Effects of Target Setting Practices on Employee Performance in Faulu Microfinance Banks in Kenya

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Abstract. Globally, employee performance remains a concern to many organizations. Appraisal practices and their effective implementation are a key employee development strategy for organizations and especially microfinance banks. Given the challenges of working in microfinance banks, performance appraisals offer valuable opportunity to recognize and reward staff efforts and performance, detect key barriers and facilitate work practice, identify professional development needs and opportunities. The purpose of this study was to establish the relationship between target setting practices and employee performance of Faulu Microfinance Banks in Nairobi County, Kenya. The study was guided by the following theories; Goal Setting Theory; Expectancy Theory and Social Cognitive Theory. The study adopted the use of a descriptive research design. The target population was 343 and a sample size of 102 respondents. The researcher used a stratified random sampling technique. Questionnaires were used to collect data. A pilot study was carried out to test the reliability and validity of the questionnaires. Descriptive statistics data analysis method was applied to analyse data aided by Statistical Package for Social Sciences (SPSS) to compute responses frequencies, percentage mean and standard deviation results. Finally, Multiple Linear Regression Model was employed to establish the significance of the independent variables on the dependent variable. The findings of the study were presented using tables, pie charts and graphs. The findings of the study indicated that the microfinance bank has mechanism that ensures appraisals are done in a structured way that has clarity to the employees and that when the employees are involved right from the beginning, target setting is aligned to expectations and to employee performance. The findings showed that proper and effective target setting practices will serve to promote a positive culture and environment for employee performance. The study therefore recommended that Faulu Microfinance Bank and other microfinance institutions should seek to ensure that peer to peer or 360 degrees appraisal is adopted so that employees can receive feedback from one another as compared to top-bottom feedback. It also recommended that the organization should not only involve the employees but also seek to incorporate their views in the overall business strategy. This will lead to the ownership of the goals and objectives of both individuals and organization. The study further recommended training for the parties involved in the target setting process so as to develop and promote an attitude that is open and receptive to feedback and change.

Key words: Target setting practices, employee performance, Microfinance Banks

Background

Appraisals practices and their effective implementation remain a key work force development strategy for organizations and especially microfinance banks. The Banking sector has been relatively stable globally in spite of varied challenges that includes bouts of global recessions. In Latin America, the Caribbean and developed economies such as the USA and Europe, much effort has been made to ensure that there is a robust financial system capable of motivating responsible risk taking as well as efficient resource allocation. Both Commercial and Microfinance banks have secured public trust generally as compared to other financial services outlets such as insurance.

According to a UN report on Microfinance in Africa (2013), in the prevailing characterized by global financial and economic instability, microfinance remains the main tool for inclusive socioeconomic development in many African states. Microfinance institutions and banks in particular provide suitable opportunities for African countries' full utilization of their respective the private sector's hence addressing emerging development challenges particularly among its youth as well as the achievement of the UN Millennium Development Goals (MDGs). It was estimated by the UN that as at 2007, only 12.7% of the poorest families in Africa were able to access microfinance services as compared to 78.5% in Asia (Chowdhury, 2008). Microfinance banks (MFBs) offer an avenue to reduce poverty in Sub-Saharan Africa which currently stands at 69.9% of the people living in the region who live on less than $2 per day. Jose (2011) argues that given the number of MSMEs in developing countries the microfinance institutions have continued to quickly grow and has posed a threat to commercial banks.

In Kenya, the growth has attracted the attention of the regulator, Central Bank of Kenya, and government resulting into the Microfinance Act of 2007. According to Central Bank of Kenya (2018), Commercial Banks and Microfinance Banks in Kenya have continued to make relatively impressive profits compared to other financial sectors. Recently however, with the collapse of some banking institutions such as Dubai Bank, Imperial Bank and Chase Bank, the Microfinance Banks in Kenya have experienced a deterioration of public trust with most depositors transferring their deposits to commercial banks that they consider relatively stable (Muriuki, 2016). This has put pressure on how management and HR practitioners manage employee performance so as to remain relevant in a dynamic market. The focus therefore shifts to strategic employee performance management and working appraisal system.

Employee Performance

Employee Performance can be defined as the results or outcomes of an individual's work (Dessler, 2011). According to Armstrong (2009), there are two dimensions to employee performance; efficiency (or resource utilization) and effectiveness (the meeting of requirements). In these two dimensions lies the essence of employee productivity, namely that productivity is normally calculated as output divided by input. Armstrong (2012) presents performance as the whole range that includes the accomplishment and execution the things that are ordered and/or undertaken. It points to the outputs/outcomes (accomplishments) as well as the achieved results. Employee performance is the results or outcomes of work. It is the end result (Butchner, 2009). Performance is therefore an accomplishment output also known as productivity.

Target Setting Practices

Target setting involves goal and objective setting. Targets and overall objectives are usually broken down into specific objectives for the various units in the whole organization units as well as individual members and organizations' overall objectives or targets which are later translated into specific objectives for each succeeding levels in the organization. This could work either from the bottom up or from the top down. This means that everyone in the organization has a particular contribution to make through their respective units' performance. When individual employees achieve their targets, the unit will also meet its target goals therefore making the organization's overall objectives to become a reality (Risher, 2005).

Microfinance Banking Industry

Microfinance Banks is one sector in which Performance Appraisal System is highly considered. Many public sector microfinance banks have changed their performance appraisal systems or are in the process of changing them (Dessler, 2011). According to Chowdhury

(2008) the State Bank of India adopted an open system of appraisal and since then, several microfinance banks also have self-appraisal albeit it being more of communication of achievements. The banking sector plays the role of a driver in the Kenyan economy and contributed over 6.4% against a target of 10% of total GDP. According the Central Bank of Kenya (2018), the banking sector in Kenya comprises of 43 commercial banks, 1 mortgage finance company, 13 microfinance banks, 5 representative offices of foreign banks, 115 foreign exchange bureaus and 2 credit reference bureaus. This sector has experienced a rising trend in the size of assets that stood at t Ksh. 2.2 trillion, loans and advances at Ksh. 1.3 trillion, and profit before tax of 53.4 billion as at June 30 2012. Deposits and loan account by bank customers stand at 14,893,628 and 2,051, 658 respectively. Up to 13 Microfinance Banks exist in Kenya today including; tier – one Microfinance Banks which are Kenya Women Finance Trust (KWFT), Faulu and Rafiki that own a market share of 90% at the end of 2016. Three medium MFIs (i.e. SMEP, Caritas and Sumac had a market share of 6.6%. Seven small MFIs i.e. Remu, Uwezo, U&I, Century, Daraja and Choice) had a market share of 3.4%. As at December 2016, the gross loan portfolio for the 13 MFIs amounted to Kes. 48.7Billion while deposits amounted to 40.2Billion.

Faulu Microfinance Bank Ltd

Faulu is a Micro-Finance Bank, registered under the Micro-Finance Act. It is regulated by the Central Bank of Kenya. This microfinance bank began as a development program by Food for the Hungry [FHI] which is an international NGO that was providing food hand-outs to the slum dwellers of Mathare in Nairobi. Making reference to the poor in the slums, FH's mantra was ''they die one at a time, we can help them one at a time". The NGO began with a pilot phase of micro enterprise lending in the urban informal settlement of Mathare of Nairobi in 1992 and later formalized into the Faulu Loan Scheme in 1992. In 1993, the programme was expanded including its funding base thus it eventually, in October 1994, became the Faulu Microfinance Bank Ltd (FMBL) officially and later registered as a limited liability company in 1999. It its early days, it drew its financial support from USAID, DFID and the European Union. Nonetheless, it is, currently, a sustainable and profitable micro finance bank. Since then, and guided by its vision, giving Kenyans hope and a vision, "To listen and to empower Kenyans by providing relevant financial solutions" the institution has seen achievement in many aspects. For instance, since its inception, the company has established over 110 outlets in Kenya. In 2009, FMBL became the first Deposit Taking Microfinance to be licensed by the CBK and thereafter, transformed to a Microfinance Bank Ltd on 4th February 2014. Currently, it offers both credit and savings products and services. As a microfinance bank, it strives to reach out to more Kenyans, with both credit and savings solutions and draws its clientele from customers in need of individual products as well as those organized into groups.

Statement of the Problem

According to CBK (2018) Kenya's Microfinance Sector has lately been on a downward trend hitting a loss of $7.13 Million for the period ended December, 2018 from a loss of $ 3.77 Million over a similar period in 2017. The sector which last posted profits in 2015 has since had non-performing loans rise to $99.1M at the end of 2018 from $73.71M in 2015. There was a drop in the deposits made by customers from $401.98 Million from the previous year to $394.16 Million. There was, however, a two-fold increase in the core capital of the sector from 2013 to peak at $104 Million and then dropping to $ 98.1M. The acceptable core capital is $600 Million. Challenges according to CBK include the interest rate capping and the ever-changing market dynamics. This reflects employee performance that eventually affects the organizational performance. In spite of advanced technology, there is still need for motivated and talented employees in the success of any banking organization. In the research study by

Muriuki (2016) done at Ministry of East African Community, Labour and Social Protection, the levels of employee attrition stood at 86% and most of the respondents indicated that this was as a result of low motivation levels caused by non-feedback and lack of employee rewards.

Specific Objective

(i) To establish the effect of target setting practices on employee performance in the Microfinance Banks in Kenya.

Research Question

(i) What is the effect of the target setting practices on employee performance in the Microfinance banks in Kenya?

Significance of the Study

The findings of this study will be useful to Faulu Microfinance Bank Limited and other Microfinance Banks as it will show areas that require attention in ensuring enhance employee performance. The study will also assist policy makers, and different organizations when they are drawing performance improvement policies. In addition, the study may yield useful practical applications for consultants and advisors in the area of performance management practices and their applicability in the Microfinance sector in Kenya. The study might contribute to the literature of performance appraisal that could be of use to scholars and other interested parties in further studies.

Scope of the Study

The main purpose of this study was to investigate the effect of performance appraisal practices on employee performance in Faulu bank in Nairobi City county Kenya. The main variables included target setting practices on employee performance. The study adopted a descriptive research survey design. The target population was 340 sample size of the study was 30% of the target population that brings us to 102 respondents. The research period will run through the months of January 2020 to end of December 2020.

Limitations of the Study

A key limitation the researcher encountered was the respondent's honesty and truthfulness. Some of the respondents struggled to disclose the actual facts, and could have ended up providing what they think the researcher wanted to hear as opposed to the correct situation on the ground. To overcome the challenge the researcher informed the respondents that information sought was for academic purpose only and their anonymity and confidentiality will be observed.

Organization of the Study

This research project is organized into five chapters. The first chapter presents an introduction to the study and comprises of the background to the study, statement of the problem, objectives of the study, research design, significance of the study, scope of the study and limitations of the study. Chapter two presents the theoretical evaluation, literature review, research gaps and conceptual framework while Chapter three discusses the research methodology to be employed. The main areas in this chapter are the research design, target population, sampling procedure and sampling technique and data collection methods, validity and reliability of research instruments, data analysis techniques and the ethical considerations. Chapter four analyses and presents the findings based on the study purposes and finally Chapter five discusses the overall findings with the aim of answering the research questions. The chapter presents summary, conclusions and recommendations from the research study.

Theoretical Literature Review

The study utilized goal setting theory, expectancy theory and social cognitive theory.

Empirical Literature Review

These basically are some of the previous studies done by scholars with regards to the relationship between performance appraisal practices and employee performance.

Target Setting and Employee Performance

Kaburu (2010) examined target setting and its role in staff appraisal and employee performance in the Ministry of Energy. The study population was 272 staff members of the Ministry of Energy. The independent variable was operationalized using target setting, target implementation and target evaluation. The researcher used both closed and open-ended questionnaires to collect primary data. The study findings revealed that target setting parameters significantly affected service delivery of the employee productivity. It was also revealed that target implementation significantly influenced service delivery. The identified study gap was that while the roles of employees were dynamic and constantly changing, the targets set to measure their performance remained static with evaluation procedures that were unstandardized as well as the lack of reward scheme to motivate those who performed well.

A study by Mohamed (2009) that sought to determine the effect of target setting on organizational and employee performance at the Kenya Revenue Authority reached out to top-level managers and middle level managers. Data was collected using semi structured questionnaires. To supplement these sources, some secondary data was sourced from internal documents such as annual reports, Strategic plan-2003-2008. In its findings, the study established that all employees that understood the target setting scheme and had already met their targets with their reporting officers and this made it possible for KRA to increase revenue collection, reduce customer turnaround time, define and streamline the way of reporting and the operational structure. Consequently, the employees became more committed to their work. The study concluded that there was a high correlation between employees' performance, organization objectives and performance target setting. On the other hand, the study found no link between performance contract and appraisal and reward to good performance.

Obiye (2002) studied the influence of target setting on efficiency in the provision of service delivery in the public sector and tertiary institutions. The study sought to examine the effects of target setting on the utilization of resources; and to establish the challenges facing implementation of target setting. The study used a descriptive research design. The target population comprised of employees in state agencies and departments who were identified through the use of simple random sampling. The study collected primary data using questionnaires and key informant interviews using a key informant interview guide. This was supplemented by secondary data sources from relevant documents. The study found out a positive relationship between target setting and efficiency in service delivery through a drop in operating costs, improved revenue, enhanced resource use and allocation. It however, identified a gap in the setting of performance targets, adequacy of resources and formal reward systems.

Conceptual Framework

Target Setting
- Objective Setting
- Clear Job Description   ⟶

Employee Performance
Efficiency, effectiveness

Research Methodology

Research Design
A descriptive research design has been adopted in this study.

Target Population
The target population for the purpose of this study was 343 employees of Faulu Microfinance bank in the Nairobi Branches and the Head office.

Sampling Procedure
Stratified proportionate random sampling technique was used for the different locations in this study. A simple random sampling was used to select respondents from each population group. The respondents came from the three different levels. Level 1 senior management, level two middle level management and level three, Lower employees.

Sample Size
The sample size for this study was 102 respondents.

Data Collection Instruments
Primary sources of data were used and data was collected using structured questionnaires. The questionnaires adopted a Four Point Likert Scale.

Data Collection Procedure
Upon obtaining the research permits from National Commission for Science, Technology & Innovation (NACOSTI), the researcher proceeded to the field for data collection exercise. Actual data collection proceeded by first, the researcher reaching out to the respondents, introducing the study and its purpose as well as himself and thereafter seeking their informed consent for their participation in the study. The questionnaires were issued and collected through enumerators and also through pick and drop system.

Pilot Study
Pilot testing was done by administering questionnaires to 20 employees and who were later on not included in the sample of those participating in the actual data collection.

Validity and Reliability of Research Instruments
Reliability and validity can be determined through pilot testing. . For internal validity, the variables in the questionnaire were scrutinized to ensure that all the relevant indicators are captured to make it possible for it to capture the intended information. For external validity, the right sample was used to ensure a comprehensive outcome to the entire population. This study used Cronbach's coefficient of alpha to determine the internal consistency of the instruments. The acceptable values of alpha ranged from 0.70 to 0.95 (Tavakol & Dennick, 2011).

Data Analysis and Presentation
After cleaning the collected data, the researcher checked for accuracy, uniformity, logical completeness and consistency before subjecting it to analysis. During the analysis, the general information of the respondents was by way of descriptive statistics such as percentages and frequency while Multiple Linear Regression Model was used in determining the relationship of appraisal practices on employee performance in Faulu Microfinance Bank.

Ethical Consideration
     The researcher paid attention to certain codes of behavior during field data collection.

Research Findings and Discussion

Questionnaire Response Rate
     The study targeted 102 respondents drawn from staff of Faulu Microfinance Bank. The staff comprised of senior level managers, middle level managers and lower level employees. Out of the 102 respondents, the researcher received 80 responses thereby recording a return rate of 78.4%.

Reliability Analysis
     The Cronbach Coefficient of Alpha was used in measuring the internal consistency of the research instruments with a result of a number between 0 and 1. The acceptable values should be < 0.70 (Tavakol & Dennick, 2011). Reliability of the constructs is shown in Table 1.

Table 1. Reliability Analysis

Scale	Cronbach's Alpha	Number of Items
Target Setting	0.811	6
Average	**0.783**	

Source: Survey Data (2020)

     Cronbach Alpha was established for every objective which formed a scale. According to Table 1 above, target setting had the highest reliability (0.811).

Analysis of Employee Performance
     This section sought to find out the opinion of the respondents on employee performance. This section establishes the specific influencers on employee performance that are corelated to appraisal practices.

Table 2. Employee Performance

	Yes (%)	No (%)
Are you on Performance Improvement Program?	39.2	60.8
Do you feel that the resources provided to you are adequate?	62.5	37.5
Would you say that you have met your work goals?	37.5	62.5
Have you been summoned to a performance hearing this year?	46.6	53.6
Do you feel that the skill set match your job?	62.5	37.5

Source: Research Data (2020)

     According to the respondents 39.2% have ever been placed on a Performance Improvement Program. A majority (62.5%) felt that the resources given to them to effectively perform their work is sufficient. On the other hand, the same percentage (62.5%) indicated that they had not met their work goals/target at work in spite of a majority (62.5%) feeling that they had the right skill set for the job. This meant that a majority of the employees considered themselves competent for the job. Fort six percent of the respondents indicated that they had been summoned by HR for a performance hearing. As per this data, the organization has sourced for the right staff for the job in terms of skills and has adequately supplied them with the tools and resources they need for their jobs. The study found out that there was a gap in

terms of achieving work targets with a considerable number of employees who were not performing.

Statements on Target Setting Practice and Employee Performance

Respondents were asked to indicate their level of agreement on the listed statements about target setting as a practice and employee performance in Faulu Microfinance Bank. A scale whereby 4= strongly agree, 3=agree, 2= strongly disagree and 1= disagree was used. The study findings were as shown in Table 3 below.

Table 3. Statement on Target Setting Practice and Employee Performance

Statement	4	3	2	1	Mean	Standard Deviation
The Company involves staff in strategy and goal formulation/strategy setting	13	40	6	21	2.5625	2.2583
Management involves individual employees in setting their work goals	6	30	13	31	2.1375	1.8641
The employee gets the chance to discuss their individual targets before sign off	21	30	13	16	2.7000	2.3927
All employees understand their individual targets as signed	13	55	6	6	2.9375	2.4952
The opinion of individual employees counts when it comes to target setting at work	13	13	27	27	2.1500	1.8974
I have signed a clear job description	34	30	6	10	3.1000	2.7386
Overall Average					**2.5979**	**2.2543**

Source: Researcher (2020)

As was shown in Table 3 majority of the respondents agreed strongly that employees had signed a clear job description and that they understood their individual targets as signed. This was indicated by (M=3.1; SD=2.495). According to Mullin (2010) job descriptions (if they are current) can act as starting point for setting annual employee goals and objectives. Respondents in this study further agreed that; staff were given a chance to discuss their targets with their managers or supervisors before signing them and that company involved employees in the process of setting company goals and strategy as indicated by a (M= 2.1; SD= 2.2583). The respondents however strongly disagreed that their opinion counted when it came to target setting at work as indicated with a (M=2.1375; SD=1.8974). Grote (2012) agrees with the above finding and states that employees with specific and clear targets are often more effective than those without and vouches that the targets be participatively created. According to Kongere (2011) when targets are participatively set employees end up delivering higher performance.

The highest construct was signing of job description which had a (M=3.1000; SD=2.7386) and the lowest construct was on Management involving staff in setting their goals with a (M=2.1375; SD=1.8641) respectively. This then means that employees in Faulu understand the importance of a job description as this is the first document that they received on their appointment to work in an organization. This helps them understand their duties and responsibilities in addition to their reporting channels (Shaneberger, 2008).

The respondents' responses to how they view target setting practices ranged between 1 and 4. The aggregate mean score for the responses on target setting was Mean= 2.5979 which mean that the respondents agreed that Faulu Kenya involves staff in setting strategy, staff are involved in setting their goals, individual staff set their targets and have signed their job

descriptions. The standard deviation for this section was SD=2.254, which indicated a normal variation in the response.

Regression Analysis

Table 4. Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	**Std. Error**	**Beta**		
(Constant)	0.989	0.161		6.122	0
Target Setting Practices	0.381	0.137	0.329	2.549	0.034

a. Dependent Variable: Employee performance
Source: Research Data (2020)

The regression model was as follow:

$$Y = 0.989 + 0.381X_1 + 0.713X_2 + 0.771X_3 + 0.230X_4 + \varepsilon$$

Where; Y = is dependent variable (employee performance) in Faulu Microfinance Kenya, β_0 = Constant Term; β_1-β_4 = regression coefficients; X_1= targeting setting practices; X_2= ε = error term.

On target setting the results show that the practices have significant effect on employee performance in Faulu Kenya (β_4=0.381, p value= 0.034). This implies that an improvement in target setting practices would lead to a 0.381 or 38% improvement in employee performance in Faulu Kenya. The relationship was regarded significant since the p value 0.034 was less than the significant level of 0.05). This implies that improvement in target setting practices leads to improvement in employee performance. The findings are in line with those of Marsalm *et al*. (2015) that target setting practices have significant effect on employee performance.

Multiple Regression Analysis

To further determine the relationships and the strength of dependency between the appraisal practices and employee performance in the microfinance sector, the study conducted multiple regression analysis to assess the dependence of measures of employee performance on dimensions of target setting practice. This analysis revealed the percentage of variance in employee performance scores explained by independent variable scores.

Table 5. Multiple Regression Analysis Model

Model	Unstandardized Coefficients		Standardized Coefficient	T	Sig
	B	**Std Error**	**Beta (β)**		
(Constant)	.843	.207		2.687	.001
Target Setting Practice	.816	.131	.613	1.830	.002

Source: Research Data (2020)

The multiple regression values in the table indicated that the influencer, that is, target setting practice, studied have a positive and significant influence on employee performance. With more than 95 % confidence level the t-ratings indicate coefficient significance of 0.002, 0.004 0.001 and 0.003 respectively which was less than 0.005, hence showing that these linear associations are statistically significant.

In addition, above table shows that taking all the factors into account, target setting, representing the independent variables, then employee performance will be .843 (84.3%). However, taking the any other independent variables at zero, then a unit improvement in target

setting will result to 0.613 (61.3%) increase in employee performance. This concurs with the views of David (2011) who emphasized that target setting is the most important factor in the business world because it increases the efficiency and the effectiveness of both employees and the organization by cascading organizational goals down to the employee thus personalizing it.

Summary, Conclusions and Recommendations

Summary
Various internal reports in Faulu MFB employee performance shows that the average productivity per staff is below average set out by the bank hence this research wanted to provide more insight by conducting a study target setting practices and how this practices affected employee performance in Faulu Microfinance Bank so as to reverse the trend and come out with recommendations for the Microfinance Bank to achieve its performance targets through employee performance.

The study further sought to establish the relationship between target setting and employee performance. Results showed that the bank had clearly set performance standards that all employees were conversant with. The results further showed that employees had signed a clear job description. However, in spite of being given a chance to participate in the target setting process, majority of the employees felt that their contribution was not considered.

Conclusion
It is also clear that there is a positive correlation between target setting practice and employee performance. When employees are involved in the target setting process from the beginning, there will be an increased employee performance. The above analysis shows that there is a significant relationship between the independent variable (target setting) and the dependent variable (employee performance). The underlying point here is that once there is employee active participation in the target setting process, there is bound to be an increased employee performance.

Recommendations
It is recommended that in as much as the employees are given a chance to contribute to the target setting process, the microfinance bank should find a way to incorporate their views in the final target. Involving the employees through the process of target setting serves to motivate employees towards achieving the goals.

Suggestions for Further Research
From the analysis the independent variables studied explain only (78.5%) of the appraisal practices that affect employee performance in Microfinance banks in Nairobi City. This means that the other variables not studied in the research should be conducted to establish these influencers not covered in this study. Also, the same study should be carried out in other organization to find out if the same result s will be obtained.

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