PERFORMANCE APPRAISAL PRACTICES AND PERFORMANCE OF COMMERCIAL BANKS IN MACHAKOS COUNTY - KENYA

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D53/6517/2015

A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS AND ECONOMICS IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (HUMAN RESOURCE MANAGEMENT OPTION) OF MACHAKOS UNIVERSITY

OCTOBER, 2019

DECLARATION

This research project is my original work and has not been presented for a degree in any other university.

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DEDICATION

To my parents, the late Josephat Mwanthi and Esther Kataa who gave me life and taught me the importance of education. To my sisters, Catherine Mwongeli, Mary Nthambi, Magdalene Mutindi and Janet Nzaumi, for your support both morally, spiritually and financially in my bid to complete this project. To my husband Alex Musau and children, Sarah Wayua, Abigael Kataa, Ryan Levado, Recarda Levina and Remmy Levone for your understanding and being accommodative during by study and I believe you are now inspired. You have all brought immeasurable joy to my life and helped me develop patience to see things to a desired end. Thank you for your support. You are God’s special gifts to me and the best I could ever get.

Thank you a lot and May God abundantly, bless you all.

ACKNOWLEDGEMENTS

My gratitude first goes to our Almighty God for giving me the energy, wisdom and the ability to do this project to completion. I would also like to appreciate the assistance I received from different people through the study. Secondly, I wish to sincerely thank my supervisors Dr. Nzioki Susan and Prof. Ombuki Charles for their tireless guidance and encouragement. I also wish to thank all my lecturers at Machakos University who support me. Lastly, I wish to thank my husband Alex Musau for his encouragement while studying and my children Ryan Levado, Recarda Levina and Remmy Levone for bearing with my long absence during my study; Sarah wayua and Abigeal Kataa for assisting in my research.

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OPERATIONAL DEFINATION OF TERMS

Performance Appraisal is the procedure of assessing employees' performance and advancement on a certain job and possible growth in future (Mayol, 2016).

Human capital is the knowledge, competencies and any other qualities that are embodied in individuals or groups of individuals acquired during their life and used to produce goods, services, or ideas in market circumstances (Tejvan, 2017)

Human Resources are "the people that staff and operate an organization," or is also the function in a firm that deals with the people and issues related to people such as compensation and benefits, recruiting and hiring and training employees (Health, 2019).

Competitive advantages are conditions that a company or a country may have and which allows it to produce a good or service of equal value at a lower price or in a more desirable fashion making it to generate more sales or superior qualities than their market rivals (Twin, 2019).

Net Interest Margin (NIM) is the difference between interest paid on deposits and interest earned on loans relative to the amount of interest – earning asset (Cytonn Investment Report 2017).

Return On Average Common Equity (ROACE) is the amount of profit a bank earns as a percentage of average shareholders' equity (Cytonn Investment Report 2017).

ABBREVIATION AND ACRONYMS

ATM'S Automative Teller Machines

CBK Central Bank of Kenya

DPS Divided Per Share

EAC East Africa Community

EBIT Earnings Before Interest and Tax

EPS Earning Per Share

GDP Gross Domestic Product

IMF International Monetary Fund

MBO Management By Objectives

NBK National Bank of Kenya

NIM Net Interest Margin

NPL'S Non- Performing Loans

PA Performance Appraisal

PAP Performance Appraisal Practices

PAS Performance Appraisal Systems

ROA Return on Assets

ROACE Return on Average Common Equity

ROE Return on Equity

ROI Return on Investment

SME'S Small and Medium Enterprises

SPSS Statistical Package for Social Sciences

ABSTRACT

This study investigated how performance appraisal practices affect performance of commercial banks in Machakos County. The specific objectives were to: establish how preparation for performance appraisal influences performance of commercial banks in Machakos County, determining how conducting of performance appraisal affects performance of commercial banks in Machakos County and establish how feedback on performance appraisal affects performance of commercial banks in Machakos County. The study adopted a descriptive research design to collect both qualitative and quantitative data. The target population for this study was three hundred and eighty (380) employees of 16 commercial banks in the county. Stratified random sampling technique was used. Sample size for the study was one hundred and ninety-five (195) respondents. Questionnaires and interview guide were used to collect both quantitative and qualitative data. Data analysis was done using the Statistical Package for Social Science (SPSS) and MS Excel. Inferential statistics, that is, regression and the Pearson Correlation Coefficient was used to test for the relationship between the independent variables and the dependent variable. Multiple regression analysis indicated that there is a significant positive relationship between preparation of performance appraisal and performance of commercial banks in Machakos County indicated by a t-ratio of 1.467. The study found positive relationship between performance of commercial banks in Machakos County and conducting performance appraisal with a statistically significant coefficient as indicated by a t-ratio of 1.226 and a positive relationship between performance of commercial banks in Machakos County and feedback on performance appraisal with a statistically significant coefficient as indicated by a t-ratio of 1.444. From the findings, the study recommends that organizations should prepare well before conducting the employee performance appraisal. Employees should be well trained and involved in setting personal and company goals. The study also recommends that PA should also be used as a basis for making development and improvement plans and reaching agreement about what should be done in the future to enhance the bank's effectiveness.

CHAPTER ONE

1.0 INTRODUCTION

This chapter presents; background of the problem, statement of the problem, objectives of the study, research questions, significance and justification of the study and the scope of the study. The discussion will be guided by the key headings given above.

1.1 Background of the study

Globally, diverse performance evaluation practices are employed depending on business, human resources cadre and corporation cultures. Most businesses know the significant function Performance Appraisal (PA) plays and have increased its adoption considerably. PA has been integrated by organizations in diverse sectors in an attempt to strive and continue to exist in a global competitive economy. In any organization, human capital is the most important asset that can be relied on to attain competitive advantage. Nevertheless, the overall efficiency of human capital should regularly be reviewed hence, creating the need for PA programmes (Munguti, 2017).

Performance Appraisal is the procedure of assessing employees' performance and advancement on a certain job and possible growth in future. The key rationale to undertake Performance Appraisal is to gather essential information about employees for decision making. It determines employee performance, assists to communicate any areas of improvement to employees and helps the management to come up with a plan of ensuring good relations between supervisors and employees for enhanced organizational performance (Mayol, 2016).

Performance Appraisal monitors employee's work performance so as to make sound personnel decisions. Therefore, it is a planned interface between appraisees and their appraisers where, appraisers look at the appraisees' performance to recognize strengths as well as weaknesses for future performance improvement (Mwangi, 2013).Performance Appraisal evaluates and discusses employee's performance to determine which duties and tasks to assign to employees (Kithuku, 2013).

Appraisal should focus on the outcome an employee obtains; not their behavior characteristics and should assess skills with sensible correctness and consistency so as to discover areas that need improvement (Kithuku, 2013). PA helps an establishment to recognize what workers have attained and what they are capable of, by determining their weak areas for further training and strong areas so as to motivate them to get better performance (Wanjala & Kimtai, 2015).

Organizational output can be calculated wholesomely as a collective effort or independent worker productivity. Performance of workers is usually a product of their sweat, personality, attentiveness and hard work. Organizations however, can boost and manipulate positive worker efficiency by motivating them well, ensuring the working surroundings are good, adequate remunerations are in place and recognizing good performance (Chadwick et al., 2015).

There are various measures of productivity for instance money, production unit or services. Nevertheless, mainly, workers' performance is influenced by their abilities, incentive levels and the surroundings (Elliott, 2015). Performance Appraisal enables human resource managers in management of career planning and progression planning by assisting in monitoring and keeping records on how an employee performs in a certain job (Mayol, 2016).

As an orderly assessment of performance, PA gives the right understanding of a worker's ability for more development and improvement. Further, PA promotes an affirmative work atmosphere which leads to efficiency if good results are acknowledged and rewarded based on goal performance actions. This also creates an aggressive spirit and workers are aggravated to advance their concerns which helps to increase self-confidence among them hence, improved performance and consequently overall organizational performance (Mayol, 2016).

Historical Development of Performance Appraisal

The Performance Appraisal System (PAS) started to be experienced in the world in early 1900s, with more weight mounting on workers' output. However, a separate and recognized management practice used in the assessment of job performance; dates back to around 1939-1945 during the Second World War (Watuma, 2015). It was a significant instrument in the management of human resources as it was used to assess and rate work performance of staff in organizations. During Second World War period, countries such as New Zealand, US and UK used merit rating scheme as a way of justifying workers' wages (Muthoka, 2016).

According to Showkat (2013), Performance Appraisal Systems was introduced in the Indian banking sector in 1972. The state bank of India introduced Performance Appraisal Systems to their employees and managers in an effort to improve banks' performance. The banking sector revealed that employees needed a Performance

Appraisal System which is well designed, free from bias and prejudices and result oriented in order to increase satisfaction which increases employees' performance and consequently the overall banks' performance.

Performance appraisal was introduced in Ghanaians banking sector in 1970 to formally monitor performance of banks. This was at a time when banks' performance was low in terms of employees' management. PA therefore aimed at improving performance, identifying employees' strengths and weakness, giving feedback, rewarding employees who achieved their targets, motivating employees to attain organization goals and focusing on career development. PA was introduced to assist employees attain their goals and improve overall performance of Barclays banks in Ghana (Horsoo, 2009). In 1980s, Banks of Malawi also used appraisal to monitor employee productivity (Muthoka, 2016).

In Tanzania, the Public Sector Reform Programme (PSRP) in form of Open Performance Review and Appraisal System (OPRAS) was introduced in 2004 with an aim of improving public sector service delivery. The performance was to be improved through setting personal targets, measuring the achieved targets and providing feedback (https//www.nlm.nih.govt). In the private sectors, the reform programs in form of PAS started in 1980 with an aim of relating salaries and wages to performance. The policy assumed that remuneration should be influenced by ones contribution to the production of goods and services (Mollel, 2017).

Kenyan private sector adopted performance contracting through performance management in form of PA to monitor her workers performance in 1963 just after independence (Ngetich, 2013). As environmental instability increased in 1973 top management had to rethink on how to manage their business for survival. Thus in private organizations performance appraisal is an old practice which has helped the sector to better their performance and that made the public sector borrow a leaf and start performance management for their workers (Mbua & Sarisar 2013).

In the private sector, the main measure of performance is profits (Cheche & Muathe, 2014). Rahim (2012), opines that private organizations use both formal and informal systems to evaluate their workers performance. Informal system is influenced by interpersonal, political factors and biasness where well connected employees have an edge making the employers not to find out the actual performance. A formal system of evaluation is regular and systematic and most commercial banks use it as they believe it is essential for management's decision making.

Competition in the banking industry is very high, customers are enlightened and with increased scrutiny from the regulators; banks are forced to shift their attention to employees who are the most important asset to achieve competitive advantage (Mwangi, 2013). Bologna (2011), argues that customers' deposits are key financiers of commercial banks' assets. Commercial banks must therefore be profitable in order to meet their main expense which is interest expense.

Banks must also raise deposits to a reasonable rate to be able to lend to their customers. This means that a bank which is able to generate more deposits cheaply will be in a position to supply more loans competitively and hence, more profits. Performance is the end result arising from organizational activities which can either be positive or negative (Bologna 2011). Commercial banks' performance can be measured using financial measures such as Return On assets (ROA), Return on Investments (ROI) and turnover (sales) among other indicators (Okun, 2012).

Output of goods and services is measured using the number of units produced, clients attended to by employees, number of errors, customers' and employees' satisfaction. Banks with a high ROA, ROI and turnover (sales) are better performing than one with low ROA, ROI and turnover (sales) (Okun, 2012). Ngure (2014), is emphatic that Kenya's financial sector is dominated by commercial banks and any failure will impact negatively to the country's economic growth. This is because if any bankruptcy happens in the sector it will have a contagion effect which can lead to bank crisis, overall financial crisis and economic tribulations.

According to Cytonn Investment Report (2017), Kenya's commercial banks where performing well in terms of profits. However, despite the overall good financial performance some banks had been declaring losses like the National bank. The current trend of banks failing and others being bailed out in developing countries like Kenya calls for precaution and mitigating measures to understand how performance appraisal practices affect performance of commercial banks.

Some of the prescribed techniques used to measure performance includes; Management By Objectives (MBO) where managers state the objectives, measure and monitor employees' performance regularly and finally reward employees' who achieve the target. Graphic Rating Scale is one of the oldest and commonly used methods of assessing workers' performance. The management simply checks the performance level of an employee based on a certain trait to determine how they are faring on, guided by a five or seven point scale (Boateng, 2011).

Critical incident measures performance by the manager writing the desirable and undesirable activities of every employee's behavior related to work. The managers and employees' meet regularly to discuss the incidents. This gives managers an opportunity to detect good or bad performance which one communicates to employees on time for action in case of poor performance (Ngeno, 2013).

According to Mwangi (2016), 360 degree assessment and feedback method involves getting feedback from all stake holders who interact with employees during their working hours. This method helps managers to know the employees' behavior, attitude and personality and also in reviewing the employees' overall performance. The 360 degree form of appraisal is more precise, cost effective and free from bias because multiple opinions are gathered though time consuming However, according to Sigei, (2013), 360 degree method has not been fully used in the Kenya's banking sector since use of consultants and subordinates have not been fully taken as evaluators.

Performance of Kenyan Banking Sector

The Kenyan banking sector as at June 30, 2017, had 43 commercial banks, 1 mortgage finance company, 13 microfinance banks, 7 representative offices of foreign banks, 74 foreign exchange bureaus, 18 money remittance providers and 3 Credit Reference Bureaus (CBK,2017). With the 43 commercial banks, Chase bank and Imperial bank are under receivership (Cytonn Investment report, 2016). In Kenya, the

Banking sector has been experiencing low employee performance which has also led to poor performance of some commercial banks. This is attributed to inadequate performance management process (Kibichii, Kiptum & Chege, 2016). In an attempt to eliminate these challenges, the Central Bank of Kenya launched several reform programs including performance management process aiming at enhancing productivity (CBK, 2014).

This is done with a conviction that employees perceive an organization as fair and trustworthy through how it shapes and executes its human resource policies and practices. PA practices and its consistency are important as it provides tangible evidence of fairness of the organization to its employees' which improves their morale to work hard to attain organizational goals which improves firms' performance (Mbugu, Waiganjo & Njeru. 2015).

Kenyan banks operate nationally and also as multinationals within East and Sub-Saharan Africa. Hence, the need for standardization of performance appraisal practices to avoid major variances on how to manage workforce within the banking industry (Muli, 2014). Due to the capping of interest rates, banks came up with ways of reducing operating costs which included closing down non- performing branches and laying off of staff as shown in Table 1:1.

Table 1.1: Restructuring of Banking Sector

	Bank	Worker laid-off	Closed branches
1	Bank of Africa	-	12
2	Barclays bank of Kenya	301	7
3	Ecobank	-	9
4	Equity group	4	7
5	Family bank	Unspecified	-
6	First Community Bank	106	-
7	KCB Group	223	Unspecified
8	National Bank	Unspecified	-
9	NIC Bank	32	Unspecified
10	Centum	108	-
11	Standard Chartered	300	4
12	I&M Holdings	-	Unspecified
	Total	1470	39

(Cytonn Investment Report, 2016)

In the same vein, the banking sector is also going through consolidation. This is evidenced by the high rate of Mergers and Acquisitions with most recent acquired being Habib bank limited by Diamond trust bank of Kenya, Fidelity bank was acquired by SBM, Oriental commercial bank was acquired by M bank, Giro commercial bank was acquired by I&M Holding, Equatorial bank was acquired by Mwalimu SACCO, K-Rep bank was acquired by Centum and Fina bank by GT bank as shown in the Table 1:2

Table 1.2: Acquisitions of Banking Sector

Acquirer	Bank acquired	Month & Year
Diamond trust Bank	Habib bank limited	March- 2017
SBM	Fidelity commercial bank	Nov - 2016
M bank	Oriental commercial bank	June – 2016
I&M Holding	Giro commercial bank	June – 2016
Mwalimu SACCO	Equitorial commercial bank	March – 2015
Centum	K – Rep bank	July – 2014
GT bank	Fina bank group	Nov- 2013

(Cytonn Investment Report, 2016

The law of capping interest rate according to CBK and treasury led to negative effect on the credit growth of commercial banks. International Monetary Fund (IMF) recommended for abolition of the cap rate indicating a negative impact on the economy crowding out the private sector and curtailing growth of Small and Medium Enterprises (SME's) (Cytonn Investment Report, 2017).

CBK lowered bank rate from further from 10.0 % to 9.5 % in March 2018. This consequently lowered the banks' lending rate to 13.5 % and deposit rate to 6.7 % making credit access by commercial banks even harder (CBK, 2018). As a result there was growth in deposit but loan growth and branch opening slowed down as commercial banks opted for other distribution channels like mobile and agency banking. Net Interest Margin (NIM) declined and Non- Performing Loans (NPL's) increased; due to the increased cost as a result of interest capping which affected profitability of commercial banks as indicated in the Table 1:3

Table: 1.3: Kenya's Commercial Banks Performance between the years 2012- 2017.

Year	Cost to Income (%)	NPL's to Total Loan (%)	Loan to Deposits (%)	NIM (%)
2012	54.4	4.5	84.1	8.0
2013	4.6	6.5	86.1	8.0
2014	52.7	6.1	90.2	7.6
2015	59.4	6.2	92.2	7.8
2016	62.9	10.9	89.9	8.8
2017	67.3	12.4	84.1	7.5

(Cytonn Investment Report, 2017).

Net Interest Margin (NIM) is the difference between interest paid on deposits and interest earned on loans relative to the amount of interest – earning asset. A higher NIM indicates high profitability while a lower NIM indicates low profitability. Generally banks have been profitable although in 2014 and 2017 profits decrease slightly. Return On Average Common Equity (ROACE) is the amount of profit a bank earns as a percentage of average shareholders' equity. A higher ROACE indicates better utilization of capital to generate profits and vice versa.

Cost to Income measures banks efficiency. A lower rate shows that the bank is more profitable. Increase in the ratio shows potential problems as it shows banks cost rose faster than its income as shown in Kenyan commercial banks from 2015 where cost to income has been steadily increasing over the years indicating poor performance. Decrease in the ratio may show that management is using cost cut measures such as staff lay- off, mergers and acquisitions to reduce cost (Cytonn Investment Report, 2017).

Non- Performing Loans (NPL) measures the percentage of banks issued loans that are already in default or near to being in default. It shows the degree of stability of the bank's lending base by indicating the extent to which NPL's are covered by provisions. A higher ratio is preferred. According to the report, the ratio has been on increase from 2015 indicating good performance (Cytonn Investment Report, 2017).

According to CBK (2017), number of commercial bank branches decreased by 23 branches from 1541 in 2016 to 1518 in 2017. Profit before tax decreased from 147.4 billion in 2016 to 133.2 billion in 2017 a 9.6% decrease. This is attributed to a higher decrease in income compared to a marginal decrease in expenses. Income decreased by 3.12 % while expenses decrease by 0.5 % in 2017 hence decrease in profit. Number of Automotive Teller Machines (ATM's) increased from 2656 in 2016 to 2825 in 2017 a 6.36 % increase; an indication of strategic decision of banks to cut cost of opening new branches by increasing ATM centers' as well as reducing the number of employees.

Commercial banks of Kenya have been performing differently over the last 3 years. Some have been registering good performance while others have been poorly performing as shown in the Table: 1.4

Table: 1.4 Performance in the banking sector in 2015

Bank	EBIT	EPS	DPS	NIM (%)	ROE (%)	ROA (%)
Equity	24.0	4.6	2.0	10.6	25.5	4.5
KCB	26.5	6.3	2.0	-	25.0	3.7
Co-Operative	15.4	2.4	1.0	8.7	25.0	3.7
Standard Chartered	9.2	18.5	12.5	9.6	16.2	2.8
Barclays	12.1	1.5	0.2	10.4	21.6	3.6
Diamond Trust Bank	9.6	24.8	2.5	7.2	20.9	2.7
Stanbic	7.4	12.4	6.2	5.5	13.0	2.5
National Bank	(1.6)	(3.4)	-	6.5	(9.9)	(0.9)
NIC	6.4	7.0	1.3	6.9	18.4	2.9
I&M holding	10.2	18.2	3.5	7.6	24.8	3.9
HF group	1.8	00	1.5	6.0	13.9	1.8

(Cytonn Investment Report, 2017).

Table: 1.5 Performance in the banking sector in 2016

Bank	EBIT	EPS	DPS	NIM (%)	ROE (%)	ROA (%)
Equity	24.9	4.4	2.0	11.1	21.5	4.5
KCB	29.1	6.4	3.0	-	22.2	3.4
Co-Operative	17.7	2.6	1.0	9.9	22.7	3.7
Standard Chartered	13.3	26.3	20.0	9.6	21.3	3.7
Barclays	10.9	1.4	1.0	10.5	18.0	3.0
Diamond Trust Bank	11.0	27.6	2.6	7.4	20.5	2.6
Stanbic	6.0	11.2	5.3	5.9	11.3	2.1
National Bank	0.2	0.5	-	8.2	1.5	0.1
NIC	6.2	6.8	1.3	8.0	15.5	2.6
I&M holding	10.6	19.8	3.5	8.6	22.7	3.9
HF group	1.4	00	0.5	6.5	8.3	1.3

(Cytonn Investment Report, 2017).

Table: 1.6 Performance in the banking sector in 2017

Bank	EBIT	EPS	DPS	NIM (%)	ROE (%)	ROA (%)
Equity	23.3	4.3	2.0	9.3	19.7	3.2
KCB	28.2	6.2	3.0	-	19.7	3.1
Co-Operative	17.9	2.5	0.9	9.0	19.2	3.3
Standard Chartered	9.0	18.4	10.3	6.9	14.5	2.3
Barclays	9.4	1.2	1.0	9.8	16.7	2.6
Diamond Trust Bank	11.7	24.9	2.5	6.5	15.9	2.0
Stanbic	5.2	9.2	4.1	5.1	8.7	1.7
National Bank	0.3	0.6	-	7.4	1.9	0.2
NIC	5.9	6.3	1.3	7.3	12.8	2.2
I&M holding	9.0	16.0	3.0	6.9	14.7	2.8
HF group	0.2	00	0.2	5.1	3.4	0.5

(Cytonn Investment Report, 2017).

Earnings Before Interest and Tax (EBIT), Earning Per Share (EPS), Dividends Per Share (DPS), Net Interest Margin (NIM), Return On Equity (ROE) and Return On Assets (ROA).

From the Cytonn Investment Report (2017), it is clear that some commercial banks have been performing well and above the industry average while others have been performing poorly below the industry average. Non - Performance Loans industry average is 12.3%, Net Interest Margin is 7.5%, Return on Equity is 13.4% and Loan to Deposit Ratio is 78.6%. National Bank of Kenya (NBK) has being registering a series of financial under performance for the last three years. For instant in 2015 NBK recorded a negative profit before interest and tax.

It further showed that shareholders have not been paid dividends since 2015. This poor performance had been experienced despite the fact that PA had been in place and applied in monitoring employees' performance; an indication of poor performance appraisal practices which affected employees' performance which is relevant to this study (Cytonn Investment Report, 2017).Performance appraisal is a process which should involve all stake holders in an organization for it to be effective (Odiorne, 2018).

The prescribed PA process should start with setting up standards to be used as a basis of comparing the actual employees' performance. The set standards should be communicated to all employees and evaluators in order to know what is expected of them, what will be measured, how and when it will be measured and both parties should agree. The supervisors then measures employees' actual performance by comparing it with the set standards after which a feedback is given to employees to how they are performing towards attaining their set goals visa- vis organizational goals (Heath, 2018).

According to Heathfield (2018), managers in most organizations either ask employees to fill out a self- assessment forms or write their opinions about an employee annually which is mostly based on recent events, which the manager can remember instead of real performance, which requires time and follow up. Most managers also are uncomfortable in judging employees' performance and mostly undertake PA when it is long overdue despite the fact that it aids the management in decision making.

Some Managers also lack skills of giving feedback to employees. This makes them avoid giving feedback on PA especially if it is negative. Some of these practices are also affecting commercial banks in Machakos County (Heath field 2018). Nuwagaba (2015), Performance appraisal has not been undertaken according to the prescribed guidelines. Organizations do not implement the recommendations given mostly on training and promotions. Managers also don't keep record of how employees are performing throughout the year which would be of help during the process.

Kondrasuk (2011), also noted that when designing PAS organizations' goals are not considered and that the process measures a person not performance leading to demotivation which affects organizational performance. PA also measures mostly extreme performance and may not focus much on middle- range performers. PA is mostly undertaken when there is need to promote staff. These practices could be affecting commercial banks in Machakos County.

1.2 Statement of the Problem.

Banjoko, (2007) is emphatic that there is perhaps no plan in the arsenal of human resources administration that is complex to efficiently implement and so far, so essential to individual and organizational development than Performance Appraisal. Appraisal should determine skills and performance with sensible exactness and consistency, a condition which appeared missing in commercial banks in Machakos County. PA aims at correcting poor performance, sustaining good performance and improving performance (Kiara, 2017).

Cytonn Investment Report (2016), stressed that despite banks having PA in place, poor performance had been registered in most of the banks leading to staff layoffs, closure of branches and mergers and acquisitions. Banking (Amendment) Act of 2016 requiring commercial banks to lend at 4 % above the CBK rate of 10.0 % saw 1470 bank employees laid off, 39 branches closed and 7 banks acquired as cost cutting strategy.

Mulwa (2017), studied Influence of Performance Management System on Employee Performance in Commercial Banks in Kitui Town. Mwangi (2013) studied Performance appraisal practices among Commercial Banks in Kenya. The findings were that employees are not trained on PA, no feedback on PA, no consistency in undertaking PA and no involvement of employees in setting goals.

This forms a basis of a problem that needs investigation on Performance Appraisal Practices (PAP) and Performance of Commercial Banks in Machakos County. There are limited studies on PA in commercial banks in Machakos County a gap the study undertook to fill.

1.3 Objectives of the Study

General objective:

The general objective of this study was to establish how performance appraisal practices influences performance of commercial banks in Machakos County.

Specific objective:

This study was guided by the following specific objectives;

i. To establish how preparation for performance appraisal influences performance of commercial banks in Machakos County.
ii. To determine how conducting of performance appraisal influences performance of commercial banks in Machakos County.

iii. To establish how feedback on performance appraisal influences performance of commercial banks in Machakos County.

1.4 Research Questions

This study was guided by the following research questions;

i. How does preparation of performance appraisal influence performance of commercial banks in Machakos County?

ii. How does conducting of performance appraisal influence performance of commercial banks in Machakos County?

iii. How does feedback on performance appraisal influence performance of commercial banks in Machakos County?

1.5 Justification of the Study

This study was carried out at a time when commercial banks are experiencing cut throat competitions, which have led to closure of several bank branches and retrenchment of workers, mergers and acquisitions as cost cutting measures for survival. The study would unearth the problems affecting PA and which may have led to the poor performance witnessed in the banking sector. If this study was not carried out, then it would mean that the problems which are affecting the performance of banks in Kenya emanating from poor performance appraisal practices would not be identified and corrected.

Therefore, the sector would continue to suffer leading to more closures and retrenchments which would adversely affect the economy of Kenya. Consequently, revenue collection would reduce as banks would not afford to pay taxes and other debts when they fall due leading to more mergers and acquisitions and high dependency ratio. This study should therefore be undertaken to establish the Performance Appraisal practices affecting performance of Commercial Banks in Machakos County.

1.6 Significance of the Study

The study contributes positively to the existing body of knowledge and other researchers who may use its finding by getting the gaps for further research. Researchers may also gain more knowledge on how performance appraisal practices affect employees' performance which is important for continued existence of any firm. Government may be able to collect revenue through licensing of more branches, since performance would improve through identification of the poor practices affecting PA. Banks overall performance would also increase leading to employment of more people hence, increasing national income as well as more revenue. Banks may improve their performance if they apply the best practices in PA which may enable them open new branches leading to more growth, settle their debts on time and remunerate their workers well to ensure retention of quality workers for better performance and policy makers may use the findings to develop PA policy which are in line with the best PA practices leading to organizational growth.

1.7 Scope of the study

The study covered commercial banks in Machakos County. It focused mainly on the 16 commercial banks in the County. Total population of the study was three hundred and eighty (380) employees in commercial banks. Sample size of one hundred and ninety five (195) employees was selected. This study investigated the Performance

Appraisal practices affecting employees' performance in Commercial Banks in Machakos County. Some of the practices include; preparation by training conducting and feedback on PA. It took duration of 6months in writing proposal, 4 month for collecting, analyzing data, report writing and publishing the work.

1.8 Limitations of study

This study confined itself to Commercial Banks and specific practices. Therefore the results may not be generalized for the whole banking industry. This is because the views expressed by the respondents may only relate to Commercial banks. This is also because other banking institutions such as micro finance and other firms may be using other performance appraisal practices.

The main limitations of this study was that the respondents were reluctant in giving full information fearing that the information asked would be used to intimidate them or paint a negative image about them or the firm. The researcher handled this problem by carrying an introduction letter from the University and assured the respondents that the information they gave would be treated with confidentiality and would be used purely for academic purposes. There was also limitation of time and funds to increase the study sample.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

According to Muriu (2014), literature review is a research process where selected documents are assessed to evaluate, compare and contrast theories and approaches used in a scholarly literature on a subject. It is also an account on topical areas published by accredited researchers and scholars (Kothari, 2008). This chapter therefore presents; theoretical review, empirical literature, summary of literature, research gaps and conceptual framework.

2.1 Theoretical review

Theoretical review is assumptions concerning a certain phenomenon (Njue 2011). This study was informed by several theories -:

2.1.1 Expectancy theory

This theory was developed in 1964 by Victor Vroom. The theory assumes that people will be motivated to exert more effort on their work if there is a relation between efforts exerted, performance gained and compensation they get. Individuals will therefore adjust their behavior to attain these goals in order to get rewards. It suggests that an individual will look at several outcomes associated with different levels of performance and will choose to follow the level that gives him/her the maximum reward (Hepngetich & Bula, 2017).

In expectancy theory, for an employee to put more efforts towards attaining organizational goals will highly depend on how the organization will develop and undertake it’s PA. For employees to achieve their set targets, they should know what would be the reward associated with attainment of goals. When an employee believes that a high performance will lead to a better compensation for the work done, he/ she will work extra hard in order to attain the set target so as to get the reward attached on such performance leading to growth in banks (Muthoka, 2016).

2.1.2 Goal Setting Theory

This theory was developed by Latham and Locke 1979. It emphasizes that setting specific challenging goals and being committed to the set goals increases motivation to work. Goals are future oriented and drive employee’s behavior to work toward them. Once accomplished, they motivate individual to set higher goal and increase performance to attain them which consequently increases organizational performance. When the goals set are too easy or too difficult and employees are not committed to the goals or the goals are not set at all employees will not put effort to achieve them and this will affect organizational performance (Bergen, 2019).

According to Othman (2014), Goal setting theory supports the agreement of objectives between employee and supervisors. Set goals should be specific and challenging. If specific employees’ will know what is expected of them and they will put more efforts to achieve; if high and challenging, when they have been accepted by employees’ then high performance will be achieved. When an employee is committed to a certain high target, he/she is likely to persist until the target is achieved hence, increased performance. Where there is no agreement on the goals set, dissatisfaction sets in lowering productivity.

Chompukum (2013), Asserts that goals affect direction, drive performance and persistence of employee if they are clear and participatory hence, increasing performance.

2.1.3 Equity Theory

This theory was proposed by John Stacey Adams in 1963. It states that employees are motivated to work when they perceive equal treatment in an organization. People tend to compare themselves with other employees in the organization and also in other organizations. The comparison is based on their contribution to work, cost of their action and the benefit they get from their contribution to the reference person. If they perceive inequity in the ratio their inputs-outputs with those of their reference others, then motivation reduces which affects both individual and organizational performance (Mulder, 2018).

Therefore, where there is equity, employees are likely to be more motivated to work than in those organizations where employees perceive inequity. The theory argues that inequity, affects employees morale to do the work whether real or perceived and it consequently affects the overall organizational performance (Wagacha & Maende, 2017).

When employees feel that they are treated unequally, it affects their morale to work; and will try to gain equity. This may be through decreasing their input or pushing for more pay. Moreover, employees may avoid any extra work and only do the work assigned which reduces organization's performance. Equity theory shows that, employees' treatment matters a lot if performance will increase. It therefore calls for a fair and equal treatment of employees so as to boost their morale for more performance in an organization (Kisang & Kirai, 2016).

2.2 Empirical review.

Several empirical studies have been done on Performance appraisal. Wanjala and Kimtai (2015), studied the Influence of performance appraisal on employee performance in commercial banks in Trans Nzoia County in Kenya. The study employed descriptive research design. Sample size of 178 employees was used. Questionnaire was the main method of collecting data. Data analysis was done using descriptive statistics mostly frequencies and percentages.

The study revealed that PA can be an essential tool in improving employees' performance if they see it as being fair and objective in facilitating their upward mobility and are involved in the whole process. The duo recommended for training of managers on PA, clear and early communication on any changes made on the PA rating for each concerned person to know what is expected of them (Wanjala & Kimtai 2015).

Mulwa (2017), studied the Influence of Performance Management System on Employee Performance in Commercial Banks in Kitui Town. The study employed descriptive research design. Sample size of 94 employees was used. Observations, questionnaire and interviews methods were used to collect data. Data processing and analysis was done using Statistical Package for Social Sciences (SPSS) and descriptive statistics.

The findings were that PA positively affects motivation and work performance. The study recommended that training should be based on performance gaps, the process should be done professionally, should be unbiased, employees should be involved in setting their targets and regular feedback should be given (Mulwa, 2017).

Antwi, Opuku, Ampadu and Osei (2016), assessed Human Resource Management Practices of Public Banks from Employees' Perspective: Case Study of Selected Branches of Ghana Commercial Banks Kumasi was used. Descriptive research design was applied. Sample size of 80 employees from selected bank branches was used. Instrument of data collection used was questionnaire. Data processing and analysis was done using Statistical Package for Social Sciences (SPSS) and Microsoft Office Excel 2007.

The study revealed that performance appraisal, internal communication, and training and development, reward/remuneration greatly influence employees' performance hence organizational performance. The study recommended for adequate and appropriate training on PA, merit- based motivation, continuous interaction between senior management and workers to update them on any changes in organization, regular feedback and fair remuneration to employees (Antwi, Opuku, Ampadu and Osei, 2016).

Chompukum (2013), studied performance management effectiveness in Thai banking industry: a look from performers and a role of interactional justice. The research design used was descriptive. Sample size population used was 476 employees.

Questionnaire was mainly used as an instrument of data collection. Data was processed and analyzed using Statistical Package for Social Science (SPSS).

The study found that employees attitude towards performance evaluation affects their attitudes towards performance management effectiveness. Employees are keen to receive feedback which ties rewards to performance than on how to develop skills. It recommended that organization should link performance with rewards, good communication between supervisors and employees on performance, consistence on performance evaluation across all people and that feedback given on continuous basis is paramount (Chompukum, 2013).

Migiro and Tenderera (2011), studied evaluating the performance appraisal system in the bank of Botswana. The research design used was qualitative with a sample population of 417 representatives. Questionnaire was used to collect data and analysis done using Statistical Package for Social Sciences (SPSS).

The duo discovered that there was no consistence I undertaking PA and rewarding employees performance was based on performance appraisal results. It recommended that employees and evaluators be regularly trained to reduce bias, increase transparency of the appraisal system, regular feedback be given to employees on their performance and reduce inconsistence of PA across the banks (Migiro and Tenderera, 2011).

Kithuku (2012), studied effects of performance appraisal on job satisfaction in Kenya commercial bank. The research design used was case study method. Sample size of 5 employees was taken. Interviews guide with Open ended questions used in data collection. Data was then analyzed using Microsoft excel and Microsoft word.

The study found that employees in the bank were not fully satisfied with the job, career progression path was not clear and no equity in promotions and rewarding in the bank, especially in bonus and salary increment which demotivated staff. It recommended that employees involvement in the designing of seminars, workshops, and trainings; PA should be reviewed regularly and evaluated to know the effects it may have to the employees (Kithuku, 2012).

Watuma (2015), assessed factors affecting implementation of Performance Appraisal in National Bank of Kenya. Descriptive survey design was applied. Sample size was 156 employees. Questionnaires and interview instruments were used to collect data. Data processing and analysis was done using Statistical Package for Social Sciences (SPSS).

The study discovered that PA evaluation process was unfair which affected employees' attitude, rewarding systems and appraisers training. It recommended that evaluation process should be fair and regular in measuring employee performance. Appraisers should be trained on PA to reduce errors. The rewarding system should be fair and more frequent and mostly to the good performing and highly competent staff (Watuma 2015).

Ochoti (2015), studied factors influencing employee performance appraisal system: a case of the Ministry of State for Provincial Administration & Internal Security, Kenya. The research design used was descriptive survey design. Sample size of 76 employees was used. Questionnaires were used as a primary method of data collection. Analysis of data was through descriptive statistics using percentages and frequency distributions.

The study found out that good interpersonal relationship between raters and ratees leads to improved performance. Rating errors elimination also improves performance. The recommendations were for more research on implementation process, employee attitude toward PA and the accuracy of the raters (Ochoti 2015).

Hepngetich and Bula (2017), studied performance appraisal systems and employees performance in commercial banks in Nairobi City County. Research designs used was descriptive. Sample size of 123 employees was applied. Questionnaires were used to gather primary data. Data analysis was done using Statistical Package for Social Sciences (SPSS).

The findings were that communication in PA enhances efficiency hence, performance. Regular PA with continuous feedback motivates employees' hence increasing performance. It recommended that there should be alignment of employees' objectives' with those of the organization, proper communication between managers and workers, fair and frequent feedback to employees to enhance their efficiency (Hepngetich and Bula 2017).

Boateng (2011), studied effects of performance appraisal on the achievement of organizational objectives in Manhyia district hospital, Kumasi. The study used descriptive research design. Sample size of 115 employees was used. Data was collected through questionnaire and interviews methods. Data analysis was done using Statistical Package for Social Sciences (SPSS).

The findings were that, all the stake holders should be involved in developing key performance criteria and in the whole PA process, feedback should be regular to help improve performance, PA was not objective and lacked fairness. The study recommended that supervisors should be trained on PA to reduce rating errors and rewards supervisors who assist poor performers improve their performance (Boateng, 2011).

According to Lipunga (2014), commercial banks stability is very important in any economy as it maintains a stable financial intermediary which impacts positively on a country's economic growth. This can be achieved through proper employee management which motivates them to increase their performance thus, improving banks performance. Commercial banks which are profitable stimulate additional investments bringing more economic growth. Such banks are also able to reward shareholders for their investments. Poor performance in banks leads to their collapse and consequently low economic growth.

According to Marshall (2009), banking crisis entails financial crisis which leads to a country's economic meltdown. To avoid such crisis, banks' performance has been given full attention. Banks financial performance is affected by both internal and external factors which adversely affect their profitability. In most of developing countries like Kenya banks are very important as their financial market is generally underdeveloped leaving them as the only source to fund most of businesses and help in accumulating saving. This is only possible if employees are well managed and assisted to focus their effort in increasing their performance hence, enhancing banks' performance (Nuhiu, 2017).

2.3 Preparation for Performance Appraisal.

2.3.1 Setting and Communicating Performance Targets

Preparation is the process of making something ready for use Preparation should ensure standards set are clear, easy to understand, realistic and measurable; and are communicated and agreed upon by both employees' and supervisors at the beginning of the PA period so that employees commit their energies in their goal hence, increased performance (Edwin, 2018).

Kithuku (2017), asserts that during the preparation for PA, managers should integrate performance appraisal with organizational goals; basing appraisals on accurate and current job descriptions. Hence, the top management should offer adequate support and assistance to workers to improve performance. The organization should ensure that appraisers are equipped with adequate knowledge on performance appraisal and should conduct appraisals on a regular basis.

According to Khayinga, Mamuli and Wekesa (2016), when designing and formulating a job description, performance standards for the job are developed. These set targets must be clear, easy to understand and measurable and must also be communicated to both employees and supervisors. Employees should know what is expected of them to make them more focused on their work hence improving performance. Supervisors on the other hand should know what to measure, when and how.

The set standards should be discussed by supervisors and the employees to establish the factors to be included, weights and points to be assigned to each factor based on values and competences of an employee. These should therefore be indicated in the appraisal forms. These increase employees’ morale to work and boost performance. When expectations are not clear, employees may not understand them, which may affect the employee’s outcome as well as that of banks (Brown et al. 2010).

Goals are set by the top management of the organization and should be in line with the organization's mission and vision statements and strategic goals. They should be negotiated at the beginning of appraisal period, but should not be imposed arbitrarily from the top management. Individual’s goals should be achievable and employees should be provided with the necessary tools to work so as to attain organization's strategic goals (Koech, 2014).

Employees who exceed their targets should be rewarded to motivate them to improve their performance the more. The ideal situation dictates that, individual goals should be set by both employees and their supervisors and both determine how goal attainment will be measured and rewarded. This involvement of the employee increases their moral thereby increasing their performance and consequently that of organizations. Lack of employees’ involvement in setting goals demotivates them thus, affecting their performance (Muthoka 2016).

Koech (2011) noted that, targets should be set prior to commencement of the performance contract. The targets should be communicated and agreed upon by both parties, so that managers and the employees can be fairly held accountable for their achievement or lack of it at the end of the performance contract period. These targets must be clear, precise and realistic. If ambiguous and unattainable, they discourage employees from working hard and consequently affecting performance of organizations.

Employees should know what they are being measured against so as to function effectively and focus their effort and attention on the critical tasks at hand which will improve performance. If employees understand their expectations clearly, they will be able to evaluate their performance as they perform their duties and make adjustments where necessary without waiting for the formal evaluation review will which greatly increases banks performance. In case of disagreement between the set targets, adjustment should be done to ensure both parties are comfortable so as to focus efforts on performance (Aguinis 2009).

Communication is very important in managing performance and must be effective to ensure the right information is given to employees. This reduces resistance due to changes in the standards set, anxiety and fear. The management therefore, should develop a shared vision that will motivate employees and use Performance Appraisal Practices (PAP) that pull an organization to a mutual purpose and this can only be achieved through continuous communication (Kiara, 2017). Communication helps in building a strong relation between management and employees which reduces friction and increases organizational performance (Antwi, Opuku & Osei 2016), Armstrong (2009), asserts that, employees will accept the set goals if, they trust their managers and the goals set are fair and reasonable. Therefore, individual should participate in setting goals and the management should provide the support and resources required to achieve these goals. When every stake holder plays their part and success is achieved by realizing the set goals, acceptance of future goals will be reinforced. This leads to increased individual performance hence overall organization's performance and growth.

As noted by Koech (2014), Performance targets should be negotiated at the beginning of the Period, not imposed arbitrarily by the top management. Departmental managers should be allowed to manage their departments within the agreed parameters. At the end of the agreed period, performance of their department is judged systematically against the targets negotiated at the beginning. The performance result should then be linked to a system of rewards or sanctions for good or poor performance respectively. Muthoka, (2016) pointed out that linking performance with reward increases employee's commitment to work in order to get the reward which in turn increases banks performance.

2.3.2Training on Performance Appraisal

A gap will always remain between what employees know and what they should know regardless of how careful applicants will be screened. It is therefore important that employees are trained on PA to fill this knowledge gap. Employees need to know how to prepare for and conduct a self-review exercise (Nuwagaba, 2015). Training does not only enhance employee skills and knowledge but also strengthens the desired values. Training environment should be safe for team members to develop trust and know each other hence increasing team work amongst the employees hence their performance (Mbugua, Waiganjo & Njeru, 2015).

According to Antwi, Opuku and Osei (2016), training produces good human capital for work. When a company invests in training it makes its employee feel indebted and make them work hard to improve company's performance because it equips them with the necessary knowledge to perform a specific job. To maintain standards and anticipated outputs, organizations must be up to date with both new knowledge and modern technology.

Organizations should therefore recruit trainable staff; do in service training and on the job training based on performance gaps identified during PA in order to equip them with the right knowledge to overcome weakness in performing their duties which increase performance in banks. For employees to perform well performance targets must be clear, specific. The most difficult and challenging aspects of performance appraisal is in how to achieve clarity between the appraiser and appraise (Muthoka, 2016).

However, there are several thoughts as to what makes a "job". Managers should therefore take the responsibility of addressing the requirements a job, such as the number of hours worked in a week, qualifying wage, benefit given and job retention. If not well defined, it might bring disagreement between the managers and the employees which will affect the overall organizational performance (Kipyego, 2011).

During the preparation stage of performance appraisal, both the appraisers and the appraisees should be trained on PA process taking keen on job performance, job responsibilities, and employee professional objectives, problems and concerns about the job. Supervisors and workers should then come together to set goals for the period before the next PA based on the company's vision and mission. The appraisal process should be undertaken in a participatory manner, rather than a lecture. This involvement makes workers to be more committed in their work hence improved performance in the banks (Kibichii, Kiptum & Chege, 2016).

Robert (2014), explains that training is very essential as it can improve individuals' performance as well as that of the organizations. Therefore, employers should not take training programs for granted. They should ensure that trainers conducting the process are well equipped with the necessary skills to teach the skills rather than demonstrating it to employees. This will ensure that workers are equipped with the necessary skills to undertake their role effectively which may increase performance.

Organizations should customize their activities to the ability level of the employee being trained to ensure they understand the concepts being trained. Moreover, periodic updating and retraining, of appraisers' must be done to increase performance (Migiro and Tenderera, 2010). PA also helps in identifying areas were performance is good across all employees or by department. Companies should Standardized performance to allow them analyze, aggregate and calculate areas of strong performance which they can use as benchmarks for other areas which are not performing in the organization (Mwema & Gachunga, 2014).

Raters should be equipped with sufficient knowledge to understand the appraisal process; and be able to interpret standards, use scales and give effective feedback including goal-setting. Ratees' should also receive training to introduce them to the appraisal system so as to accept and support the whole process which will increase performance in banks (Muthoka, 2016)

2.4 Conducting of PA and Performance of Commercial Banks

2.4.1 Measuring and monitoring performance

When conducting PA, the evaluator should ensure the right information concerning each employee is entered well, describe in details what goal an employee has attained and which he/she has not been attained by comparing current performance against the set goals at the start of the appraisal period and give comments on results attained against the set goal for the employee to know how far he/she is from the target set (Tanuja, 2018).

When employee are made to understand how they performed and how the results were attained and find fairness in the process, they will accept the result and work hard to improve future results which also improves firm's performance. If they don't understand how the final grade was attained and perceive unfairness in the process they will be demotivated to work which reduces their performance and consequently the firm's performance (Muthoka, 2016).

In most cases, supervisors, and employees don't know the value of performance appraisals in an organization. Managers feel that conducting PA is additional work and remain skeptical of the whole process. Conducting an effective appraisal process is no easy task, especially when the supervisors take it as additional work for them. The process puts pressure on employees forcing them to set specific goals, and work towards achieving these goals (Carrol & Scheider, 2012).

In the same vein, the process puts employees and supervisors in an uncomfortable position; where employees may feel unfairly judged as they are being graded as if they were in school while Managers find it difficult to be sincere and productive at the same time when conducting an appraisal process which affects performance in most of organizations hence poor performance (Carrol & Scheider, 2012).

Undertaking performance appraisal process gives an excellent opportunity to identify training and needs. During planning and monitoring of work, deficiencies in performance are identified and the necessary action taken through training of employee based on performance gaps. If PA is conducted diligently and regularly, it can give good returns. Areas with good performance will stand out and organization can motivate successful employees to improve even further hence improving organizational performance (US Office of personnel management, 2008).

Employees according to Abdul (2011), are the most important element in every organization. Organizational success or failure is therefore based on their performance.

According to Khayinga, Mamuli and Wekesa (2016), assessment is made to determine what actual performance is by comparing the actual performance and the set standards. It should point out clearly the deviations between standard performance and actual performance for further action.

The appraisal results should be periodically discussed with a view to improve performance in the organization and boost self-esteem of the employee. Once the deviations have been determined and corrective actions taken performance is likely to improve. Appraisal results should be used to help in identifying better performing person for rewarding with either merit pay increases, bonuses, company stocks or promotions in order to encourage other workers to take the process positive hence better performance in organization (Ishaq et al 2009).

According to Chompukum (2013), when PA is linked to rewards, it stimulates employees to work hard to perform better as it will be recognized by the employer. Results attained can be used for developing employees. Performance appraisals intends to evaluate the performance and potential of employees but sometimes it may fail to give valid indicator of what it intends to assess because of how it is conducted. Performance appraisal errors such as biasness and inadequate training lead to wrong results making the whole process to be unfair and workers also lose trust hence affecting their performance and consequently performance in banks (Rao, 2014).

Obisi (2018), points out that those employees who may not like the close scrutiny may feel uncomfortable with the whole appraisal process. In the same vein, if an employee does an excellent job during the appraisal period, which needs acknowledgement during the review; and is not recognized due to limited resources; he/she may feel dissatisfied and reduced productivity, since they feels that there is no point to make an extra effort which is not properly rewarded which affects performance.

Organizations that motivate their employees based on performance and especially excellent performance; make employees to be more creative and comes up with bright ideas that give the organization a competitive advantage in its environment hence better performance (Salau, Oni-ojo, Falola and Dirisu, 2014).Some managers don't conduct appraisal appropriately as they only appraise their staff when there is need for promotion or when it is long overdue. Due to busy schedules, managers don't give appraisal process enough time leading to biasness which makes the whole process inappropriate (Nuwagaba, 2015).

Some managers are not objective when appraising their subordinates and end up being subjective. This denies the subordinates a chance to improve where they are weak Performance evaluation if properly done will identify workers who need training and those who need to be groomed for higher positions which increase motivation hence good overall performance. If evaluation is poorly done it affects employees' moral leading to poor overall performance (Mayol, 2016).

Banks use formal appraisal where the workers are evaluated either semiannually or annually. The supervisors should inform subordinates to know formally that their present performance is being rated. The PA results will show employees who deserve merit raise, those in need of additional training and those for promotion. It helps managers to differentiate between the current performance and the potential performance of employees. Managers in most cases fail to make this distinction and assumes that a person with the skills and ability to perform well in certain job will automatically perform well in a different job making people to be promoted to positions which they cannot adequately perform leading to poor performance. (Fekadu, 2017).

When rating and evaluating performance PA helps employees to know how they are contributing towards organizational goals. PA reviews performance of employees by comparing individual performance with organizational goals to know how far they are from attaining the goals. Moreover, PA commits employees to the organizational long term picture which motivates them to take responsibility, be encouraged to concentrate their efforts to effective delivery. This increases performance of the workers which in turn increases performance and growth in organization (Malcolm & Jackson, 2012).

According to Migiro and Tederera (2010), performance appraisal system should measure employees' performance consistently for it to be effective and reliable. High performing employees should consistently receive a high rating while a low performing employee receives a consistently low rating. Feedback should also be provided on a continuous basis, that is daily, weekly, and monthly and comments from an employee's supervisor or manager given. Feedback should give the right information on current and desired performance levels.

PA should focus on encouraging workers to meet goal not threatening their self-esteem which will improve employee performance and consequently banks performance. It is very important to give employees and work groups' continuous feedback after conducting PA for them to know their progress towards the set targets.

Continuous progress review should be conducted to all employees by comparing their performance with the set targets. (Kisang & Kirai, 2016).

This provides an opportunity for the supervisors to know how employees are meeting the set goals and also enables them to make adjustments to unrealistic standards which may discourage them hence affecting their performance and also banks performance. The observations made after every appraisal should also be filed to monitor the trends of improvement or failures over a period of time for better decision making in the banks (Teko, 2011)

Divya and Jaya (2015), assert that, many managers argue that performance appraisal system takes much of their productive time. In many cases they undertake PA evaluation once in a year or when need arises. If evaluation and monitoring is done once after a long time, then areas where the employee has improved over the period will not be noted and rating errors will be rampant. In the long run, it will demoralize workers hence affecting their performance and the overall organization's performance.

Continuous monitoring gives employees an opportunity to know how well they are meeting the set standards and take corrective action in case the performance is not good. It helps in identifying poor performance early and addressing such problems on time rather waiting until the end of the period. If PAS is undertaken continuously then deviation will be identified and corrected on time and this will improve performance in the banks (Armstrong, 2008).

2.4.2 Rating errors and Performance Appraisal

According to Boateng (2011), bias is inaccurate distortion of performance measurement committed by managers during appraisal implementation and which affects the whole PA process. The most common error committed is horns and halos effect were managers assume a certain employee is either naturally good and rate him/her above average or assume the employee is bad and rate him/her poorly which may negatively affect performance.

Once a manager has an informed mind about an employee, he/she will look for information to support that instead of following the right PA practices and giving the correct performance. This affects employee’s morale which affects their performance and consequently organizational performance.PA should measure employee’s performance and not their behaviors. Sometimes performance rating is affected by personal factors, age, prejudices and gender leading to wrong rating (Ochoti, 2016).

Raters may also be too lenient and rate all employees above average or too harsh and rate all employees below average thus affecting accuracy of results. Central tendency error also occurs when managers rate all employees above normal even the poor performing. Recency error may also occur when the manager rates employees based on recent events instead of previous performance. This discourages hard working employees whose efforts are not recognized hence decreasing their performance and consequently organizational overall performance (Jackson & Schuller, 2012).

Migiro and Taderera (2010), content that in banks of Botswana, PAS have received a lot criticism due to its subjectivity and discrimination. Subjectivity arises from the day-to-day behaviors and practices of those involved in the process of appraisal, despite the existence of policies and procedures to guide the practice. Subjectivity allows rater's personal agenda to drive the appraisal process.

Subjectivity also becomes a big issue where appraiser and appraisee are colleagues. It becomes difficult to separate appraisal discussion from the other interactions which the employees have had before since they know their good and bad points. PA should be properly developed to reduce subjectivity and bias in rating which is mostly based on age, gender or race and which greatly affects employees performance hence organizational performance (Gichuhi ,2012).

Muthoka, (2016), asserts that to reduce bias, discrimination and favoritism, performance appraisal system should have a continuous review mechanism, were the evaluator's immediate supervisor, automatically review all evaluations of employees made by subordinate managers. This ensures that the evaluation is fair, consistent, and accurate and assures that the evaluator has carried out his or her function objectively to boost employees moral which consequently improve overall performance**.**

According (Grobler and Govender 2016), organization should ensure the system is fair to all and resources are equally distributed to all workers to ensure fair play ground to all in order to improves individual performance and consequently organizational performance. Absence of fairness increases distress on employees since they have no control of PA result and this reduces their performance and also that of the whole organization.

Watuma (2015), explains that although PAS in the National bank of Kenya aimed at improving the potential of appraises,' it has encountered many problems; which resulted from, conflicting roles of managers being coaches and judges at the same time, personal bias as a result of favoritism, subjectivity and leniency.

Migiro and Tenderera (2010), are emphatic that to reduce bias, favoritism and discrimination PAS should have review mechanism. Employees should also be given a chance to appeal if they feel the process was unfair. This protects the organization from future unfairness and employees will trust the process to be fair which motivate them to work hard and improve their performance hence organizational performance (Curath & Humprey 2008).

2.5 Feedback on PA and Performance of Commercial Banks

2.5.1 Appraisal Report

According to Wagacha & maende (2017), appraisal report is a summary written at the end of the appraisal process to show the extend in which agreed targets were achieved. It shows in details past performance of each employee and future plan that the organization has for that particular employee. Teko (2011), asserts that after undertaking PA a report has to be written showing performance of each employee and programs to improve performance intended to enable productive dialogue on performance between an employee and his/her manager to clarify areas that need to be improved.

Management should use the appraisal report given and implement programs to correct challenges such as employee's skills and expertise which affect performance (Russell, 2011). Boateng (2011), appraisal results help human resource management in determining succession planning, promotions, separation or training. It also helps managers to improve communication and give workers a chance to give their ideas and expectations for their performance.

Managers are able to work out promotion programs for employees who have attained their targets and demotion or dismissal to inefficient workers. Appraisal reports should be analyzed to ensure fairness and performance plans are designed to guide employees' performance. Organization should also build good relationship amongst all stake holders to promote better organizational performance (Kibichii, Kiptum & Chege, 2016).

Effective performance appraisal identifies skill gaps and deficiency. HR professionals should come up with programs to address those problems to ensure the workforce have superior knowledge, skill and experience for organizational survival. Managers also must meet employees at each step of the appraisal and consult human resources office before making formal action which may include oral warning, written warning or final warning with a decision to leave. This must be done fairly to ensure employees morale is retained for better performance (Teko, 2011).

2.5.2 Initiating Corrective Action.

Gichuhi (2016), stresses that, feedback should be clear, continuous and based on employees performance. Any mistake detected should be address immediately to avoid loss in the company. Feedback makes ratees to know their capability and overall progress within the organization. Managers therefore need to take time to show an employee how his/her performance affects the productivity of the entire organization. Feedback raises employee's inner drive and motivates him to increase his/her level of commitment to work which in turn improves his/her performance and consequently organizational performance.

Absence of feedback leads to job dissatisfaction which affects employees' performance and consequently organizational performance (Salau, Oni-ojo, Falola, &Dirisu, 2014). Watuma (2015), explains that dissatisfaction amongst the employees' mostly arises from the way feedback is given. Migiro & Tederera (2011), asserts that feedback between employees and supervisors should be continuous and in two- way communication. Employees should be given an opportunity to give their insight about their performance. Effective feedback on performance should inform, involve and motivate employee to work hard which may improve performance.

Managers should give feedback on PA results immediately after the process. They should use kind language especially when the results are negative and give ideas on how to improve and not reprimanding the employee; in order to motivate and guide the process. This makes the individual to be willing to work hard to improve his/her performance which in turn improves organizational performance (Teko ,2011).

Employees have a lot of expectation from an organization after they are hired. They therefore need feedback on their progress, growth and reward after attaining their set target (Moayeri, 2012)**.** After performance evaluation is completed PA results should be communicated to employees for them to know how they are meeting the organizations expectations which may help them improve their performance (Gichuhi, 2014). Feedback if given to employees on short-term basis and continuous it sustain motivation and commitment to work thus increasing employees performance and consequently the firm's performance (Watuma, 2015).

According to Manuel London (2009), although performance appraisals is mostly undertaken annually; employees should be given feedback and goal planning more frequent to keep them posted on their most important goals. Employees should also receive developmental coaching to increase their ability to do their work. Managers should also be equipped with knowledge on how to give constructive feedback on performance in order to avoid a one-way lecture method of giving feedback.

Constructive feedback enables an employee to adjust on job performance or have positive reinforcement for good job behavior which increases performance. Effective feedback on performance should be timely, specific and given by a credible person to increase motivation for hard work hence improved firm's performance. If feedback is poorly given, it demotivates employees leading to overall poor performance (Kisang & Kirai, 2016).

Performance feedback in any organization gives managers and employees a chance to deliberate on employee's progress and decide the kind of adjustments to make in order to build on their strengths and improve their performance further. Analysis of potential and development needs helps to know the level the employee is at, type of work he/she will be capable of doing in future and how best they can be developed for the sake of their own career and the organization at large (Boateng, 2011).

To achieve the organizational goals and objectives, there must be a periodic and effective system of providing feedback to employees. Performance appraisal has been described as “the process of identifying, observing, measuring, and developing employee performance in an organization”. PAS will be termed as effective if it is clear, open and fair to all staff (Carrol & Scheider, 2012).

This can be attained through regular review of the system and update of position requirements. The important position descriptions should be up-to-date so as to reflect the current job demands. These is because environmental conditions are frequently changing and therefore employees and supervisors should know the most current expectations at the time of the appraisal which will reduce conflict between supervisors and employees’ leading to overall good performance (Flaniken, 2009).

Rusu, Avasilcai and Hutu (2016), asserts that post-appraisal feedback on performance appraisal should be followed by positive reinforcement for positive behaviors and good results. This should involve a management-employee dialogue on the employee actual performance and how better results can be achieved. Post-appraisal feedback should come up with long term solution on behavior change which should be reinforced to improve performance in future.

Wagacha & Maende (2017), denotes that failure of most of the companies to set legislation to set aside money to reward employees who perform above their targets compromises the system's effectiveness leading to poor performance of employees and consequently organizational performance. The most important aspect of PAS is a performance plan, which should be negotiated and agreed upon between the supervisor and the supervisee for a given period. During the agreed period, continuous feedback must be given to employees on how they are performing and suggestions given on how to better their performance.

The performance should be evaluated at the end of a given period to reward or develop employee after which a new targets are made. If PA is well-designed and undertaken, it will help an organization to identify the best employees who can be rewarded to maintain and better their performance hence good organizational performance. Poor performance will also be identified for corrective action such as sanctions or training and organization will be able to attract quality employees for better performance (Mwendandu, 2011).

According to Kithuku (2012), if performance appraisal process is well designed and properly undertaken, it will offer an employee a chance to get a constructive feedback about their work and whether they have any potential for growth in the job. A well-structured PA is critical in developing and maintaining a strong and capable workforce by closely monitoring their performance and giving frequent feedback to correct any negative deviation which may arise in the process. This makes the workers to know their progress in the work which helps to reduces resistance and increase performance in banks. If PA process is poorly designed and undertaken, it demotivates employees leading to overall poor performance.

Muthoka (2016), asserts that performance feedback has significance potential to benefits employees in terms of individual and team performance. It's essential for organizational effectiveness and lack of it can lead to anxiety, inaccurate selfevaluations and a diversion of efforts towards feedback gathering activities. Moreover effective performance feedback enhances employee engagement, motivation and job satisfaction thus increasing performance.

When managers fail to give employees feedback concerning their performance on time and accurately, their morale reduces and also their performance. Performance feedback should be given in a form of discussion and not critizing an employee so as to identify the problems and solve them for better performance. An effective performance appraisal requires considerable time and effort of managers to gather information and receive employees' feedback (Gomez-Mejia, Balkin & Cardy, 2010).

When mangers lack skills needed in evaluating performance or they don't take their work seriously, employees morale will be affect and will term the process as an ineffective and will believe that the system is unfair and does not matter which greatly affects their performance negatively leading to poor organizational performance. (Rusu, 2016), argues that after post-appraisal feedback there should be positive reinforcement for good results and good behaviors. The management and employee should discuss and agree on the actual employee performance and actions taken to reinforce good behaviors for better performance.

2.5.3 Sanctions and Rewards

According to Gupta and Singh (2013), employees who do not meet their set targets for a long period of time and do not show signs of improvement even after training may face personal actions such as demotions, transfers and disciplinary actions from the management. Final decision should be based on performance appraisal report and should be in a fair and just manner. PA will also indicate employees training needs by showing their strengths and weakness. Employees will therefore build on their strengths and training will be done in order to convert the weakness into strengths for better performance.

Employees who record excellence performance in a year should be rewarded with wages and salaries increments, special increment or yearly increment, company stocks or bonuses. PA report also assists management on deciding on employee’s promotion and placement based on their competencies and previous performance particularly if promotion is based on merit. Performance appraisal helps in selecting the right person for the right job and the right promotion as it differentiates effective performers from ineffective performers which may increase performance (Gupta and Singh, 2013).

2.6 Performance of Commercial Banks

2.6.1 Profitability, Growth and Performance of Commercial Banks

Performance is the firm’s outcomes achieved by meeting its goals. Performance leads to growth, competitiveness, survival and success (Korir and Sang, 2015). Commercial banks in any country are very important as they help in allocation of resources by receiving deposits from customers and channeling thus funds to investors continuously. This is only possible if banks are profitable. When banks financial performance is good, the country’s economy will grow and shareholders will be rewarded for their investment (Tanuja, 2018).

The ultimate goal for any organization is profit. Some of the ways of determining profitability is by calculating Return on Equity (ROE); which shows the amount of profit earned in relation to the amount of equity invested by shareholders (Ongore & Kusa, 2013). Khrawish (2011), further asserts that ROE represents the rate of return earned on the funds invested in the bank by its stockholders. High (ROE) shows that a firm is able to generate cash internally and that management is using shareholder's capital effectively thus increasing profits hence good performance.

Return on Assets (ROA) is a ratio of income to total assets. It shows how the management is efficiently using the company's resources and assets at their disposal to generate income. It also shows how management is efficiently using banks resources to generate net income. High ROA also leads to high profits hence good performance (Ongore & Kusa, 2013). According to CBK report (2016), banking sector recorded 10% growth in pre-tax profit due to strong capitalization levels resulting from injection of additional capital and profit retention an indication of good performance in banks.

NIM is the difference of interest income generated by banks and interest paid out to lenders relative to their assets. Net interest margin checks the difference between the interests incomes received from banks loans and securities and interest cost of its borrowed funds (Gul et al., 2011).

It shows the gap between banks intermediation services costs and its borrowed funds interest cost. A higher NIM shows that a bank is more stable and profitable. However, it can also show that the indicate risk lending practices which can lead to loan loss provisions (Khrawish, 2011).Some banks are performing below the industry average of 7.5% in terms of net interest margin. For example, Diamond Trust Bank 6.5% (Cytonn report, 2017).

Management Efficiency also determines bank profitability as it shows operational efficiency of management in managing operational expenses. It shows the ability of the management to use resources efficiently, maximize income and reduce operating costs. It is determined by operating profit ratio to total cost. When the operating profit is more than cost then it shows that management is more efficient in operational efficiency, generating income and its performance is good. On the other hand when cost is more than the operating profit the banks performance is poor (Ongore & Kusa, 2013).

According to Cytonn Investment Report (2016), many banks have started to restructure and lay off staff to cut down cost and to lower income ratio. I&M Holdings had 34.7% income ratio and National Bank of Kenya had 73.9% income ratio. A lower ratio indicates that the bank is profitable while a higher ratio show poor performance.

External factors such as: Gross Domestic Product (GDP), interest rate, political instability and inflation also affects banks performance. GDP is total monetary value of all goods and services produced in a country in a year. When GDP is declining, credit demand falls which decreases banks profitability. When GDP increases, credit demand also increases hence increasing banks' profits due to the nature of business cycle. On the other hand, during boom periods there is high demand for credit which increases banks profit unlike recession periods when credit demand fall hence decreasing banks' profits hence poor performance (Ongore & Kusa, 2013).

According to CBK report (2016), commercial bank branches have increased by 18 branches from 1523 in 2015 to 1541 branches in 2016. Regardless of this growth, physical bank branches expansion decreased due to alternative channels of delivery adopted like agency banking, mobile banking and internet banking. Stanbic bank limited also moved from medium peer group to the large peer group due to increase of its deposit by 11.36%. Customers' deposits have also increased by 4.8%. This growth is as a result of deposit mobilization through mobile phones platform and agency banking.

Banking sector also has grown tremendously with gross loans growing from kshs. 2.17 trillion In 2015 to kshs. 2.29 trillion In 2016.Kenyan banks like, Equity Group Holding, I&M bank and Prime Bank have expanded beyond the East Africa Community (EAC). Several banks closed branches like KCB Group scaled down from 18 branches to 17 branches and Equity Group to 5 branches from 18 branches in South Sudan due to security reason which affected banks performance (CBK, 2016).

Though foreign banks have greatly increased in the last two decades in Africa, domestic banks have decreased (Claessens and Hore, 2012). Owing to the enactment of the Banking (Amendment) Act of 2015, 11 banks announced their plan to down size where almost 1470 bank employees were laid off, 39 branches closed and 7 banks acquired an indication of poor performance in the banks (Cytonn Investment Report, 2016).

The most important function of banks is to mobilize resources from productive activities and transferring those funds from savers without productive use to investors with productive ventures. Banks which perform well financially reward their shareholders with good returns for their investment. This enables the shareholders to invest in other ventures leading to economic growth and development. Poor performance of banks brings about failures and crises leading to economic meltdown (Marshall, 2009).

2.7 Conceptual Framework.

Conceptual framework is a diagrammatic expression to show how the variables under study relate (Muriu, 2014). The study will have a conceptual framework based on three variables which will discuss how Performance Appraisal Practices (PAP) affects performance of commercial banks in Machakos County. The independent variables for this study include; Preparation of performance appraisal, conducting of PA and performance feedback. The dependent variable is performance of commercial banks. If those practices are well undertaken, employees' moral will improve hence, increased organizations performance in commercial banks. If performance appraisal practices are poorly undertaken, employees' moral to work will decrease hence, their performance and consequently banks performance.

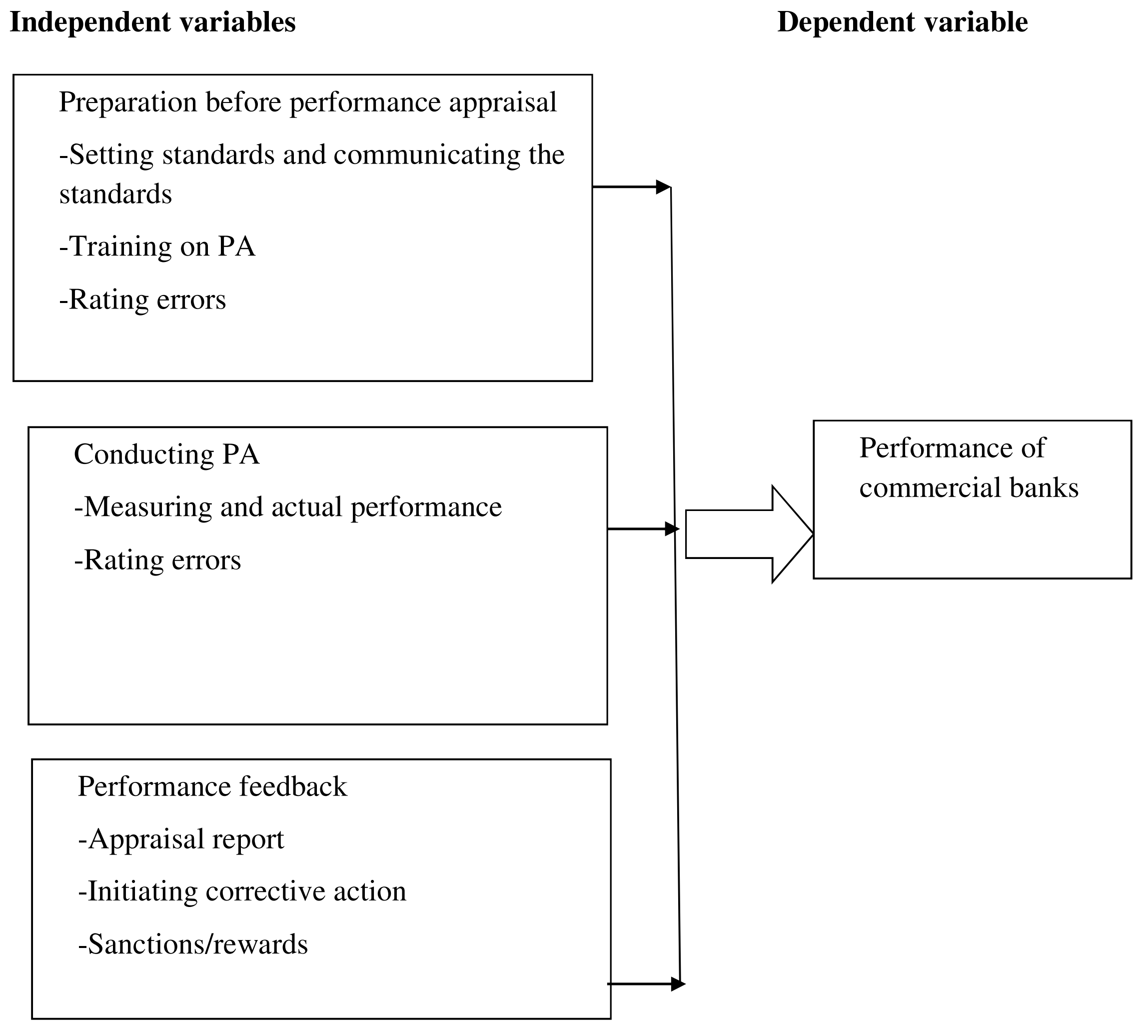

Figure 1.1: conceptual framework

During the preparation of PA all staff members should be informed on performance appraisal importance both to individuals and the organization and the period it will take. The management should prepare performance plan and include the competences which will be looked at during PA. Employees should be given a copy of performance plan to fill indicating the competencies they possess. When preparation is properly done and raters and ratees trained on PA, employees will know what is expected of them and performance may be achieved (Tanuja, 2018).

PA should be conducted in a continuous and periodical manner in order to determine deviations in the process. Deviations identified should be discussed to determine better performing employees. PA errors such as biasness and inconsistence and should be avoided for the process to be fair and for workers to trust the process. If PA is not conducted well either due to errors committed by the raters or lack of skills on how to carry out PA, employees will term the process as unfair and will not trust the process leading to their poor performance and consequently poor bank performance. If PA process is done will employees will be motivated to work which may increase organizational performance (Tanuja. 2018).

Feedback on performance should be frequent and immediately after undertaking the appraisal. Managers should advice employees on how they can improve on their competencies to attain better results. Employee then review their goals as the managers give details of the time frame and what they expect of them within that time. Each employee should be given a copy of the final appraisal and appraisal report prepared and given to human resources manager for action; and a copy filed for future reference. This may improve performance due to the employees' involvement. If feedback is poorly given, employee morale to work may be affected and consequently organizational performance (Tanuja, 2018).

Good performance in any organization leads to growth, competitiveness, survival and success. This may be achieved by proper preparation for PA where; training on appraisal is done to both appraisers and appraises on PA to reduce rating errors and employees involved in setting targets. Appraisal should be conducted continuously and employees should be informed of parameters to be used. After conducting appraisal, feedback should be given immediately for workers to know how they are meeting organizational goals and should be given a chance to explain their achievement (Korir and Sang, 2015).

2.8 Summary of Literature.

In summary, PAS will be of no use if it is not accepted by both raters and ratees. PAS will only be accepted by both parties if it is perceived to be distributional and a valid measure of performance. In order to recognize and appreciate the large amounts of money and time that organizations invest in developing and conducting an appraisal system, then valid and effective PA should be undertaken. If PA is perceived to be ineffective, it will be a severe threat to organizational resources. Organizations therefore should conduct regular check on their PA to know the perception and whether it meets the needs of the users

2.9 Research Gaps

Wanjala and Kimtai (2015), studied on Influence of performance appraisal on employee performance in commercial banks in Trans Nzoia County in Kenya. The duo established that managers were not trained on PA and employee did not trust the system. According to Heath field (2018), managers in most organizations write their opinions about an employee annually based on recent events, no feedback on PA and it is mostly undertaken when it’s long overdue. According to Nuwagaba (2015), PA is not consistent, no records kept on employees’ performance and training gaps and promotions are not implemented.

Kondrasuk (2011), also noted that when designing PAS organizations' goals are not considered, process measures a person not performance and PA measures mostly extreme performance leaving out middle- range performers who may need to be motivated to improve their performance. Migiro & Tenderera (2011), studied evaluating the performance appraisal system in the bank of Botswana. They established that, there was biasness and no transparency and no consistence in the appraisal system. This research will therefore fill the gap on how training of supervisors and employees on PA affects performance of commercial banks in Machakos County.

Chompukum (2013), studied performance management effectiveness in Thai banking industry: a look from performers and a role of interactional justice. The researcher established that organization did not link performance with rewards, poor communication between supervisors and employees on performance. The employees were not formally informed that their current performance is being rated.

Divya and Jaya (2015), studied on performance appraisal system in unscheduled co-operative banks in Noida region and its effect on employees and organization's growth and performance. The duo established that employees did not have prior understanding of the evaluation parameters on which they were to be evaluated so those parameters were a surprise for them. This study will fill the gap by establishing how conducting PA and communication on PA affects performance of commercial banks in Machakos County.

Antwi, Opuku, Ampadu and Osei (2016), assessed Human Resource Management Practices of Public Banks from Employees’ Perspective: They established that there were no continuous interaction between senior management and workers to update them on any changes in organization, no regular feedback on how they are meeting organizational goals and employees are not fair remunerated based on their performance. This study will fill the gap by establishing how PAP such as feedback, rewarding, training, PA errors and communication affects performance of commercial banks in Machakos County.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

The chapter consists of the research design, population, sampling frame, sample and sampling techniques, instruments, data collection procedure, pilot test, data processing and analysis.

3.1 Research design

This study adopted a descriptive survey design. A descriptive research is a process of collecting data in order to test hypothesis or to answer questions concerning the current status of the subject in the study (Mugenda & Mugenda, 2009). Kombo & Trump (2010), are emphatic that the purpose of descriptive research is not only restricted to fact findings, but often results in formulation of important principles of knowledge and solution to significant problem. The descriptive design chosen was supported by a previous research by Kimeu (2018), who studied Strategy Implementation and Performance of Commercial Banks in Machakos County.

The design enabled the researcher to collect data from a sample of the population in order to establish how Performance Appraisal Practices affect Performance of Commercial Banks in Machakos County- Kenya. The population of the study was the employees of commercial banks in Machakos County. So the design is suitable for this research because the objective of study is to determine performance appraisal practices and performance of commercial banks in Machakos County and define how these determinants have supported each other. According to Sekaran (2010) "A descriptive study is undertaken in order to ascertain and be able to describe the characteristics of the variables of interest in a situation".

3.2 Target population

The population target for the study was the 16 commercial banks in Machakos County- Kenya. Information on PAP was collected from the one hundred and ninety five (195) employees in the commercial banks in Machakos County. Employees were categorized into three levels depending on their rank in the branches. Respondents were employees from the three different levels, that is, management, supervisory and clerical staff. Target population was drawn from all the commercial banks in Machakos County as shown in Table 3.1

Table 3.1 Target population

Bank	No. of Branches	No. of Employees
Kenya Commercial Bank	4	120
Equity Bank	3	70
Standard Chartered Bank	1	13
Co-operative Bank	3	55
Barclays Bank	1	20
Family Bank	1	12
Post Bank	2	14
Sidian Bank	1	10
National Bank of Kenya	1	13
Commercial Bank of Africa	1	8
Diamond Trust Bank	1	9
Chase Bank	1	7
Spire Bank	1	7
NIC Bank	1	8
Credit Bank	1	7
Jamii Bora Bank	1	7
Total	24	380

Source: Lists of employees in the banks.

3.3 Sampling Frame

The sampling frame for this study was 16 commercial banks and list of all employees in the banks that was selected for the study in the year 2019.

3.4 Sample size and Sampling procedures

Since the total population for this study was 380 commercial bank employees and the population is heterogeneous, stratified random sampling technique was used. Total population was divided into stratus based on their ranks and sample items were randomly selected from each stratum. The researcher picked a sample size of 195 (one hundred and ninety-five) employees. Yamane scientific formula was used to get this sample size.

Yamane formula $n= \frac{N}{1+N\ (e2)}$

n=380/1+380(0.05*0.05)

n= 380/1.95

n= 194.871795

n=195 respondents

Where:

N= target population of the study.

n= sample size

e2= constant

To get the sample size per each bank, $= \frac{\text{Bank population}}{\text{Target population}}$x Desired sample size

Sample size was taken from each bank as shown in Table 3.2.

Table 3.2 Sample size

Bank	Current Population	Sample Size
Kenya Commercial Bank	120	61
Equity Bank	70	35
Standard Chartered Bank	13	6
Co-operative Bank	55	28
Barclays Bank	20	10
Family Bank	12	6
Post Bank	14	7
Sidian Bank	10	5
National Bank of Kenya	13	7
Commercial Bank of Africa	8	4
Diamond Trust Bank	9	5
Chase Bank	7	4
Spire Bank	7	4
NIC Bank	8	4
Credit Bank	7	4
Jamii Bora Bank	7	4
Total	380	195

Source: List of employees in the banks

The sample size of 195 respondents was issued with questionnaires to assess how Performance Appraisal Practices affected performance in commercial banks. The strata wise distribution of respondents sampled for the study were forty-eight (48) managers, seventy-nine (79) supervisors and sixty-eight (68) clerks across the 16 banks in the County. Quantitative and qualitative data was gathered from the questionnaires and interview guides.

3.5 Data collection instruments

Data was collected using questionnaires and interview guide as the research instruments. The researcher used interview guide for managers and structured closed-ended items' for the other commercial bank employees in Machakos County. The questionnaires had two sections. Section A comprised of general information and section B assessed Performance appraisal practices and performance of commercial banks following research objectives.

3.6 Data Collection Procedures

The researcher obtained a permit from the National Council for Sciences and Technology. A copy of the permit was submitted to the concerned in the selected areas. The researcher conducted a reconnaissance in the commercial bank branches in Machakos County to establish rapport before the actual data collection date. This familiarized the researcher with the respondents. The questionnaires were taken personally by the researcher or mailed to the branches and collected on agreed dates.

3.7 Pilot Test

A pilot study was undertaken to check the efficacy of the questionnaires in carrying out the research. To attain this, the research instrument was administered to 5% of the target population that is 10 staffs working at commercial banks in Machakos County; the 10 employees were picked from all levels. According to (Munguti, 2017), a pilot study can comprise of between 5 members of the target population, thus 10 members were adequate for the pilot tests.

3.8 Data Processing and Analysis

During the processing stage, problems identified with the raw data were corrected and coding system formulated. Coding involved converting data to numerical codes to represent attributes. Analysis of data was done using Statistical Package for Social Scientists (SPSS). Analysis on the relationship between variables was done using inferential statistics that is regression analysis and Pearson's correlation coefficient.

This helped in investigating the relationship between PAP and performance of Commercial banks in Machakos County- Kenya. Data analysis used frequencies, percentages, means and other central tendencies. The analysis was guided by previous study by (Kimeu, 2018).

A multiple regression model was used to determine how the various independent variables affect the dependent variable; in this case, how Preparation before Performance Appraisal (X1), Conducting Performance Appraisal (X2) and Feedback on Performance Appraisal(X3) affect Performance of Commercial Banks (Y)

Regression model

$\Upsilon = \alpha i + \beta 1 \chi 1 + \beta 2 \chi 2 + \beta 3 \chi 3 + \epsilon$

Where;

Y = Performance of Commercial Banks

X1 = Preparation before Performance Appraisal

X2 = Conducting Performance Appraisal

X3 = Feedback on Performance Appraisal

αi= the constant

$\beta 1$, $\beta 2$, $\beta 3$= coefficients of effects of Performance Appraisal Practices (PAP) on Performance of Commercial Banks in Machakos County or change induced in Y by each X.

ϵ = the error rate (0.05

CHAPTER FOUR

DATA, ANALYSIS, INTERPRETATION AND DISCUSSION.

4.0 Introduction

This chapter presents the results and interpretations of the finding, in relation to the objectives of the study. The presentation follows the order by which the specific objectives of the study are stated.

4.1 Response Rate

All respondents were reached and there was 92.3 % return rate as indicated in table 4.1

Table 4.1 Response Return Rate

Respondents	Administered	Returned	Percentage return rate
Managers,	48	43	89.6
Supervisors	79	74	93.6
Clerks	68	63	92.6
TOTAL	195	180	92.3

Kathuri (2007) indicated that a 55% return rate is adequate for a study hence the total return rate of 92.3 % respondents is representative enough for the study.

4.2 Demographic Characteristics of Participants

The participants were 165 employees' from16 banks in Machakos County who responded during data collection.

4.2.1 Gender of Respondents

The researcher first sought to establish the gender of the respondents for the study. Majority of the entrepreneurs were actually female at 54.4% as indicated in Figure 4.1

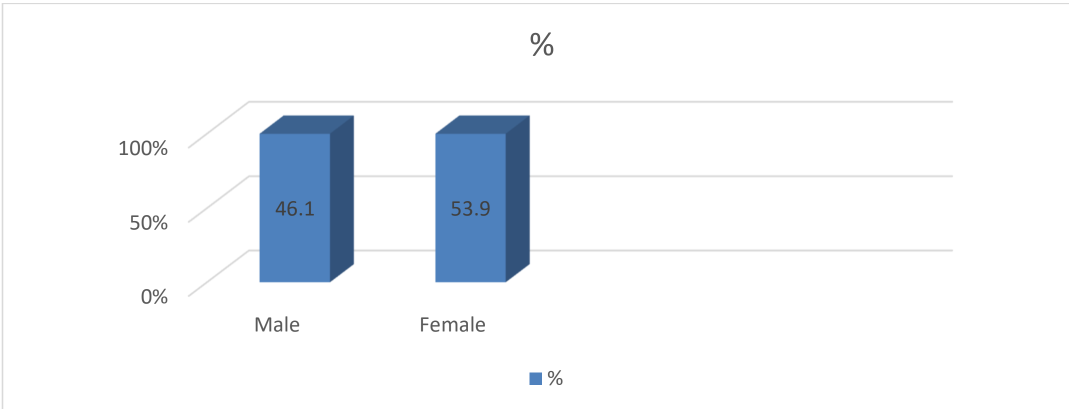

Figure 4.1 Genders of Respondents

The researcher then sought to establish the age of the respondents. The age of the respondents determined ability to give useful information concerning the performance appraisal practices and performance of commercial banks. An analysis of the age of respondents revealed that majority of the respondents were between 23-27 years at 36.7% followed 28-35years at 31.1%, 18-22 years at 20.0% and the least group was between 33-35 years at 12.2% as shown in Table 4.2

Table 4.2 Age bracket of the Respondents

AGE	Frequency	Percentage (%)
18 -22years	36	20.0
23-27years	66	36.7
28-32Years	55	31.1
33-35 years	23	12.2
Total	180	100

4.2.3 Name of the Bank

The study sought to examine the name of the banks in which the respondents worked. Majority of the respondents were from Kenya Commercial Bank representing 31.6% of the total respondents, followed by Equity Bank representing 16.7% and Co-operative Bank representing 13.8 % of the total respondents. The remaining 13 banks were also represented with respondents ranging from 5.5% and 2.2% indicating 100% representations of all the banks sampled as shown in Table 4.3

Table 4.3 Name of the banks

Bank	Respondents	Percentage (%)
Kenya Commercial Bank	57	31.6
Equity Bank	30	16.7
Standard Chartered Bank	6	3.3
Co-operative Bank	25	13.8
Barclays Bank	10	5.5
Family Bank	6	3.3
Post Bank	5	2.7
Sidian Bank	5	2.7
National Bank of Kenya	6	3.3
Commercial Bank of Africa	4	2.2
Diamond Trust Bank	5	2.7
Chase Bank	4	2.2
Spire Bank	4	2.2
NIC Bank	4	2.2
Credit Bank	4	2.2
Jamii Bora Bank	4	2.2
Total	180	98.8

4.2.4 Education Level of the Respondents

The research also sought to establish the educational levels of the respondents. The findings revealed that the majority 34.4 % of the respondents had attained a University training, 32.3 % had attained a Tertiary collages training, 18.3% had only secondary school education while and only 15% post graduate level as shown in the figure 4.2

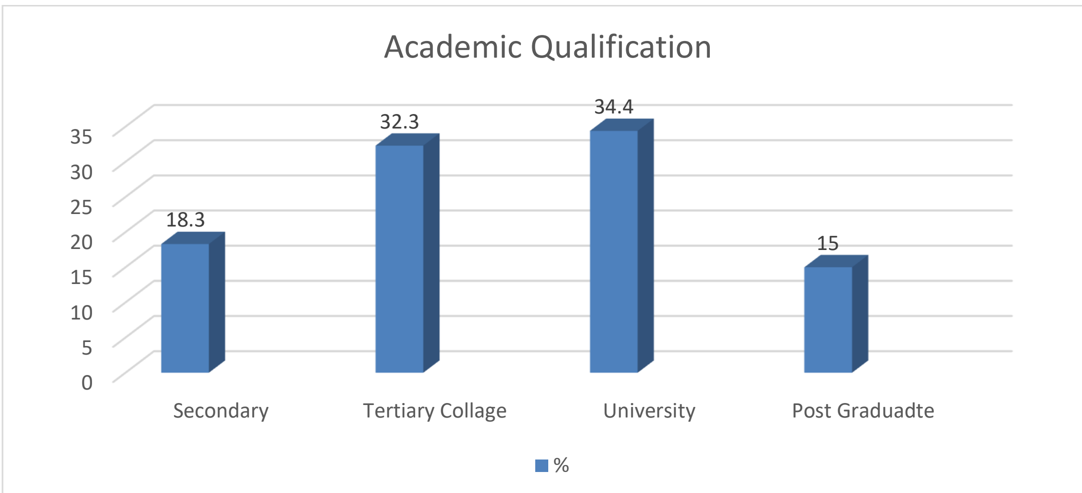

Figure 4.2 Academic qualification

The level of training and education of the respondents determined their perception and appreciation of complex issue such performance appraisal practices and performance of commercial banks in Machakos County.

4.2.5 Length of continuous service with the bank

The researcher also attempted to find out how long a respondent had been in continuous service with the bank. From the finding 38.8% majority had continuous service with the bank for over 10 years followed by 7-9 years at 31.2%, 4-6years at 17.8% and the minority were respondents who had in continuous service with the bank for 1-3years representing 11.6% of the total sampled respondents as indicated in table 4.4 The respondent's residence determined the reliability of information they would give concerning.

Table 4. 4 Length of continuous service with the bank

Category	Frequency	Percentage
0-3 Years	22	12.2 %
4-6 Years	32	17.8%
7-9 Years	57	31.2%
Over 10 Years	69	38.8%
Total	180	100

4.2.6 Length of bank operation in Kenya

The researcher also attempted to find out how long the banks been in operation in Kenya. Table 4.5 indicates that the majority (31.25%) of the total sampled banks had been in operation between 16-20 years followed by between 11-15, Under 10 years and Over 25 years all representing 18.75% each of the respondents. The least was banks that have been in operation between 21-25 years at 12.5%.The findings are shown in Table 4.5

Table 4.5 Length of bank operation in Kenya

Category	Frequency	Percentage
Under 10 Years	3	18.75
11-15years	3	18.75
16-20 years	5	31.25
21-25 years	2	12.5
Over 25 years	3	18.75
Total	16	100

4.2.7 Frequency of Conducting Performance Appraisal

The researcher also sought to find out how often performance appraisal is conducted within the organization. The finding indicates that the majority (81.25%) of the total sampled banks conduct their performance appraisal annually. Only 18.75% did their performance appraisal half yearly. None of the banks' undertake performance appraisal quarterly or no appraisal at all as shown in figure 4.3

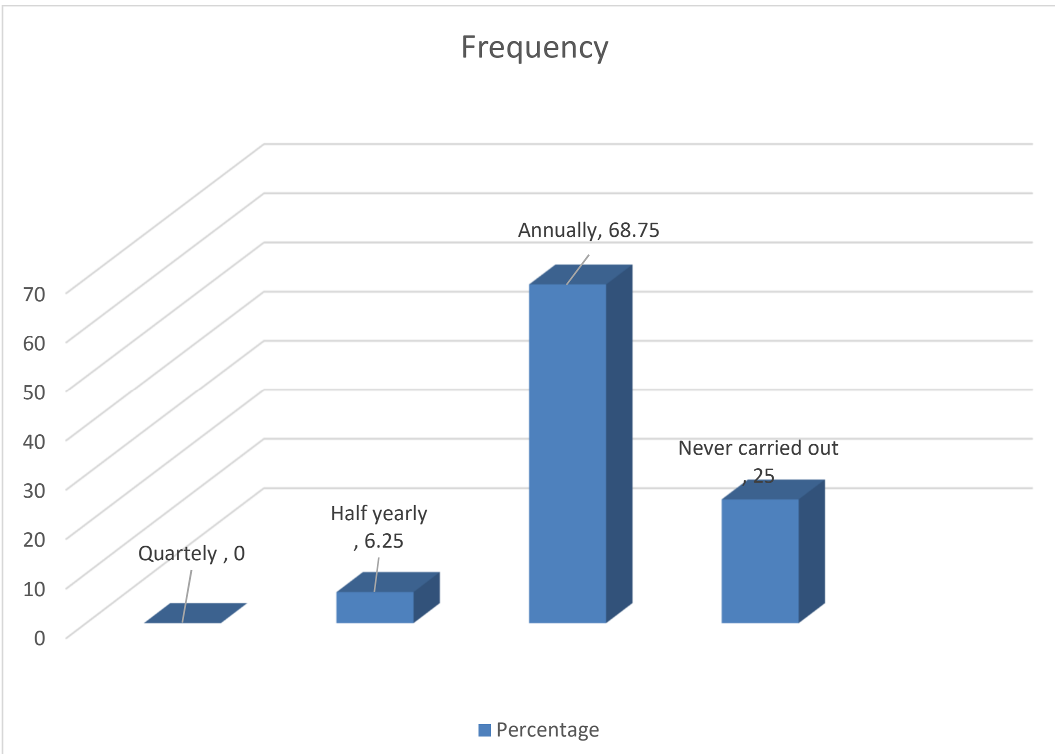

Figure 4.3 Frequency of Performance Appraisal Feedback

4.2.8 Frequency of Performance Appraisal feedback

The researcher also attempted to find out how often do the employees received feedback on the performance appraisal. The findings indicated that the majority (68.75%) of the total sampled banks conduct gave their performance appraisal annually. Only 6.25% gave feedback on performance appraisal half yearly. Sadly, a significant percentage 25% never gave back feedback on performance appraisal conducted. None of the banks gave feedback on performance appraisal quarterly or none at all thus defeating the logic as shown in Table 4.6

Table 4.9 Frequency of Performance Appraisal feedback

Category	Frequency	Percentage
Quarterly	-	-
Half yearly	1	6.25
Annually	11	68.75
Never	4	25
Total	**16**	**100**

4.3 Performance Appraisal Practices

4.3.1 Appraisal Techniques in conducting PA

The researcher further sought to find out to what extent the banks used some techniques such as 360 to evaluate employee performance appraisal. The respondents were asked to rate the frequency on a Likert scale of 1-Not at all, 2-Small extent, 3-Moderate extent, 4-Great extent and 5-Very great extent.

The findings were that the majority (60%) of the respondents indicated that Supervisor rating of subordinates i.e rating of employees by supervisors was practiced in either a great or very great extent; Another majority (73%) of the respondents indicated that employee rating of superiors i.e having superiors rated by Subordinates was practiced in either a great or very great extent.

However, a significant majority (56%) of the banks did not use Peer ratings where employees appraise each other. This was either practice in small extent or not at all. Last but not least, a majority (72%) of the total respondents indicated that to some great and very great extent their banks used Self-appraisal where employees are forced to think about their strengths and weaknesses and set goals for improvement as shown in Table 4.7

Table 4.7 Frequency of Performance Appraisal feedback

Appraisal technique	5	4	3	2	1
Supervisor rating of subordinates i.e rating of employees by supervisors	35%	25 %	10 %	18%	10%
Employee rating of superiors i.e having superiors rated by Subordinates	47%	26%	1%	16%	10%
Peer ratings where employees appraise each other	14%	29%	1%	25%	31%
Self-appraisal where employees are force think about their strengths and weaknesses and set goals for improvement	33 %	39%	21 %	10%	7%

4.3.2 Performance Appraisal Practices and Performance of Commercial Banks

Main focus of the study was to assess the effect of PAP on performance of commercial banks in Machakos County. The researcher therefore sought to find out the effect of performance appraisal practices and performance of commercial banks.

The respondents were asked to rate some performance indexes on a Likert scale of 1-Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree and 5-Strongly Agree.

The findings indicate that a majority (83%) of the respondents either agreed or strongly agreed with the item “Performance appraisal is an essential tool for organizational development”. Another majority (75%) also agreed that “Performance appraisal serves as a tool for employees’ performance”. Similarly, a majority (76%) agreed with the statement that “Performance appraisal has a motivational effect on workers’ performance”.

On whether Performance Appraisal is an essential management tool for promotion; a majority (55%) agreed. Only 50% majority agreed with the statement that Performance appraisal is used for training, development and training needs identification. The study finally found that a 63% majority found performance appraisal serving as a means for salary increment or distribution of rewards as indicated in Table 4.8

Table 4.8 Performance Appraisal and Performance

Statement	5	4	3	2	1
Performance appraisal is an essential tool for organizational development	70%	11%	2 %	3%	8%
Performance appraisal serves as a tool for employees’ performance	50%	27%	10.0%	11%	2.0%
Performance appraisal has a motivational effect on workers’ performance	60%	17%	7%	10 %	6%
Performance appraisal is an essential management tool for promotion	20%	31%	9%	18%	12%
Performance appraisal is used for training, development and training needs identification	18%	32%	21%	17%	12%
Performance appraisal serves as a means for salary increment or distribution of rewards	30%	30%	11 %	17%	12%

4.4 Preparation for Appraisal and Performance of Commercial Banks

In the first objective of the study, the researcher sought to assess establish how preparation on performance appraisal affects performance of commercial banks in Machakos County Kenya. The researcher sought to find out whether banks set and communicate targets to employees, train employees on PA and rating errors on PA.

The findings showed that, preparation for PA positively affects performance of commercial banks. When preparation is done well by involving the workers in setting their targets, training both raters and ratees on PA to reduce rating errors, then workers will trust the whole process and will be motivated tom work hence increasing performance. If preparation is poorly done, workers will be demotivated to work since they will term the process as unfair hence lowering their performance and consequently banks performance.

The findings were that majority (63%) of the respondents agreed with the item "The bank organizes for specialized training of its staff on PA". Another majority (59.8%) of the respondents agreed with the item "The bank employees receive training on in the work place on performance appraisal regular basis"; another 82% of the respondents agreed with item "Employee training on performance appraisal benefits the employer through good performance.

On whether the company always engages trained appraisers every time the appraisal process is conducted" a significant (65%) of the respondents agreed. Additionally, a majority (84%) of the respondents agreed with the item that the use of trained appraisers results to fairness in the process. Finally, a majority (60%) of the respondents agreed with the item that Training appraisers reduces variations in recommendations on the appraised by the appraisal panel committee hence increasing confidence in the process as supported by (Koech, 2012).

4.4.1 Training Preparations

The study found that Majority (61%) of the respondents agreed with the item "The bank organizes for specialized training of its staff on PA". Another majority (60%) of the respondents agreed with the item "The bank employees receive training on in the work place on performance appraisal regular basis"; another 72% of the respondents agreed with item "Employee training on performance appraisal benefits the employer through good performance.

On whether the company always engages trained appraisers every time the appraisal process is conducted" a significant (55%) of the respondents agreed. Additionally, a majority (74%) of the respondents agreed with the item that the use of trained appraisers results to fairness in the process. Finally, a majority (63%) of the respondents agreed with the item that Training appraisers reduces variations in recommendations on the appraised by the appraisal panel committee hence increasing confidence in the process as shown in the findings areas indicated in Table 4.9

Table 4.9: Training on Performance Appraisal

Training on performance appraisal	SA(5)	A(4)	N(3)	D(2)	SD (1)
The bank organizes for specialized training of its staff on PA	34%	29%	15%	15%	8%
The bank employees receive training on in the work place on performance appraisal regular basis.	29%	30.8 %	4%	21.2%	15%
Employee training on performance appraisal benefits the employer through good performance.	50 %	32 %	8%	10%	7%
The company always engages trained appraisers every time the appraisal process is conducted	30 %	35%	5%	15%	15%
The use of trained appraisers results to fairness in the process	47%	37%	6%	5%	5%
Training appraisers reduces variations in recommendations on the appraised by the appraisal panel committee hence increasing confidence in the process.	25%	35	20%	15%	10%

4.4.2 Goal Setting

The researcher also examined how important Goal setting is in preparation for appraisal. The results showed that only 47% of the respondents agreed that the institution employees are involved in setting targets/goals in the bank. Another greater majority (70%) of the respondents also agreed that Goal setting in the bank is clear and achievable. Another greater majority (76%) of the respondents agreed that Involvement of employees in goal setting contributes to high performance in the bank. However, only 44% of the respondents agreed that Goal setting in the bank is based on employees' abilities. On whether the employees and supervisors in the bank negotiate resources necessary to achieve the goals 69% of the respondents agreed as are as shown in Table 4.10

Table 4.10 goal/target setting

Goal/target setting practice	5	4	3	2	1
Employees are involved in setting targets/goals in the bank	16%	37 %	11%	26%	10%
Goal setting in the bank is clear and achievable	35%	35 %	11 %	8%	11%
Involvement of employees in goal setting contributes to high performance in the bank.	23 %	53 %	3%	18%	3%
Goal setting in the bank is based on employees' abilities	15%	29%	1%	34%	21%
The employees and supervisors in the bank negotiate resources necessary to achieve the goals	20 %	49%	11 %	13%	7%

These findings agree with Koech (2012) who noted that, targets should be set prior to commencement of the performance contract. The targets should be communicated and agreed upon by both parties, so that managers and the employees can be fairly held accountable for their achievement or lack of it at the end of the performance contract period. Additionally, Brown et al (2010) observed that when expectations are not clear, employees may not understand them, which may affect the employee's outcome as well as that of banks.

As was noted by Koech (2012), Performance targets should be negotiated at the beginning of the Period, not imposed arbitrarily by the top management.

Departmental managers should be allowed to manage their departments within the agreed parameters. At the end of the agreed period, performance of their department is judged systematically against the targets negotiated at the beginning. The performance result should then be linked to a system of rewards or sanctions for good or poor performance respectively. The findings further agree with the findings of Muthoka (2016) who pointed out that linking performance with reward increases employee's commitment to work in order to get the reward which in turn increases banks performance.

4.5 Conducting of Performance Appraisal and Performance

The researcher also sought to determine how conducting of performance appraisal affects performance of commercial banks in Machakos County. The researcher looked at how actual performance was measured against the set targets and rating errors experienced.

From the findings, conducting PA positively affects performance of commercial banks. If PA is conducted according to the subscribed standards by ensuring that, it is continuous, free from errors and fair to all workers then, performance of commercial banks will improve. When workers perceive unfairness on how the PA is conducted, lack of consistency and rating errors in the process, demotivation set in thus affecting individual's performance and consequently the banks performance as supported by (Muthoka, 2016).

Majority (67%) of the respondents agreed with the item that "The ongoing monitoring in the bank has provided an opportunity to check how well employees are meeting predetermined standards”. However, majority (49%) respondents did not agree with the statement that “The employees help in the policy creation process as a way to make them appreciate the monitoring system”. Further on a majority (48%) of the respondents agreed with the statement “Monitoring continually helps to identify unacceptable performance”.

Further, 58% of the respondents, agreed that “If the bank is going to discipline based on the monitoring system, the employee have right to see exactly what they did wrong. “Additionally, the researcher inquired whether “Performance monitoring plays a central role in the process of problem solving at the bank’’. A majority (65%) of the respondents either agreed or strongly agreed with the item.

Further on, a majority (59%) of the respondents agreed that “Monitoring has helped increase efficiency, develop customer service and improve the evaluation process of the employees at the bank’’. On whether “The evaluation methods used are fair in measuring my performance”, 76% of the respondents agreed. Another 77.9% indicated that “Periodic performance rating has an impact on the performance of employees”

Additionally, 70% of the respondents agreed that “The evaluation methods used are designed with inputs from the employees and their representatives” while ,79% agreed that “The company uses modern and non-complex methods during the conducting of performance appraisal “while another majority (69%) agreed that “The conducting of performance appraisal process is just and fair as shown in table 4.11 below.

Table 4.11: Conducting of Performance Appraisal and Performance

Statement	1	2	3	4	5
The ongoing monitoring in the bank has provided an opportunity to check how well employees are meeting predetermined standards	30%	37%	15%	15%	2%
The employees help in the policy creation process as a way to make them appreciate the monitoring system	13%	16%	10%	20%	31%
Monitoring continually helps to identify unacceptable performance	10 %	39%	15%	14%	12%
If the bank is going to discipline based on the monitoring system, the employee have right to see exactly what they did wrong.	34%	24%	10%	16%	16%
Performance monitoring plays a central role in the process of problem solving at the bank	35%	30%	18%	13%	4%
Monitoring has helped increase efficiency, develop customer service and improve the evaluation process of the employees at the bank	26 %	35 %	21%	10 %	8%
The evaluation methods used are fair in measuring my performance	40 %	39%	1 %	13%	7%
Periodic performance rating has an impact on the performance of employees	59.8%	19%	1.1%	2.1%	18%
The evaluation methods used are designed with inputs from the employees and their representatives	35%	35%	4%	16%	10%
The company uses modern and non-complex methods during the conducting of performance appraisal	59%	20%	5%	6%	15 %
The conducting of performance appraisal process is just and fair	33%	36%	5%	12%	14%

The finding shows that the employees were generally satisfied with how the performance appraisal was conducted. This is very crucial in performance. As was observed by Grobler and Govender (2016), organization should ensure the system is fair to all and resources are equally distributed to all workers to ensure fair play ground to all in order to improve individual performance and consequently organizational performance. Muthoka, (2016), also found that to reduce bias, discrimination and favoritism, performance appraisal system should have a continuous review mechanism, were the evaluator's immediate supervisor; automatically review all evaluations of employees made by subordinate managers. This is to ensure that the evaluator has carried out his or her function objectively which boosts employees' moral and consequently overall firms' performance

4.6 Appraisal Feedback and Performance of Commercial Banks

Finally, the researcher sought to establish how feedback on performance appraisal affects performance of commercial banks in Machakos County. The researcher looked at appraisal report, initiating corrective action and sanctions and rewards on performance.

The study findings agree with Boateng (2011) who also observed that appraisal results help human resource management in determining succession planning, promotions, separation or training. Gichuhi (2016), equally stressed that, feedback should be clear, continuous and based on employees' performance. Any mistake detected should be address immediately to avoid loss in the company. He adds that Feedback makes ratees to know their capability and overall progress within the organization.

Managers therefore need to take time to show an employee how his/her performance affects the productivity of the entire organization. Feedback raises employee's inner drive and motivates him to increase his/her level of commitment to work which in turn improves his/her performance and consequently organizational performance. Therefore feedback affects PA positively if given on time and in a discussion where, the employee is given time to express his/her view concerning the performance

The findings showed that, 58% majority of the respondents agreed with the item that "Information generated through performance appraisal is used to give feedback to employee so that they know where they stand". But only 49% majority confirmed that "Employees receive feedback frequently enough to assess progress made toward goal attainment".

On whether "Employees' in the bank are trained after receiving feedback on their performance", only 56% of the respondents agreed. Another majority *(*80%) agreed with the statement that "Customers are a useful source to provide feedback to the bank about employees' performance" while another significant majority (85%) of the respondents agreed that "Highly Competent and excellent performing staff are rewarded more than less competent and poorly performing staff".

Furthermore, a majority (49%) agreed that "The current reward system encourages better performance" but a significant majority (53%) disagreed with the item that "The bank reviews its reward system more frequently". A majority (50%) disagreed that "Employees are satisfied by the newly reviewed reward systems". But another majority (66%) agreed that "The reward system always reflects the recommendations by the performance appraisal team" as shown in Table 4.12 below.

Table 4.12 Appraisal Feedback and Performance of Commercial Banks

Statement	1	2	3	4	5
Information generated through performance appraisal is used to give feedback to employee so that they know where they stand	21%	37%	5%	13%	24%
Employees receive feedback frequently enough to assess progress made toward goal attainment	20%	29%	23%	13%	15%
Employees in the bank are trained after receiving feedback on their performance	34%	22%	10%	4%	30.%
Customers are a useful source to provide feedback to the bank about employees' performance	40%	40%	0%	6%	14%
Highly Competent and excellent performing staff are rewarded more than less competent and poorly performing staff	59%	26%	5%	5%	5%
The current reward system encourages better performance	24%	25%	5%	22%	24%
The bank reviews its reward system more frequently	10%	26 %	11%	26%	27%
Employees are satisfied by the newly reviewed reward systems	11%	18 %	21 %	25%	25%
The reward system always reflects the recommendations by the performance appraisal team.	23%	43 %	13%	18%	3%

4.7 Inferential Statistics

Multiple regression analysis was utilized to investigate the relationship between the variables. These included an error term, whereby a dependent variable was expressed as a combination of independent variables. The unknown parameters in the model were estimated, using observed values of the dependent and independent variables. The following model is the regression equation representing the relationship between performance of commercial banks in Machakos County as a linear function of the independent variables (preparation before performance appraisal, conducting performance appraisal, feedback on performance appraisal), with έ representing the error term.

$Yi = \alpha i + \beta 1x1 + \beta 2x2 + \beta 3x3 + \acute{\varepsilon}$.

Where; $\beta 0$………………Equation (Equation 1: Regression Equation)

Where; Yi = Performance of Commercial Banks

$\beta 1$, $\beta 2$, $\beta 3$ = coefficients of effects of Performance Appraisal Practices (PAP) on Performance of Commercial Banks or change induced in Y by each X

X1 = Preparation before Performance Appraisal

X2 = Conducting Performance Appraisal

X3 = Feedback on Performance Appraisal

αi= the constant

$\acute{\varepsilon}$= error rate

Regression Results of the Relationship between Variables

From the findings, preparation was most significant at a t-ratio of 1.435. This implies that an increase in preparation before performance appraisal will effectively improve performance of commercial banks in Machakos County by a margin of 1.435. There is also a positive relationship between performance of commercial banks in Machakos County and conducting performance appraisal levels with a statistically significant t-ratio of 1.213. Finally, feedback on performance appraisal is also statistically significant as indicated by a t- ratio of 1.434 as indicated in Table 4.13

Table 4.16: Regression Results of the Relationship between Variables

	Unstandardized Coefficients		Standardized Coefficients	t-values	t-critical	Significance
	Beta	Std. Error	Beta			
(Constant)	4.481	5.30		0.912	1.667	0.472
Preparation	1.421	1.222	0.97	1.467	1.667	0.375
Conducting	1.752	1.324	0.68	1.226	1.667	0.041
Feedback	1.782	1.235	0.94	1.444	1.667	0.0342

NB: T-critical Value 1.667 (statistically significant if the t-value is less than 1.667: from table of t-values).

Yi = 4.481 + 1.421 X1 + 1.752 X2 + 1.782 X3 + έ………....…Equation 1

(Equation 1: Regression Equation with Beta Values).

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary of the findings, conclusions and recommendations of the study based on the research objectives. The study sought to establish the performance appraisal practices and performance of commercial banks in Machakos County. The theoretical framework, on which this study was based, was expounded. The study was based on expectancy theory, goal setting theory and the equity theory. A descriptive survey research design was used. Specifically, to establish how preparation, conduction and feedback on performance appraisal affects performance of commercial banks within Machakos County. Data was presented using tables and graphs.

5.1 Summary of the Findings

The study resulted in the following findings in line with the objectives:

5.1.1 Preparation of Appraisal and Performance of Commercial Banks

Multiple regression analysis indicated that there is a significant positive relationship between preparation of performance appraisal and performance of commercial banks in Machakos County indicated by a t-ratio of 1.435. Most of the banks organize for specialized training of its staff on PA although only few of the Employees are involved in setting targets/goals in the bank. However, majority of the employees and supervisors in the bank negotiate resources necessary to achieve the goals as indicated by most of the respondents.

5.1.2 Conducting Appraisal and Performance of Commercial Banks

The study found a positive relationship between performance of commercial banks in Machakos County and conducting performance appraisal levels at a t-ratio of 1. 213. The study found that continuous monitoring helped to identify unacceptable performance and that performance monitoring significantly helped in the process of problem solving at the bank.

It was also found that majority of the companies used modern and non-complex methods during the conducting of performance appraisal and the actual performance appraisal process is just and fair. These finding asserts the need for conducting performance appraisal since it affects performance of commercial banks in Machakos County.

5.1.3 Appraisal Feedback and Performance of Commercial Banks

Finally, the study found a positive relationship between performance of commercial banks in Machakos County and feedback on performance appraisal with a t-ratio of 1. 434. The study found that Information generated through performance appraisal is used to give feedback to employee so that they know where they stand. Feedback helped in training employees as respondents indicated by most respondents. It also helps to reward employees who exceed the set targets as indicated by majority of respondents and that Customers are a useful source to provide feedback to the bank about employees' performance as indicated by majority.

5.2 Conclusion of the study

The study was successful in addressing its objectives. Given the foregoing, the study arrived at the following conclusions;

On the first objective the study concludes that preparation of performance appraisal has a great effect on performance of commercial banks. Effective preparations can be made through specialized training of staff, their involvement in setting targets/goals in the bank and provision of resources necessary to achieve the goals.

It is also concluded that performance of commercial banks is affected by the form of performance appraisal conducted. Modern and non-complex methods were more effective as well as continuous monitoring of the appraisal.

The study further concludes that feedback on performance appraisal is critical to ensure performance of commercial banks. Feedback gives employee a clearer picture of where they standhence offers poor performers are chance to improve. It also helps in training and rewarding of employees since managers are able to make informed decisions about promotions and assignments based on applicable facts improve employee's synergies.

The study further concludes that timely feedback provides an opportunity to monitor individual development plan, encourage the individual work planning and achievement of targets and making management make informed decisions in on how to promote their employees.

5.3 Recommendations

From the study findings and conclusion, the following recommendations are advanced The study therefore recommends for proper training of employees based on performance gaps. Supervisors should be trained on appraisal to reduce rating errors. Employees should be included in setting personal and firms' goals based on employees abilities.

The study also recommends that banks should use combination of appraisal techniques to reduce the weaknesses of one single technique. Continuous assessment of the methods used should be done.

The study recommends that banks should adopt participatory performance appraisal systems in order to motivate employees and reduce biased considerations in both the process and outcome.

From the findings, the study recommends that Appraisal feedback in order to provide opportunities to the management in identifying staff training needs, identify performance targets, improve employees' performance as well as reward higher performing employees.

5.4 Suggestion for Further Research

The study area was Machakos County. It will be valuable to investigate similar studies in other counties in Kenya.

The study also confined itself to commercial banks. This research therefore should be replicated in other sectors to establish the performance appraisal practices adopted in those sectors. At the same time it is important to explore how commercial banks can establish the formal appeal and control system, and keep transparency in performance appraisal. This further study may help banks or other organizations to improve its performance appraisal system specifically, and make it work professionally.

The study recommends for further study on methods used in conducting performance appraisal and their effect on performance.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

To all Commercial Banks

Machakos County

Kenya

Dear Sir/Madam,

REF: PARTICIPATION IN RESEARCH

I am a Post graduate student at Machakos University pursuing a Master's Degree in Business Administration. As part of the requirements for the award of this degree I am conducting a study on Performance Appraisal Practices and Performance of Commercial banks in Machakos County. Therefore, I humbly request you to co- assist in filling in the questionnaire. The information you will provide will be strictly used for the purpose of this study and your identity will be kept confidential. I will be grateful for your co-operation. Thank you in advance.

Yours faithfully,

____

Mwanthi Winfred mutindi.

APPENDIX 2: QUESTIONNAIRE

Please give answers in the spaces provided and tick ( ) in the box that matches your response to the questions where applicable.

Section A: general information

1. Kindly indicate your gender

a) Male [ ]   b) Female [ ]

2. Name of the bank……………………………………………………………

3. What is your highest level of education qualification?

a) Post graduate level ( ) b) University ( )c) Tertiary College ( ) d) Secondary ( )

4. Length of continuous service with the bank?

a) Less than five years ( )b) 5-10 years ( )c) Over 10 years ( )

5. For how long has your bank been in operation in Kenya?

a) Under 10 years ( ) b) 11 – 15 years ( )c) 16 – 20 years ( ) d) 21 - 25 years ( )
e) Over 25 years ( )

Section B: Performance Appraisal

6. How often is performance appraisal carried out within the organization?

a) Quarterly ( ) b) Half yearly ( )c) Annually ( ) c) Never carried out ( )

7. How often do the employees receive feedback on the performance appraisal?

a) Quarterly ( ) b) Half yearly ( ) c) Annually ( ) d) Never ( )

8. To what extent does your bank use the following techniques on employee performance appraisal? Use 1-Not at all, 2-Small extent, 3-Moderate extent, 4-Great extent and 5-Very great extent.

Appraisal technique	1	2	3	4	5
Supervisor rating of subordinates i.e rating of employees by supervisors					
Employee rating of superiors i.e having superiors rated by Subordinates					
Peer ratings where employees appraise each other					
Self-appraisal where employees are forced to think about their strengths and weaknesses and set goals for improvement					

9. To what extent do you agree on the following regarding performance appraisal in your bank? Use 1- Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree and 5-Strongly Agree

Statement	1	2	3	4	5
Performance appraisal is an essential tool for organizational development					
Performance appraisal serves as a tool for employees' performance					
Performance appraisal has a motivational effect on workers' performance					
Performance appraisal is an essential management tool for promotion					

Performance appraisal is used for training, development and training needs identification					
Performance appraisal serves as a means for salary increment or distribution of rewards					

10. Using the key given, choose or tick the right alternative that corresponds with your opinion as they relate to you regarding appraisal practices used in your bank as follows: 1- Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree and 5-Strongly Agree.

Statement	1	2	3	4	5
I am well informed about the purpose of appraisal					
I am given the objectives upon which the appraisal practice is conducted					
I am regularly appraised					
The bank management uses more than one type of appraisal					
I am given the opportunity to react to the evaluators rating and Comments					
The manager discusses with me the results of the appraisal practice					

11. To what extent do you agree with the following regarding goal/target setting in your bank? Use 1- Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree and 5-Strongly Agree.

Goal/target setting practice	1	2	3	4	5
Employees are involved in setting targets/goals in the bank					
Goal setting in the bank is clear and achievable					
Involvement of employees in goal setting contributes to high performance in the bank.					
Goal setting in the bank is based on employees' abilities					
The employees and supervisors in the bank negotiate resources necessary to achieve the goals					

12. To what extent do you agree with the following regarding training on performance appraisal in your bank? Use 1- Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree and 5-Strongly Agree.

Training on performance appraisal	1	2	3	4	5
The bank organizes for specialized training of its staff on PA					
The bank employees receive training on in the work place on performance appraisal regular basis.					
Employee training on performance appraisal benefits the employer through good performance.					
The company always engages trained appraisers every time the appraisal process is conducted					
The use of trained appraisers results to fairness in the process					
Training appraisers reduces variations in recommendations on the appraised by the appraisal panel committee hence increasing confidence in the process.					

13. To what extent do you agree with the following regarding evaluating/ measuring and monitoring performance in your bank? Use 1- Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree and 5-Strongly Agree.

Statement	1	2	3	4	5
The ongoing monitoring in the bank has provided an opportunity to check how well employees are meeting predetermined standards					
Monitoring continually helps to identify unacceptable performance					
The employees help in the policy creation process as a way to make them appreciate the monitoring system					
If the bank is going to discipline based on the monitoring system, the employee have right to see exactly what they did wrong.					
Performance monitoring plays a central role in the process of problem solving at the bank					
Monitoring has helped increase efficiency, develop customer service and improve the evaluation process of the employees at the bank					
The evaluation methods used are fair in measuring my performance					
Periodic performance rating has an impact on the performance of employees					

The evaluation methods used are designed with inputs from the employees and their representatives					
The company uses modern and non-complex methods during the conducting of performance appraisal					
The conducting of performance appraisal process is just and fair					

14. To what extent do you agree with the following regarding performance appraisal feedback in your bank? Use 1- Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree and 5-Strongly Agree.

Statement	1	2	3	4	5
Information generated through performance appraisal is used to give feedback to employee so that they know where they stand					
Employees receive feedback frequently enough to assess progress made toward goal attainment					
Employees in the bank are trained after receiving feedback on their performance					
Customers are a useful source to provide feedback to the bank about employees' performance					
Highly Competent and excellent performing staff are rewarded more than less competent and poorly performing staff					
The current reward system encourages better performance					
The bank reviews its reward system more frequently					
Employees are satisfied by the newly reviewed reward systems					
The reward system always reflects the recommendations by the performance appraisal team.					

Thanks for your cooperation

APPENDIX 3: INTERVIEW GUIDE

1. How long have you worked for the bank in your current capacity?

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……………………………………………

2. What is the method of performance appraisal your Bank is using? Any other?

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…………………………………………………………………………………………
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3. Does the method have a positive or negative impact on performance? Why?

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4. To what extent are employees under you involved in setting performance targets?

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5. How do you operationalize your performance appraisal?

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6. Do you have sufficient resources to enable you achieve the tasks in your performance appraisal?

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7. Is there an independent monitoring and evaluation system to give you feedback on your performance?

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8. What are some of challenges you faced when conducting performance appraisal at the bank in general

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9. Do employees feel confident in the reward received by them after being evaluating? Has performance greatly improved as a result of the rewards they receive?

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10. Would you say your Bank is using the best method of evaluating employees? Give reasons.

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11. How often are the employees appraised? What is the interval? Do you consider this satisfactory or not satisfactory? Briefly comment.

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12. To what extent are employees in your bank satisfied with the current PAS - Satisfied, Moderately Satisfied, Not satisfied? How do you know that they are satisfied?

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13. How does performance appraisal impact on performance of the bank? Briefly explain

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14. How is performance in your bank, has performance appraisal practices affected the current performance. Briefly explain

……………………………………………………………………………………………
……………………………………………………………………………………………
…

THANKS FOR YOUR CO-OPERATION

APPENDIX 4: NACOSTI PERMIT

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **215267**

Date of Issue: **14/August/2019**

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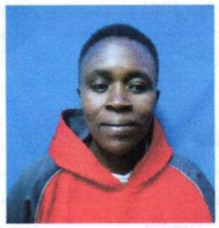

This is to Certify that Ms.. WINFRED MWANTHI of Machakos University, has been licensed to conduct research in Machakos on the topic: PERFORMANCE APPRAISAL PRACTICES AND PERFORMANCE OF COMMERCIAL BANKS IN MACHAKOS COUNTY for the period ending : 14/August/2020.

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NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

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APPENDIX 5: INTRODUCTION LETTER FROM THE UNIVERSITY

MACHAKOS UNIVERSITY
OFFICE OF THE DEAN GRADUATE SCHOOL

Telephone:254-0()735247939, (0)723805929
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Machakos
KENYA

REF.MKsU/GS/SS/O12/VOL.1

18th JULY, 2019

The Director
National Commission for Science, Technology and Innovation
P.O. Box 30623
NAIROBI

Dear Sir,

RE: WINFRED MUTINDI MWANTHI– D53/6517/2015

The above named is a master's student in the second year of study and has cleared her course work. The University has cleared her to conduct research entitled: **"Performance Appraisal Practices and Performance of Commercial Banks in Machakos County."**

Kindly assist her with a research permit in order to undertake the research.

Thank you.

DEAN OF GRADUATE SCHOOL
P.O. 136-90100, MACHAKOS
18 JUL 2019
MACHAKOS UNIVERSITY

DR. KIMITI RICHARD PETER, PhD
AG. DEAN GRADUATE SCHOOL
KRP/dms