for training and development needs to establish the performance objective. Employees were reluctant to confide any limitations with their current performance since this could impact on their merit-related reward or promotion opportunities.

Communication provides employees with the chance of exercising a level of process control. It provides an employee with the chance to express his or her opinion is appreciated in it and certifies his or her belongings in the organization. The objective of internal communication is to change the attitudes and behaviours of employees. It gives employees a voice in their own appraisals thus enhances the perceived fairness of the appraisal process, which, in turn, increases the likelihood that employees will accept the appraisal system as a legitimate and constructive means of gauging their performance contributions.

Trust plays a significant role so it should always be preserved to ensure an organizations existence and to enhance employees' performance. Trust in supervisors is important for determining satisfaction with the appraisal system. When employees trust their supervisor, they grasp positive outlooks about their supervisor's motives, judging that their manager will act in their finest attention. Performance appraisal is only effective as the task-relevant skills and knowledge of those responsible for using it, and the attainment of such skills and knowledge usually requires training.

Validity and reliability of trait-based performance appraisals is highly suspect because the rater's perceptions of the traits being assessed are affected by his/her opinions, biases, and experiences that may have little to do with the particular employee. Appraisals based on personal traits have little value for providing diagnostic feedback to employees or for designing training and development programs to ameliorate identified skill deficiencies. Giving employees a voice in their own appraisals enhances the perceived fairness of the appraisal process, which, in turn, increases the likelihood that employees will accept the appraisal system as a legitimate and constructive means of gauging their performance contributions.

The study recommends organizations to put in place a quality performance appraisal process. They need to establish objectives at the beginning of the assessment cycle which brings employees with obvious performance goals view, also the supervising of performance during the assessment cycle. Employees need to be familiar with the purpose and role of the performance appraisal process. Appraisal should be set in a way that it clarifies objectives and sets clear future objectives with provision for training and development needs to establish the performance objective. Effective performance appraisal should provide the opportunity for the supervisor and employee to promote the achievement of individual and organizational goals. Performance appraisal should be an important component of both the organization's succession planning program and the individual employee's career self management.

Performance appraisal processes should provide employees with the chance of exercising a level of process control. Internal communication should be tailored so as to be effective and deliver quantifiable business value. For an appraisal system to be effective, employees must believe that they have an opportunity for meaningful input into the appraisal process. Appraisal system must not only evaluate what has been accomplished, but also guide future development, leverage existing strengths, and address skill deficiencies. In providing feedback, supervisors should allow employees the opportunity to share their insights and evaluations concerning their own performance.

Training is done to employees for performance appraisal process to be effective. 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. Performance appraisal process is made fair to all employees. Effective performance appraisal system entails should ensure that the system focuses on performance variables as opposed to personal traits. Appraisals should be job-related and based on behaviours rather than traits.

6. Limitations of the Study

The study was conducted in the months of January and February 2013 whereby time was limited to successfully complete the research. Also, being a qualitative research the respondents may not accurately respond or honestly respond to some of the questions. Most of the information from investment management firms is treated with confidentiality and therefore some respondents may not be willing to give information. However, the researcher overcame the problem by distributing the questionnaires personally and explaining the importance of the research. The researcher also emphasized that information provided was treated confidentially. The researcher also exercised utmost patience and care and in view of this the researcher made every effort possible so as to acquire sufficient data from respondents.

7. Scope for further Research

A similar study could be carried out in other firms to find out whether the same results would be obtained so as to allow for generalization of results. The study focused on investment management industry thus the same study should be carried out in other industries for comparison purposes.

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Author Profile

Lorna Nyambura Ndirangu[1], MBA (HR), BBA (HR) holds a Master in Business Administration and a Bachelor's Degree in Human Resource Management from Kenya Methodist University. She has 10 years of experience in office administration and human resources gained in the private and non-governmental institutions and 6 years of practice in investment operations gained at Sanlam Kenya. She is a member of the Institute of Human Resource Management, Kenya. Lorna enjoys spending time with family, travelling and farming. Lorna is the current head of operations at Sanlam Kenya

Dr. James Mark Ngari is a PhD holder in Human Resource Management from Jomo Kenyatta University of Agriculture and Technology, MBA Finance, BBA (Hons) Human Resource Management. He is a full member of institute of human resource management, Kenya. He currently holds a Senior Lecturer position at St. Paul's University. He has vast experience in university teaching, business research and consultancy in both private and public organizations.