

Effects of Performance Appraisal on Organizational Performance: An Empirical Study of Goal Setting on Organizational Performance in Murang'a Water and Sanitation Companies, Kenya. Bula Hannah Orwa (PhD)¹ & Elijah Ng'ang'a Njuguna²

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Abstract

The purpose of this study is to assess the impact of performance appraisal on organizational performance in Murang'a water and Sanitation Company. Specifically, the study sought to establish the effect of goal setting in performance appraisal, on the Company's organizational performance. The study employed descriptive research survey through which primary data was collected from 94 employees working in Murang'a water and Sanitation Company. Data collected was analyzed using both descriptive statistical techniques and regression analysis. The results demonstrate that employees' goal setting in performance appraisal significantly influence organizational performance.

Key Terms: Performance appraisal, Organizational Performance, Goal Setting.

1. Background of the study

Firms engage in the performance-appraisal process for numerous reasons. Managers may conduct performance appraisal to affect employee behavior through the feedback process, or to justify some sort of human resource management action. However, many other benefits may also accrue from the information yielded by the appraisal. These benefits include increases in knowledge regarding the effectiveness of selection and placement programs, training and development needs, budgeting; human resource planning, and reward decisions (Cardy & Dobbins, 2008). In general, Kuvaas (2006) has defined developmental performance appraisal as an attempt towards enrichment of viewpoints, experiences and skills in order to improve employees' efficiency. It is, according to (Roberts & Reed,

(2008) synonymous with improvement of individuals' effectiveness and process of the organization's business from organizational viewpoint. Performance appraisal is an action for testing, measuring, valuating and justifying performance levels during a certain period of time. Performance testing is an informational system which is the essential core of the performance appraisal process (Tuytens & Devos, 2012) with its attendant benefits.

Cameron & Pierce (2004) asserts that performance appraisal is intended to assist organizations to in realize their strategic purposes while enhancing of the effectiveness of work processes through continuous improvement of individuals' performance and improvement of organizational processes. On the other hand, Cardy & Dobbins (2008) sees performance appraisal as one of the main parts of organizational life and consisting of several organizational processes such as measuring of work performance, establishing of purposes and reward management. Overall however, there is an agreement among researchers in the field of performance appraisal that assessing reflections and reactions of appraisal is very important. For instance, it has been frequently discussed that performance appraisal has a positive effect on employee's behavior.

Employees should experience positive reflections of performance appraisal to reinforce the good traits (Cardy & Dobbins, 2008). Although performance appraisal satisfaction has frequently been measured as a reflection of appraisal, there is no evidence on the manner and reason of measuring of satisfaction from evaluating of experimental outcomes. Kuvaas, (2006) agrees that performance appraisal is a key concept human resources management and is one of the subjects which have been studied and investigated in the psychology of work. Pettijohn et al., (2001) considers systems of performance appraisal as one of the most vital subjects of human resources in 21 century.. Today Performance appraisal has been transformed to a strategic approach for integrating of human resources activities and business policies.

One of the ways that organizations can apply developmental performance appraisal is by using performance appraisal activities in relation to determining of strategies, purposes and organizational performance. Latham (2003), explains that paying attention to emotional grounds and stimulant of superior purposes of the organization could likely be a reason for participation of individuals in organization, thus employees should experience higher levels of commitment with regard to superior purposes and become more committed to their organization to the extent that performance appraisal is related to main strategies, purposes and performance of the organization. Moreover, performance appraisal is argued to cause increase in employees' understanding of the sense of being valuable and know themselves as a part of the organizational team.

1.1. Murang'a Water and Sanitation Company

The Murang'a Water and Sanitation Company Limited (MUWASCO) was incorporated on 14th March 2006 under the Companies Act CAP 486 of the Laws of Kenya. It was incorporated as a company limited as a guarantee to give it autonomy to operate commercially. The company is contracted by Tana Water Services Board, a state corporation established under the Water Act of 2002. It is mandated to provide efficient and economical water and sanitation services within Murang'a Municipality and its immediate environs through signing of a Service Provision Agreement (SPA) between MUWASCO and Tana Water Services Board (TWSB). The key principle of forming the company was to merge water provision, previously under the District Water Office and Sewerage services from the Municipal council of Murang'a. Also to RING FENCE the water and sewerage income for reinvestment in the water and sewerage services and enhance service delivery efficiency. The Company consists of nine

Board members who are appointed by the stake holders and covers an area of approximately twelve kilometers squared (12Km²). It has its headquarters off Kangema Road-Murang'a town and has so far 6,839 active water connections and 7,840 registered connections. The Company's management is headed by a Managing Director and has three main departments namely: Technical Services, Commercial Department and Human Resources & Administration Department

1.2 Statement of the problem

According to for example Sorensen, Severinson&Iedama, (2008), organizations sometimes experience dissatisfaction with their performance appraisal procedures despite availability of evidence that appraisals have successfully been used as a mechanism for developing and motivating employees. Performance appraisal can be considered to be a technique that has a positive effect on work environment and quality of service. There are a number of problems connected to performance appraisal which include poor design, lack of attention to the organizational culture, and unwillingness to confront issues of poor performance, as well as time pressure. Performance appraisal provides a good opportunity to formally recognize employees' achievements and contributions to the organization, and to ensure that a clear link is established and maintained between performance and reward. However, poor infrastructure, inadequate logistics and equipment, poor remuneration and inadequate reward system have always led to the low level of performance in organizations.(Gbadamosi& Ross (2012). There is no empirical evidence on the impact of performance appraisal on organizational performance in Murang'a County. This study sought to fill this research gap by assessing the impact of performance appraisal on organizational performance by focusing on Murang'a water and Sanitation Company.

1.3 Objectives of the study

The objective of this study was to determine the effect of goal setting in performance appraisal on organizational performance in Murang'a water and Sanitation Company.

2 Theoretical Framework: Goal Setting Theory

The study made use goal setting theory to scrutinize performance against the company's goals. Since it was first researched five decades ago, goal-setting theory has been the most researched, utilized, and established theory of work motivation in the field of industrial and organizational psychology.

The theory began with the early work on levels of aspiration developed by Kurt and Locke (1968). The research revealed an inductive relationship between goal setting and improved production performance. A goal is the aim of an action or task that a person consciously desires to achieve or obtain (Locke & Latham, 2006). Goal setting involves the conscious process of establishing levels of performance in order to obtain desirable outcomes. If individuals or teams find that their current performance is not achieving desired goals, they typically become motivated to increase effort or change their strategy.

The relationship between goal difficulty, level of performance, and effort involved is critical in performance appraisal. This relationship will stay positive, as long as the person under scrutiny is committed to the goal, has the requisite ability to attain it, and doesn't have conflicting goals. Locke and Latham's goal setting theory states that several conditions are particularly important in successful goal achievement. These include goal acceptance and commitment, goal specificity, goal difficulty, and feedback. These conditions have been extended and edited by other researchers, such as Kenneth Blanchard and Spencer Johnson's SMART goals, which are conditions that are necessary to make goals effective (Thurston & McNall, 2010). According to Walsh & Fisher (2005), the two most important findings of this theory are that setting specific goals generates higher levels of performance than setting general goals, and that goals that are hard to achieve are linearly and positively connected to performance. The harder the goal, the more a person will work to reach it. However, such influences on performance are mediated by feedback, and that the person in question accepts the goal.

2.1 Empirical Literature

2.1.1 Goal setting in performance appraisal on the organizational performance

Each organization has job-goals for its work, such as goals for the organization's function and for their employees' job development. Goal setting is normally a powerful motivator because both intrinsic and extrinsic motivations affect the situation (Payne, 2005). Goal setting is effective as long as employees accept it, and it is a visible process and a key

component of performance appraisal participation. Goal setting theory has been dominated by job motivation theory in the last decade. The theory focuses on mobilization, tasks, continual encouragement, feedback in the job and strategy for the employees own development. Goals may be divided into four categories: performance goals, interpersonal goals, strategic goals and internalization goals (Caruth& Humphreys, 2008). In performance appraisal, the participant may be connected to several of these goal categories. The basic approach in performance appraisal is that the manager and their subordinates focus on the same goals. Differences in education, employment, training, but also time pressures, shift work and the use of temporary workers may make this coordination difficult (Tuytens&Devos, 2012).

Many employees have some insight into their organization's goals. Intrinsic motivation will likely be necessary in a workplace with complex task structures and a stressful atmosphere (Kuvaas, 2006, Njuguna, and Bula , 2015) Research indicates that a stressful atmosphere may be problematic in assuring cooperation and communication between members in the workplace. Intrinsic motivation is the power of motivation a person needs to perform an activity in order to experience the pleasure and satisfaction inherent to the activity. Thus, when discussing the use of performance appraisal, it is important to distinguish among the various goals that participants have for the process, because these goals may be different (Gbadamosi& Ross, 2012). There are four possible groups of goals: the organization's goals, the rater's goals (the individual who is conducting the appraisal), the ratees' goals (the individual being evaluated), and the performance appraisal researcher's goals (the individual responsible for research work). A performance appraisal will probably work best when formal goals, organizational goals, and the ratees' and rater's goals for performance appraisal are compatible. Several researchers have also made a distinction between the concepts of "goals" and "standards", where goals are described as being internally imposed, while standards are externally imposed, for instance by managers. Participation in the process of setting standards and goals probably increases the chances of commitment (Cardy& Dobbins, 2008).

To support the strength of goal oriented performance for instance; Rotich R.K (2012), conducted a study on the impact of performance appraisal on staff development in selected multinational companies in Kericho Kenya. He attests that performance appraisal where goals are set within SMART objectives motivation is always at its best. Goal mechanisms affect performance by increasing motivation to reach set goals (Latham, 2004). These mechanisms are inputs that affect behavior in groups or individuals, which serve to increase attention to a goal, energy in pursuing a goal, persistence in achieving a goal, and ability to strategize to reach a goal. When an individual or team can focus attention on behaviors that will accomplish a goal, they also divert attention away from behaviors that will not achieve the goal. Goals energize people to expend more effort based upon the effort that is required to reach a certain goal. Goals also lead to a persistent pursuit of reaching the goal by providing a purpose for that pursuit (Latham, 2004).

2.2 Study Variables

This study sought to assess the impact of performance appraisal on organizational performance in Murang'a water and Sanitation Company. The independent variable in this study was goal setting in performance appraisal. The parameters for measuring the variable were: Goal mechanisms, Performance goals, Interpersonal goals and Strategic goals. This study therefore sought to establish how the independent variable influences the dependent variable which is organizational performance;

Availability of water, quality of water provided, amount of water provided, amount of water provided and accessibility of water.

3 Research Methodology

3.1 Research Design

This study used a descriptive research design. This design refers to a set of methods and procedures that describe variables. It involves gathering data that describe events and then organizes, tabulates, depicts, and describes the data. Descriptive studies portray the variables by answering who, what, and how questions (Babbie, 2002). Its advantage is that, it is used extensively to describe behavior, attitude, characteristic and values. According to Kothari (2004), descriptive design is the precise measurement and reporting of the characteristics of the phenomena under investigation, and describes phenomena, situations and events. In this regard, this study investigated performance appraisal at Murang'a Water and Sanitation Company limited (MUWASCO).

3.2 Target population

Mugenda and Mugenda (2003) described population as the entire group of individuals or items under consideration in any field of inquiry and have a common attribute. The target census in this study was

94 employees (Table 3.1) spread in the following departments.

Table 3.1: MUWASCO Employees

Departments	Subsections	Employees Per Subsection	Total Employees
Commercial	-Accounts	4	17
	-Billing	6	
	-Metering Reading	7	
Customer care	Customer service	6	6
Administration	-catering	6	
	-reception	2	
Human resource	-Payroll	2	
	Operations	2	
	Administration(cmt)	5	
Information Technology	Service Delivery	4	24
	-Operations	2	
	-Innovations	1	
Treatment works	-Intakes,	4	8
	-Pumping Houses	4	
	-Sewerage		
Workshop	-maintenance	4	4
	-Procurement	4	
Distribution		10	10
Operations & Maintenance		5	5
Metering & meter reading	Installation & servicing	8	14
Non-revenue water(nrw)		6	
Total		94	94

Source: MUWASCO Records (2013)

3.3 Data Collection instruments

Primary data was used in this study. According to Cooper & Schindler (2003), primary data refers to what is collected directly by the researcher for the purpose of the study. The questionnaire was used to collect the primary data. They included structured (close-ended) questions and were administered through drop and pick method to respondents. The structured questions were used in an effort to conserve time and money as well as to facilitate

easier analysis as they are in immediate usable form. At the same time, with the use of structured questions, it was easy on administration purpose. This method was appropriate since the questionnaires and interviews were followed by alternative answers. Mugenda and Mugenda (2003) observed that, the pre-requisite to questionnaire design is definition of the problem and the specific study objectives.

3.4 Instruments Validity and Reliability

Validity is defined as the degree to which results obtained from an analysis of data actually represents the phenomena under study (Mugenda&Mugenda, 1999). Validity of a data collection tool ensures that the items in the instrument are representative of the subject area while the content validity ensures that the tool actually measures what it is supposed to measure (Fraenkel&Wallen, 2000). Validity was ensured by having objective questions included in the questionnaire. The questionnaire was pre-tested by asking five colleagues whether the questions are clearly worded and easily understood (whether they know the answers or not). In addition, the validity of the research instruments was established by seeking opinions of experts in the field of study especially the supervisors.

A reliable instrument consistently yields the same results when used repeatedly to collect data from the same sample drawn from a population (Orodho, 2005). Reliability is therefore the degree to which research instruments yields consistent results when administered a number of times (Shaw& wright,1969). An instrument is reliable when it measures a variable accurately and consistently is used repeatedly under similar conditions. Reliability of a questionnaire is concerned with the consistency of responses to the researcher's questions (Mitchell,1996). Reliability on the other hand was ensured by pre-testing the questionnaire with a selected sample that will not be included in the main study. An internal consistency technique was applied by use of Cronbach's Alpha. The alpha value ranges between 0 and 1 with reliability increasing with the increase in value. Coefficient of 0.7 and above is a commonly accepted rule of thumb that indicates acceptable reliability (Kothari, 2004). The pilot data was not be included in the actual study. In the pilot test one construct was: goal setting in performance appraisal. The findings of the pilot test showed that 'goal setting' scale had a Cronbach's reliability alpha of 0.723, This therefore indicated that the research tool was sufficiently reliable and valid.

3.5 Sampling Procedure and Sample size determination

The researcher used stratified random sampling (Table 3.3) to select 30% of the respondents from each of the departments in MUWASCO. According to Mugenda and Mugenda (2003) a 10-30% sample of the target population is a good representation.

Table 3. 2: Sample Size

Departments	Subsections	Employees Per Subsection	Total Employees	Sample
Commercial	-Accounts	4	17	4
	-Billing	6		3
	-Metering Reading	7		2
Customer care	Customer service	6	6	3
Administration	-catering	6		3
	-reception	2		1
Human resource	-Payroll	2		1
	Operations	2		1
	Administration(CMT)	5		1
Information Technology	Service Delivery	4	24	4
	-Operations	2		2
	-Innovations	1		1
Treatment works	-Intakes,	4	8	3
	-Pumping Houses	4		
	-Sewerage ,			
Workshop	-maintenance	4	4	3
	-Procurement	4	4	2
Distribution		10	10	3
Operations & Maintenance		5	5	2
Metering & meter reading	Installation & servicing	8		2
Non-revenue water(NRW)		6	14	4
Total		94	94	44

Source: HR - MUWASCO Employee Relation Metrics 2013,

Data Collection Procedure

Research instrument was administered on the respondents, this was done accurately. The questionnaires were distributed through drop and pick later method with an enclosed self-addressed return envelope to help increase response rate. This was followed by the personal visit and telephone calls.

4 Data Analysis and Findings

This study collected qualitative data. Descriptive statistics and inferential statistics were used to analyze quantitative data with the help of Statistical Package for Social Sciences (SPSS). Descriptive statistics included percentages, frequency distribution and measures of central tendencies (mean). The data was presented in tables and graphs. Descriptive statistics enable the researcher to meaningfully describe a distribution of measurements and also to describe, organize and summarize data (Mugenda & Mugenda, 2003). The study used multivariate regression analysis to establish the relationship between the independent variable and dependent variables. The regression model in this study was;

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Whereby Y = Organizational Performance, X₁ = Goals setting, ε = Error Term β_0 , β_1 , = Unknown parameters

The respondents of this study were 94 employees working in Murang'a water and Sanitation Company in the following departments: Commercial, Customer Care, Administration, Human Resource, Information Technology, Treatment Works, Workshop, Distribution, Operation and Maintenance,

Metering, and Non-Revenue Water. Out of 94 respondents, 92 correctly filled and returned their questionnaires. This represents a 97.87% response rate. This conforms to Mugenda and Mugenda (2003) argument that a response rate of 50% is adequate for analysis and reporting and a response rate of 70% and over is excellent. This clearly shows that the response rate in this study was excellent.

4.1 Organizational Performance

The respondents were asked to rate the performance of their organization. The results are shown in figure 4.1 below.

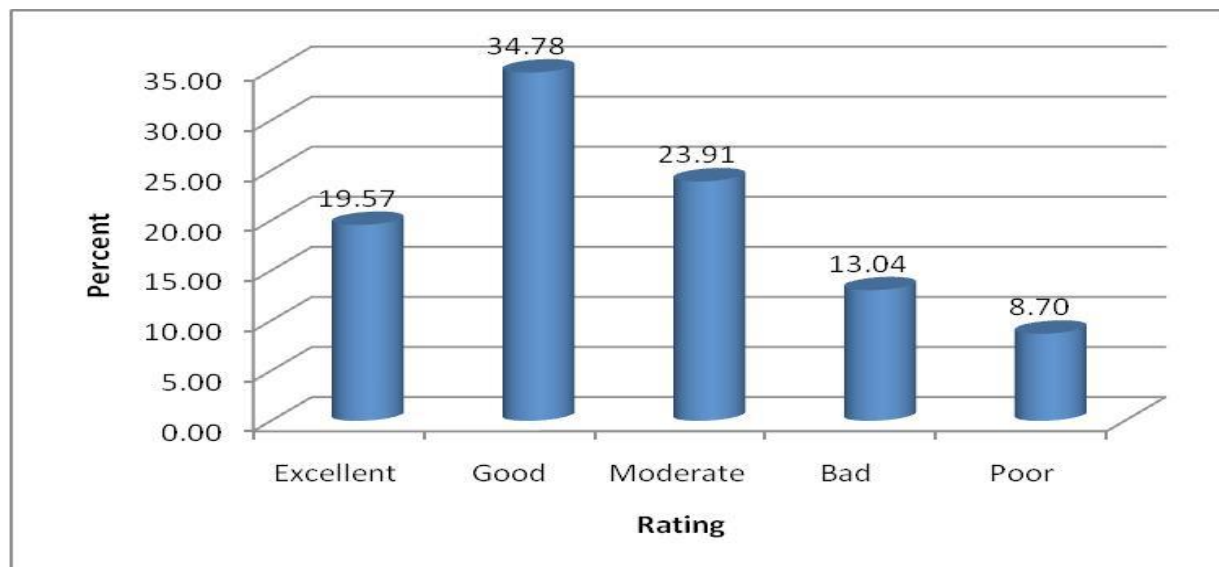


Figure 4. 1: organizational Performance

According to the findings, 34.78% of the respondents indicated that the performance of their organization was good, 23.91% indicated that it the performance of their organization was moderate, 19.57% of the respondents indicated that the performance of their organization was excellent, 13.04% indicated that it was bad and 8.7% indicated that it was poor. From these findings we can infer that the performance of Murang’a Water and Sanitation Company Limited was good.

4.2 Factors affecting the organizational Performance

The respondents were asked to indicate the extent to which the stated factors were affecting their organizations performance. The results are shown in table 4.1 below.

Table 4. 1: Goal setting and Performance of MUWASCO

	Mean	Std Deviation
Goal setting in performance appraisal	3.872	0.786

Source: Researcher, 2015

From the findings, the respondents indicated with a mean of 4.012 and a standard deviation of 0.781 that feedback in employee appraisal was affecting the performance of Murang’a Water and Sanitation Company Limited to a great extent. In addition, the respondents indicated with a mean of 3.872 and a standard deviation of 0.786 that goal setting in performance appraisal was affecting the performance of Murang’a Water and Sanitation Company Limited to a great extent. Further, the respondents indicated with a mean of 3.781 and a standard deviation of 0.872 that employees’ knowledge and skills was affecting the performance of Murang’a Water and Sanitation Company Limited to a great extent. The study sought to determine the effect of goal setting in performance appraisal on

organizational performance in Murang'a water and Sanitation Company.

The respondents were further asked to indicate the extent to which goal setting in performance appraisal was influencing organizational performance of Murang'a Water and Sanitation Company Limited.

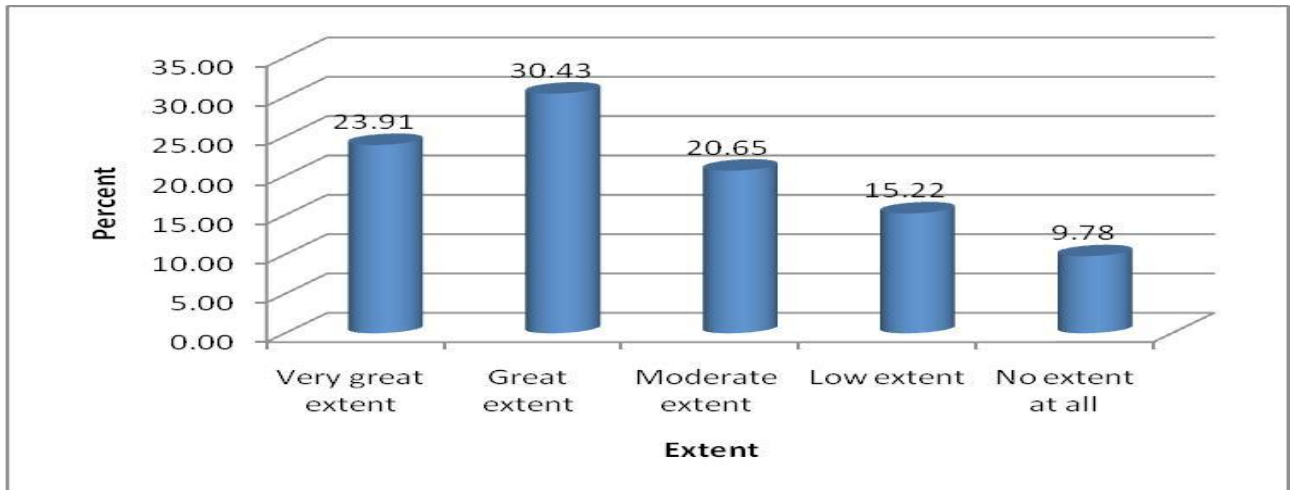


Figure 4.2: Influence of Goal Setting on organizational performance

From the findings, 30.43% of the respondents indicated that goal setting in performance appraisal was influencing organizational performance of Murang'a Water and Sanitation Company Limited to a great extent, 23.91% indicated to a very great extent, 20.65% indicated to a moderate extent, 15.22% indicated to a low extent and 9.78% indicated to no extent at all. From these findings we can deduce that goal setting in performance appraisal was influencing organizational performance of Murang'a Water and Sanitation Company Limited to a great extent

4.3 Regression analysis

The researcher conducted a linear regression analysis so as to determine the relationship between the organizational performance and the independent variable namely: of Goal setting in performance appraisal. The regression model was;

$$Y = \beta_0 + \beta_1 X_1 + \epsilon$$

Whereby: β_0 is the regression intercept; β_1 is the regression coefficient; Y is the dependent variable

(Organizational Performance); X_1 = Goals setting. The regression equation was be;

$$\text{Organizational performance} = 1.344 + \text{Goal setting in performance appraisal} * 0.421 + \epsilon$$

The regression equation above has established that taking all factors into account (Goal setting in performance appraisal) constant at zero organizational performance in Murang’a water and

Sanitation Company will be 1.344. The findings presented also shows that there is a significant positive relationship between Goal setting in performance appraisal and organizational performance in Murang’a water and Sanitation Company as shown by a coefficient of 0.421. Since the regression coefficient value was more than one we can deduce that there was a relationship between goal setting in performance appraisal and organizational performance. Further, the relationship was found to be significant as the p-value was less than 0.05 ($0.021 < 0.05$).

Table 4. 2: Coefficient of determination

Model	Un-standardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.344	1.335		1.615	0.029
Goal setting in performance appraisal	0.421	0.128	0.265	3.982	0.021

5 Discussions, conclusion and recommendations

The study sought to determine the effect of goal setting in performance appraisal on organizational performance in Murang’a water and Sanitation Company. It was revealed that goal setting in performance appraisal was influencing organizational performance of Murang’a Water and Sanitation

Company Limited to a great extent. In addition, the study revealed that in performance appraisal, the participant may be connected to performance goals, interpersonal goals, strategic goals and internalization goals. The research revealed an inductive relationship between goal setting and improved production performance based on the willingness of the parties involved. This agrees with the argument on goal setting theory by Locke & Latham, (2006) and Njuguna, and Bula (2015) that a goal is the aim of an action or task that a person consciously desires to achieve or obtain. Goals also lead to a persistent pursuit of reaching the goal by providing a purpose for that pursuit. In addition, the study found that goal setting is effective as long as employees accept it, and it is a visible process and a key component of PA participation. Further, the study found that performance appraisal probably works best

when formal goals, organizational goals, and the ratees' and rater's goals for PA are compatible. The study also found that goal mechanisms affect performance by increasing motivation to reach set goals and energize people to expend more effort based upon the effort that is required to reach a certain goal.

The study further revealed that the organization had not developed a strategic plan which includes program goals as well as goals for administrative functions. In addition, the organization had not defined performance indicators for key processes, products and services and the indicators are monitored and discussed regularly. Additionally, the management of the organization was not considering good performance a key issue. Further, the company was not updating its website on monthly basis and the management had no internal training programme for all employees. Lastly, promotions in the organization were not based on improved knowledge, skills and experiences.

The study established that goal setting in performance appraisal influences organizational performance in Murang'a water and Sanitation Company positively. In addition, goals also lead to a persistent pursuit of reaching the goal by providing a purpose for that pursuit. Performance appraisal works best when formal goals, organizational goals, and the ratees' and rater's goals for PA are compatible. Further, the study revealed that goal mechanisms affect performance by increasing motivation to reach set goals and energize people to expend more effort based upon the effort that is required to reach a certain goal. To add to this, the organization had not developed a strategic plan which includes program goals as well as goals for administrative functions. As a result, the company target as defined in the mission statement has not been cascaded down to executable nuggets. This has led to guesswork execution and the consequent low standard services. In addition, the organization had not defined performance indicators for key processes, products and services and the indicators were not monitored and discussed regularly.

This study established that goal mechanisms affect performance by increasing motivation to reach set goals and energize people to expend more effort based upon the effort that is required to reach a certain goal. However, the organization had not developed a strategic plan which includes program goals as well as goals for administrative functions. The study therefore recommends that Murang'a water and Sanitation Company should set its goals with employees in mind. In addition, the organization should ensure that all employees understand the organization's goals. To achieve this it is recommended that a strategic plan be made and explained in details to all workers. In it, the departmental goals and tasks should have a customized orientation.

The study also found that the organization had not defined performance indicators for key processes, products and services and the indicators are monitored and discussed regularly. The study therefore recommends that the organization should define performance indicators for key processes, products and services and also ensure that the indicators are monitored and

discussed regularly. The definition of the performance indicators should be informed by best practices in each service and best quality standards for each product. To achieve this, the company should consider benchmark sessions both locally and internationally. In relation to goal settings, the study recommends that public institutions should involve employees in setting of the organizational goals.

To the government of Kenya, the study recommends that policies regarding performance appraisals should focus on goal settings, feedback and employees' knowledge and skills so as to enhance organizational performance in public institutions. For this to yield results, there is need for localized capacity building cascaded through the county governments with a focus to standardize service delivery in all water and sanitation companies in Kenya.

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