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THE EFFECT OF EMPLOYEE PERFORMANCE APPRAISAL ON PERFORMANCE OF SAVINGS AND CREDIT COOPERATIVE SOCIETIES IN TANZANIA

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ABSTRACT

This study examined the influence of performance appraisal on performance of Savings and Credit Co-operative Societies (SACCOS) in Tanzania. The study aimed at determining how performance appraisal tools, performance standards, and evaluation process affect SACCOS performance. Further, the study intended to examine the moderating effect of workforce diversity on the relationship between performance appraisal and SACCOS performance. Resource based view theory was used in the study. Quantitative approach was employed. Data was collected by using questionnaires from 317 HR managers or their equivalent (SACCOS Managers). Descriptive and correlation statistics were used for data analysis. Through correlation analysis, it was found that performance appraisal tools, performance standards, evaluation process and workforce diversity positively correlated with SACCOS performance. Further, hypothesis testing revealed that all the independent variables had significant linear relationship with SACCOS performance. Multiple linear regression analysis results showed that among all the three independent variables, only performance evaluation was found to be a significant predictor of SACCOS performance. When moderation effect of workforce diversity was tested, it was concluded that workforce diversity has a significant moderation effect on the relationship between performance appraisal and SACCOS performance. The study recommended SACCOS to have performance appraisal tools to enable them managing employee performance. Further, SACCOS has to establish well known standards to be used evaluating performance of their employees. Lastly, SACCOS should consider having a diverse workforce in terms of gender, age and education level.

Keywords: *Performance Appraisal, Performance Tools, Performance Standards, Performance Evaluation, SACCOS Performance, Organizational Performance.*

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INTRODUCTION

Various stakeholders of organizations are concerned with how their respective organizations perform. Organizations that perform well are considered successful and are more likely to attract more investors(Cho et al., 2019). Organizational performance is a function of so many variables and one of them is employee performance(Mohammad et al., 2021). This means an organization will only perform well if employees work in the organization performs well as well. This makes performance of individual employees an important aspect in human resource management. As the result performance appraisal has to be well practiced for superior employee performance and consequently that of organizations(Loga & Chand, 2019). Performance appraisal is a systematic process which involves setting of goals that employees have to achieve and consistently monitoring their progress towards achieving those objectives. Performance appraisal always involves assessment of employee performance against agreed objectives and giving them feedback on how they perform (Mwita & Andrea, 2019). Performance appraisal in particular and human resource management in general are not popular in the literature of Savings and Co-operative Societies (SACCOS) in Tanzania. SACCOS are member based financial institutions that mobilize finance and advance loans to their members. They are popular among people who cannot easily access financial services in large financial institutions particularly commercial banks (Mwita, 2019). Their major services are keeping savings of their members and advancing loans in considerably smaller interest rates comparing to commercial banks. These institutions have been helping the poor by giving them access to finances that help them in accessing social services such as education, food, water and medical services among others (McKillop et al., 2020). Moreover, SACCOS have been important sources of capital to small business owners(Lal, 2019). Despite their contributions, yet performance of these institutions in Tanzania do not meet expectations of their stakeholders especially the members who the investors (Danga & Yusuph, 2019; Nyangarika & Bundala, 2020). Various studies have been conducted to establish the performance drivers of these institutions yet the literature on how performance appraisal in conducted and whether it affects their performance is scarce. As the result, this study attempted to study the influence of performance appraisal on performance of SACCOS in Tanzania. To achieve this objective the study was guided by the following hypotheses;

- H₁: There is significant positive relationship between performance appraisal tools and performance of SACCOS in Tanzania
- H₂: There is significant positive relationship between performance appraisal standards and performance of SACCOS in Tanzania
- H₃: There is significant positive relationship between performance appraisal evaluation and performance of SACCOS in Tanzania
- H₄: Workforce diversity has a significant moderating effect on the relationship between performance appraisal and performance of SACCOS in Tanzania.

LITERATURE REVIEW

The cooperative sector has various types of organizations each with its distinct characteristics and focus. SACCOS are among family members of these cooperatives. They are formed, owned and democratically controlled by their members to provide them with financial services. The history of SACCOS in Tanzania can be traced by to 1938 when the first SACCOS was established in Moshi, Kilimanjaro. The sector has grown to a total of 2,450 (Kevela & Magali, 2022). Performance of any organizations depends on multiple factors mainly being how its resources are acquired and managed. Human resources are considered to be the key determinant of organizational performance and therefore they have to be carefully acquired, developed, utilized and retained for a superior organizational performance(Hamadamin & Atan, 2019; Mihardjo et al., 2020). The literature is reach on human resources management practices and their contributions in different organizations but this part of literature seems to be inadequate in Tanzanian context. With specific reference to performance appraisal researchers have not shown interest in studying how SACCOS conduct it and the

role it plays in performance of these institutions. Performance appraisal is a systematic process that involves setting of employee objectives and measuring how respective employees progressively achieve these goals (Bayo-Moriones et al., 2020). The feedback on how employees perform is normally communicated to them. The aim of so doing is to look for challenges that stagnate individual performance and solve them. These challenges may be associated with resources, skills and knowledge that individual have (Atatsi et al., 2019). Performance appraisal is also important in making various administrative decisions such as rewards and punishment (Amraie et al., 2022).

This study was underpinned by the Resource-Based View (RBV) theory. The theory was proposed by Edith Penrose in 1959. The theory postulates that, superior performance of an organization largely depends on its internal resources. For an organization to gain competitive advantage and therefore performing better its resources have to be valuable, rare, and costly to imitate (Assensoh-Kodua, 2019). The theory puts much emphasis on the internal organizational resources that include the human resources (Isichei et al., 2020). Performance appraisal plays an important development role to the human resources. It focuses on making sure that human resource potential is realized and utilized. By performing performance appraisal one seeks to find out whether there is a gap between what is expected out of an employee and what he delivers and bridge the gap if exists (Al-Jedaia & Mehrez, 2020). Performance appraisal results are always important in making an employee more productive and therefore valuable, rare, inimitable and non-substitutable.

Performance appraisal forms an important part of human resource management in organization particularly on ensuring that employees are assigned objectives to achieve, are evaluated based on the set objectives and are given timely feedback to improve their performance (Bayo-Moriones et al., 2020). The literature provides varied findings on how performance appraisal affects organizational performance especially when the relationship between performance appraisal and organizational is examined in different sectors. The study by (Bayo-Moriones et al., 2020) which was done through a cross sectional survey that involved a total of 181 firms found a positive and significant relationship between performance appraisal and organizational performance. The study of Njeje et al (2018) examined the relationship between e-performance management system and organizational performance of SACCOS in Kenya. The study used cross-sectional survey design which included a total of 54 respondents who were sampled from 18 SACCOS in Kenya. Purposive sampling technique was used in sampling the respondents who provided the study data through questionnaires. Descriptive and inferential statistics were used in data analysis. The study found a significant positive relationship between e-performance systems and performance of SACCOS in Kenya. In order to attain speedy and timely performance management the study recommended improvement of management information systems and the use of e-performance systems.

Consistent findings were reported in the study by Mongare and Nyakwara (2019) that sought make an analysis of the relationship between performance appraisal and organizational performance of SACCOS in Kenya. The study used descriptive research design through which questionnaires were used to collect data from a total of 165 respondents drawn from 10 SACCOS of Kisii county. The study found that performance appraisal is important in overcoming various challenges that adversely affect employee individual performance and organizational performance as well. Moreover, tools used for performance appraisal were found to be less effective in several SACCOS. Although this study intended to establish the link between performance appraisal and organizational performance yet the direct link between the two variables is missing. This is due to the research methodological challenges particularly on data analysis. The use of descriptive data to establish the link between the variables instead of inferential statistics is of great concern. The current study addressed this by using inferential statistics to establish the gap.

It well settled through the literature that effective performance appraisal is a function of quality of tools, standards used and the evaluation process itself (Bayo-Moriones & de la Torre, 2022). Lin and Kellough (2018) posit that for performance appraisal to be effective employees have to be rated based on specific

criteria and standards and the evaluation has to be fairly done. Whether SACCOS have performance appraisal with the aforementioned characteristics and they are linked to organizational performance with reference to Tanzania is something that the previously existing literature missed. This study focused to reveal the same.

METHODOLOGY

This study used cross-sectional survey design. Cross-sectional design is the type of research design through which a data used for analysis was collected at a single point in time (Wang & Cheng, 2020). This design is useful and effective in studies that seek to investigate cause and effect relationship between and among variables (Zangirolami-Raimundo et al., 2018). Moreover, the study used a quantitative approach due to its ability to hypothesize objectively and reliably (Mwita, 2022). The study population comprised a total of 1505 HR/SACCOS Managers from SACCOS in Tanzania mainland. The study used a sampling frame of 432 HR managers from SACCOS located in Dar es Salaam which led to a sample size of 317 respondents which were obtained using a simple random sampling technique. Data collection was done using a standardized questionnaire. Questionnaires were used to help reach relatively big sample size that this study used (Mwita, 2022). Descriptive and inferential statistics were used in data analysis. The actual study was preceded by a pilot study done to 30 respondents. The study used descriptive and inferential statistics to analyze the collected.

FINDINGS

Reliability of research instrument

Lee Cronbach in 1951 developed the Cronbach Alpha to offer a measure of the internal consistency of a scale or test, expressed as a number between 0 and 1 which is used for items whose responses are on a scale (Quansah, 2017). Higher values of alpha are more desirable. Some professionals as a rule of thumb require a reliability of 0.70 or higher before they will use an instrument (Manerikar & Manerikar, 2015). This study used this rule of thumb to determine the reliability of the research instrument. Reliability findings are presented Table 1. Performance tools were found to have a value of 0.930, performance appraisal standards had a value of 0.915, performance appraisal process had a value of 0.898, workforce diversity had a value of 0.996 and SACCOS performance a value of 0.958. The fact that all four variables had Cronbach's alpha of above 0.70 proves that the instrument was reliable for data analysis.

Table 1: Cronbach alpha values for the variables

Variable	Cronbach's Alpha	No. of items
Performance appraisal tools	.930	3
Performance appraisal standards	.915	3
Performance appraisal process	.898	3
Workforce diversity	.996	9
SACCOS performance	.958	15

Descriptive Findings

The results show that performance appraisal tools had a weighted mean and standard deviation of 3.14 and 0.944 respectively. Performance standards had weighted mean of 3.12 and standard deviation of 1.003. performance evaluation had a weighted mean of 3.27 and standard deviation of 1.004. on the other hand, workforce diversity had a weighted mean of 3.29 and standard deviation of 1.049. Based on these findings, the variables for performance appraisal had average value as they range from 3.12 to 3.27 on a scale of 1-5. This gives an impression that performance appraisal has to be performed better than it is in the SACCOS since it is not excellently done. Admittedly, the practices are also not poorly done since they weighted mean for all the variables are above the cut-off point of 2.5. This is the same with workforce diversity, the mean value is above

a cut-off point of 2.5 as well hence the workforce in SACCOS is considered fairly diverse. The results are shown in detail in table 2.

Table 2: Descriptive results

Variables	Statements	Mean	SD
Performance appraisal tools	Our SACCOS uses a special tool(s) for employee performance appraisal	3.34	.898
	A tool(s) used for performance appraisal involves individual staff in goal setting	3.10	.913
	A tool(s) used in performance appraisal is suitable for our organization	2.98	1.021
	Weighted Mean & SD	3.14	.944
Performance Standards	Performance standards that employees should meet are well known by respecting employees	3.12	.982
	Performance standards set for individual employees are in line with performance standards that our SACCOS should meet	3.12	1.023
	Performance standards are always accepted by individual employees	3.11	1.005
	Weighted Mean & SD	3.12	1.003
Performance Evaluation	Formal methods are used to evaluate performance of employees	3.13	1.041
	Ratings are based on actual performance and not personal feeling	3.22	1.054
	After performance evaluation staffs are given feedback on how they perform	3.45	.917
	Weighted Mean & SD	3.27	1.004
Workforce Diversity	Our organization recognizes, accepts and understands all employees irrespective of their gender	3.45	.917
	Both male and female employees are fairly represented in our SACCOS	3.25	.962
	Both male and female employees are treated fairly in our SACCOS	3.16	1.076
	Our firm recognize, accepts and understands all employees irrespective of their age.	3.25	1.053
	There is equitable representation of all age groups (younger, middle-aged & older employees) in our SACCOS	3.26	1.084
	All age groups are fairly treated in our SACCOS	3.33	1.074
	Our organization recognizes, accepts and understands all employees irrespective of their education levels	3.40	1.037
	There is equitable representation of employees of different education levels	3.28	1.105
	Staffs are treated fairly irrespective of their education differences in our SACCOS	3.29	1.130
	Weighted Mean & SD	3.29	1.049

Correlations of Variables

In order to establish a causal relationship between independent variables and the dependent variable, correlation analysis was conducted. The following are the results;

The results in table 3 shows that performance appraisal tools were positively correlated with SACCOS performance ($r = 0.645$, $\rho < 0.01$). This finding implies that performance appraisal tools have a moderate positive effect on SACCOS performance. Further, performance appraisal standards were found to positively correlate with SACCOS performance ($r = 0.669$, $\rho < 0.01$) which means that selection criteria was also found to

have a positive moderate effect on SACCOS performance. Performance appraisal evaluation process was also found to positively correlate with SACCOS performance ($r = 0.700, p < 0.01$). Moreover, it was found that workforce diversity and SACCOS performance correlated ($r = 0.700, p < 0.01$) which gives an implication that workforce diversity has a positive effect on SACCOS performance.

Table 3: Correlation of matrix for variables

Indicator		Performanc e appraisal tools	Performanc e appraisal standards	Performanc e appraisal evaluation process	Workforce diversity	SACCOS performance
Performance appraisal tools	Pearson Correlation	1				
	Sig. (2-tailed)					
Performance appraisal standards	Pearson Correlation	.875	1			
	Sig. (2-tailed)	.000				
Performance appraisal evaluation process	Pearson Correlation	.850	.878	1		
	Sig. (2-tailed)	.000	.000			
Workforce diversity	Pearson Correlation	.671	.670	.747	1	
	Sig. (2-tailed)	.000	.000	.000		
SACCOS performance	Pearson Correlation	.654	.669	.700	.683	1
	Sig. (2-tailed)	.000	.000	.000	.000	

*Correlation is significant at the 0.01 level (2 tailed)

Hypothesis Testing

The study tested four hypotheses at 5% level of significance. To assess the effect of performance appraisal tools on SACCOS performance the study tested the hypothesis (*H1: There is a significant positive relationship between performance appraisal tools and performance of SACCOS in Tanzania*). The test of beta coefficient shows a statistically significant positive linear relationship between performance evaluation tools and SACCOS performance ($\beta = 0.796, P\text{-value} = 0.000$). Hence, H1 was accepted since there is a significant positive linear relationship between performance appraisal tools and performance of SACCOS ($\beta \neq 0$ and $P\text{-value} < 0.05$). The second hypothesis tested was *H2: There is a significant positive relationship between performance appraisal standards and performance of SACCOS in Tanzania*. A statistically significant positive linear relationship between performance appraisal standards and SACCOS performance was detected ($\beta = 0.760, P\text{-value} = 0.000$). Hence, H2 was accepted. The third hypothesis tested was *H3: There is significant positive relationship between performance evaluation process and performance of SACCOS in*

Tanzania) A statistically significant positive linear relationship between performance evaluation process and SACCOS performance ($\beta = 0.804$, P-value = 0.000) was found. Hence, H3 was accepted.

Table 4: Hypothesis testing results

Hypothesis	Results	Decision
<i>H₁: There is a significant positive relationship between performance appraisal tools and performance of SACCOS in Tanzania</i>	$\beta = 0.796$, P-value = 0.000	Accept
<i>H₂: There is a significant positive relationship between performance appraisal standards and performance of SACCOS in Tanzania</i>	$\beta = 0.760$, P-value = 0.000	Accept
<i>H₃: There is significant positive relationship between performance evaluation process and performance of SACCOS in Tanzania</i>	$\beta = 0.804$, P-value = 0.000	Accept

Multiple Linear Regression for All Variables

The model summary in table 5 shows that performance appraisal (performance appraisal tools, standards and evaluation process) had significant explanatory power on SACCOS performance since it accounted for 50.7% with the coefficient of determination $R^2 = .507$ and $R = .712$ at significant level of 0.05. The results imply that an increase in one unit of recruitment and selection tends to increase SACCOS performance by 50.7%.

Table 5: Model summary for recruitment and selection and SACCOS performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.712	.507	.500	.74507

a. Predictors: (Constant), performance appraisal tools, standards and evaluation process

Coefficients for multiple linear regression

From table 6, at 5% level of significance performance appraisal tool was not a significant predictor of SACCOS performance ($p=.187>0.05$). performance appraisal standards were also not significant predictors of SACCOS performance ($p=0.152>0.05$). Performance evaluation process was found to be a significant predictor of SACCOS performance ($p=0.000<0.05$).

Table 6: Coefficients for multiple linear regression

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error			
1	(Constant)	.142	.190		.749	.455
	Performance appraisal tools	.166	.125	.136	1.323	.187
	Performance appraisal standards	.185	.129	.163	1.437	.152
	Performance evaluation process	.507	.119	.441	4.246	.000

a. Dependent Variable: SACCOS Performance

From the results in table 6 the multiple regression model can be presented as;

$$SP = 0.142 + 0.166PAT + 0.185PAS + 0.507PEP + e.$$

Where, SP =SACCOS performance, PAT= Performance appraisal tools, PAS = Performance appraisal standards, PEP = Performance evaluation process, and e = error term.

This model can be interpreted as an increase of one unit of performance evaluation tools will result in an increase of 0.166 unit of SACCOS performance, one unit increase of performance evaluation standards will

result in an increase of 0.185 unit of SACCOS performance and an increase of one unit of performance evaluation process will result in an increase of 0.507 unit of SACCOS performance.

Moderating the effect of workforce diversity on the relationship between performance appraisal and SACCOS performance

The following hypothesis was tested;

Ho1: Workforce diversity has a significant positive relationship between performance appraisal and performance of SACCOS in Tanzania.

All the three independent variables were collectively moderated by workforce diversity on their relationship with SACCOS performance.

Table 7 shows that before moderation R² was 50.7% which increased to 56% after moderation. This is an increase of 5.3%. This means workforce diversity moderates the overall effect of explanatory variables on the performance of SACCOS in Tanzania.

Table 7: Regression after moderation

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.712	.507	.500	.74507
2	.748	.560	.552	.70513

From table 8, after moderation performance appraisal tools was found to be a non-significant predictor of SACCOS performance (p=.498>0.05). Performance appraisal standards were found to be a non-significant predictor of SACCOS performance

(p=0.117>0.05). Performance evaluation process was found to be a significant predictor of SACCOS performance (p=0.000<0.047). Moreover, workforce diversity was also a significant predictor of SACCOS performance (p= 0.000<0.05).

Table 8: Coefficients for multiple linear regressions after moderation

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error			
1	(Constant)	.104	.225		.462	.645
	Performance appraisal tools	.404	.122	.296	3.316	.001
	Performance appraisal standards	.172	.126	.143	1.359	.175
	Performance evaluation process	.289	.105	.265	2.751	.006
2	(Constant)	-.127	.187		-.678	.130
	Performance appraisal tools	.108	.119	.089	.906	.498
	Performance appraisal standards	.192	.122	.169	1.574	.117
	Performance evaluation process	.247	.123	.215	2.002	.047
	Workforce diversity	.414	.079	.350	5.238	.000

a. Dependent Variable: SACCOS Performance

Optimal Model

The optimal model is expressed hereunder;

$$SP = -0.127 + 0.108PAT*WD + 0.192PAS*WD + 0.247PEP*WD + e.$$

Where, SP =SACCOS performance, PAT= Performance appraisal tools, PAS = Performance appraisal standards, PEP = Performance evaluation process, WD= Workforce diversity and e = error term.

Discussion of the Findings

The relationship between performance appraisal tools and SACCOS performance in this study was found to be significant and positive. This means the better the performance appraisal tools the higher the SACCOS performance. The finding is consistent with that of Bayo-Moriones and De la Torre (2022) whose observation showed that once an organization has effective performance appraisal tools it may lead to better performance of an organization. This finding offers important insights on how important it is to conduct a performance appraisal with tools that have been well designed. Moreover, having well designed tools is not enough to achieve positive results since they have to be well administered. Further, this study found a positive significant relationship between performance appraisal standards and SACCOS performance. Performance standards are usually used as criteria against which employee performance is benchmarked. This entails that having performance appraisal tools is not enough, standards have to be in place to make it easier for the tools to assess how employees perform. It is argued that standards are not always uniform from an individual to individual and organization to organization (Mohamed, 2021). This calls for consideration of what standards are important and relevant to an employee as well as to an organization he/she is working for. As it was noted earlier, SACCOS have different features and operate in a different environment comparing to other organisations therefore in setting standards for performance appraisal the peculiar nature of SACCOS has to be put into consideration. Performance evaluation process was also found to be a significant predictor of SACCOS performance. As per the findings when an evaluation process is done using formal methods, ratings are given objectively and employees are regularly given feedback, it increases the chances of a SACCOS to perform better. This signifies that, having tools and standards for evaluating employee performance is important but it is meaningless if the process of evaluating performance of employees is not done in a proper manner.

Workforce diversity was found to have a moderating effect on the relationship between performance appraisal and SACCOS performance. The need for having a diverse workforce is therefore relevant for performance appraisal to have positive effect on SACCOS performance. Diversity has been a global agenda that emphasizes on including people with varied characteristics in terms of gender, age, education and others. The findings of this study are therefore cementing on how important it is for SACCOS to have a diverse workforce in order to have a better organizational performance.

CONCLUSION AND RECOMMENDATIONS

Performance appraisal plays a significant role in enhancing SACCOS performance as the significant positive relationship between performance appraisal tools, standards and evaluation process has been detected. SACCOS that take performance appraisal seriously are more likely to perform better than those that take for granted these practices. Moreover, workforce diversity moderates this relationship between performance appraisal and SACCOS performance. With these findings, a SACCOS with a more diverse workforce can positively moderate this relationship and therefore making performance appraisal more impactful.

This study recommended SACCOS to have in place effective performance appraisal tools to assess and enhance performance of their individual employees and ultimately that of their respective organizations. Secondly, performance appraisal tools have to be made operational in presence of well identified performance standards. This will help to increase the chances of making performance appraisal effective as far as SACCOS performance is concerned. Further, performance evaluation process has to be well conducted in SACCOS by using formal methods, rating employees objectively and offering feedback to the employees on how they perform. Lastly, SACCOS have to consider the need of having a diverse workforce. This can be done in

various ways mainly during recruitment and selection. The process has to consider various groups in terms of gender, age and education levels, among other characteristics.

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