# EFFECTS OF INTERNAL ORGANIZATIONAL POLICIES ON PERFORMANCE OF GOVERNMENT OWNED COMMERCIAL BANKS IN KENYA

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## ABSTRACT

Organizational internal policies are rules and guidelines that determine how activities are carried out in an organization. Changing markets and the business operating environment demand that any organization seeks to increase its performance develop and implement internal policies. For commercial banks it is important for them to develop and adopt internal policies that enhance their performance and chances of survival. This was done by looking at the effects of internal organizational policies on performance of government owned commercial banks in Kenya. The study was guided by looking at these variables to determine the effect of credit appraisal policies on performance of government owned commercial banks in Kenya, to examine the effect of recruitment policies on performance of government owned commercial banks in Kenya, to assess the effect of employee promotional policies on performance of government owned commercial banks in Kenya and to establish the effect of employee welfare policies on performance of government owned commercial banks in Kenya. The study was anchored on Theory of Information Asymmetry, Objective factor theory, Functional Theory of Labor Welfare, bureaucratic theory and Theory of the firm. This study used a descriptive research and the study targeted all the six government-owned commercial banks in Kenya. The study collected primary data through the use of questionnaire which had open-ended and close-ended questions so as to collect both qualitative and quantitative study. The instrument was piloted to test for validity and reliability. Descriptive statistics was used to analyze quantitative data after it was coded into descriptive codes which were analyzed using Statistical Package for Social Sciences (SPSS) version 23.0 computer program. Content analysis was used on qualitative data from the open-ended questions. Multiple regressions linked independent and dependent variables and findings were given in form of frequency tables, percentages and proportions.The study found out that commercial banks had implemented the internal rating system that had brought an improvement in the credit performance of the banks to a great extent. Recruitment method employed by the commercial banks helped to improve the performance of the employees. Commercial banks promoted performing employees and motivated employees to achieve better performance. Employees were provided with effective welfare facilities that were likely to stimulate performance-oriented employee. The study concludes commercial banks had the knowledge on how to establish their borrower's creditworthiness. Commercial banks promoted employees who performed better with good intelligence to retain them and encouraged others to also work smart to achieve better performance. The study recommends that all commercial banks and even financial institutions should ensure that they possess efficient and effective credit appraisal techniques to be able to measure the reducing asset quality problems to improve the banks performance. Commercial banks should use good approaches which in turn can lead to selection of quality employees which gives a better organizational performance. The management of commercial banks should employ less subjective ways in setting targets, performance measurements performance review and giving incentive to employees in the promotion practices in order to enhance employee commitment and therefore improve the performance of the organization. Commercial banks should conduct employee satisfaction surveys so as to establish ways in which the banks can provide the best working conditions for their employees to improve their productivity and in turn that of the firm. The researcher sought authority from the relevant authorities. These authorities included the Kenyatta University, the National Science and Technology Commission, County Director of Examination and County Commissioner, Nairobi County.

***Key Words:*** *internal organizational policies, performance, government owned commercial banks, Kenya*

## INTRODUCTION

Organizations exist as formal institutions with properly established policies in place. These policies determine how activities are carried out in an organization on a day to day basis. Organizational policies determine the routine operations and activities in an organization. The flow and coordination of activities and operations in an organization is largely informed and guided by the policies that are in place (Huffman, King & Reichelt, 2017). Organizational policies can broadly be recognized as either internal or external. The difference between these two types of organizational policies lies from the point of their origin as well as the degree of influence that management has on these policies. While an organization may have an influence on internal policies, the firm may however not direct influence on external policies has (Guo, Huang, Zhang & Zhou, 2015).

Organizational internal policies are rules and guidelines that determine how activities are carried out in an organization. Policies are critical components of any organization as they help in addressing pertinent issues for instance, what comprises of the behavior that is acceptable in an organization (Banks, Woznyj, Wesslen, Frear, Berka, Heggestad& Gordon, 2019). Organizational policies play an important role in an organization by outlining the acceptable actions in an organization. Strict adherence to policies helps in protecting employees as well as the firms. Inability to follow the established policies means the organization would be greatly exposed to law suits. Leonidou, Christodoulides, Kyrgidou and Palihawadana (2017) view organizational policies to cover the internal control system that determines how activities are carried out.

The nature of the organization in terms of the service or product it deals in determines the internal policies in place. For instance, the policies in place in say a banking institution would slightly different from those in the manufacturing concern. In the banking sector, Estrada, Faems and de-Faria (2016) identified that internal policies can include credit administration policies, recruitment policies, promotional policies and employee welfare policies. Credit administration policies outline the rules and regulations to be followed by the institution in granting credit to customers. Such policies determine the overall steps adhered to in appraising credit facilities to customers (Leonidouert al., 2017).

Organizations exist by having in place competent staff which is determined through recruitment. Thus, recruitment policies ensure that an organization attract and retain qualified and competent staff who effectively accomplish the set goals and objectives in an organization. Organizations motivate their employees through promotions hence the need for promotion policies. It is through promotion policies that an organization is able to determine the need for creating additional responsibilities to staff which results into career growth. Employee welfare policies look at the working conditions in place that motivate employees to meet their established goals (Gu, Jiang & Wang, 2016).

The term performance determines how established goals and objectives are realized. Performance is either in financial or non-financial aspects. Financial performance can be quantified and represents the core objective of most firms. To determine financial performance of the firm, most information is usually obtained from the financial statements. Non-financial performance cover measures like customer satisfaction, efficiency and effectiveness and flexibility. The development of the BSC –balanced scorecard has transformed the manner in which performance is determined and measured in an organization (Lai, Saridakis&Johnstone, 2017).

The BSC has four viewpoints which covers the customers, the processes and the performance. The BSCL links these perspectives of performance with the overall corporate strategy including the mission and vision statements. The customer perspective looks at how best an organization responds to the needs of the customers. Customers are important in an organization because they determine the overall sales revenues generated in an organization. The internal business perspective considers all the operations and activities within an organization. The viewpoint on learning and growth looks at innovative ideas, models and products and also creativity of different organizational staffs. Financial perspective of the BSC is used in determining financial performance of the firm (Talab, Manaf&Malak, 2018).

There exists mixed evidence on the link between organizational internal policies and performance. According to Hernández and Garcia (2018), too policies in an organization may increase bureaucracies that limit free interaction of employees which also inhibits innovation and creativity. Zainudin, Ahmad-Mahdzan and Leong (2018) argue that a highly bureaucratic organization is characterized by too many policies that should be adhered by employees and this limits the flow of information between different departments in an organization. This would adversely affect performance of an organization. On the contrary, Kanyurhi and Akonkwa, (2016) opine that policies establish order which helps in coordination of activities and other operations in an organization. This facilitates quick flow of information which ultimately improves performance of an organization.

According to  Banks and Kepes (2015), promotion policies motivate staff as they will have been given added responsibilities. An organization with proper policies on promotion results into fairness which help employees to effectively carry out their duties and thus positively contributing towards performance of an organization. Ogunyomi and Bruning (2016) indicates that recruitment policies ensure that competent and qualified staff are hired and retained in an organization which boost performance of an organization. In the banking sector, credit administration policies ensure that credit worthy customer's area advanced with credit which implies a reduction in non-performing loans and thus generally boosting on performance of an organization. The welfare policies shape the nature of environment and conditions in an organization that contributes towards performance.

The Central Bank of Kenya (CBK) regulates the competitive financial and banking sector. These sector is covered with participants including the commercial banks, forex bureaus, SACCOs and MFIs, credit reference bureau, money remitting service providers as well as representative offices. The commercial banks in the Kenyan space are grouped as either public as well as private institution. There are forty private institutions which are further classified into local or foreign. About 24 private commercial banks are local while the other 15 private commercial banks are foreign (CBK, 2017).

As per the 2017 CBK report, there are six government owned commercial banks in Kenya that include Consolidated Bank, Development Bank and the National Bank, Stanbic Bank Kenya Commercial Bank and Housing Finance Ltd.  Most of the government owned commercial banks have not performed well as compared to their non-government-owned counterparts. For instance, out of the six-government owned banks, only KCB is in the list of the first five banks in Kenya with a market share of 14.4% followed by Cooperative Bank at 9.93%, Equity Bank Ltd at 9.85%, and Standard Chartered Bank at 7.11% and Diamond Trust Bank at 6.72% respectively. Just like the general public sector, most of the government owned commercial banks have been criticized for more policies that create bureaucracies reducing efficiency and effectiveness and thus poor performance. Most of the government owned commercial banks are performing poorly for instance the National Bank that posted a Kshs. 282 million net loss in 2018 from Kshs. 179 million profits in 2017.  Most of these state-owned banks are currently in operational crisis that is characterized by negative liquidity position. For instance, in 2018, the liquidity ratio position of Development Bank of Kenya was at -21.6% against the prescribed legal threshold of 20% (CBK, 2018). It is against this background that the current study seeks to determine the effect on organizational internal policies on performance of government owned banks in Kenya.

## STATEMENT OF THE PROBLEM

Organizational internal policies provide the guideline that regulates how activities are carried out in an organization. Policies ensure there is order in an organization which facilitates quick flow of information in an organization for decision making (Huffman, King & Reichelt, 2017). Changing markets and the business operating environment demand that any organization seeking to increase its performance develop and implement internal policies. According to Mamun, Noor and Musa (2016) organizational policies provide a guideline on how activities and operations in an organization are carried out on a regular basis and also clearly state the role of every employee in the organization which would guide their actions leading to increased performance. Internal policies look at the recruitment and employee welfare policies, ensuring that working environment is good so that employees produce their best leading to increased performance. The policies also look at measures of promoting their products and services and what factors guide the credit processes, this is key for commercial banks who deal with lending to their customers and earning profits from that venture. Estrada, Faemsand de-Faria (2016) reveal that it is a requirement by law for all enterprise both public and private to write down the policies that they ascribe to and which are good for verification of effective operations and increased performance. The policies clearly state the risks and ensure that employees are familiarize with them so as to reduce chances of these risks occurring. When employees comply with organizational set policies, they minimize risks at the work place (Estrada, Faems& de-Faria, 2016). Many privately-owned commercial banks have been performing well, but the government owned banks have not performed as well compared to the privately-owned ones. In fact, this government owned commercial banks in Kenya are currently under liquidity pressure including the National Bank of Kenya (Ogunyomi & Bruning, 2016). At the same time, excessive internal policies create bureaucracies that reduced efficiency which translates into poor performance (National Treasury, 2018). In order to improve the organizational performance, there is need to formulate and executive internal policies. This study will expound on the effect of well executed internal organizational policies have on organizational performance. The available literature provides evidence of existence of the relationship between organizational internal policies and performance. Shabri, Saad and Bakar (2016) conducted a study on the effects of internal control systems on cooperative’s profit stability: a case of Koperasi ABC Berhad. The study findings showed that the internal control systems as defined by the COSO framework were effective. But the cooperative faced financial losses due to inefficient cost control. This shows that strong internal control systems which are implemented lead to profitability and growth of the sector, as the case is in Malaysia. This study creates a contextual gap as it was done in Malaysia, and conceptually it looks at internal systems as opposed to internal policies, creating a need for the current study. Hassan (2018) carried out a study to determine the influence of internal control system on organizational performance using a case of Remittance firms in Mogadishu. A positive relationship was established between internal controls and organizational performance. The study was however done in Somalia and not in Kenya. The study also specifically looked at internal controls which differ from internal organizational policies, creating a conceptual gap and also Mogadishu is a different context unlike the Kenyan. Locally in Kenya, Bakari (2016) examined the influence of organizational policies on employee performance using a case of Bamburi Cement. A positive relationship was identified between organizational policies and performance. This study creates a conceptual gap as it looks at performance, specifically to the employee and not in general, and again the study is in manufacturing sector and not the financial sector where the government-owned commercial banks are. Chelimo (2017) investigated the effect of human resource policies on employee performance: a case study of Co-Operative Bank. Findings show that HR recruitment policy helped the employees adjust easily to their new role, gained them opportunities for growth and career progression which supported their performance. The HR appraisal policy helped in personal growth and increased performance. The study creates a contextual gap as it covers only HR policies and does not mention other organizational internal policies and how they affect performance, necessitating the need for the current study. It has created a methodological gap as it was a case study covering the cooperative bank, the current study will expand to cover all the government-owned commercial banks. These studies have created a knowledge gap in terms of methodology applied, contextual background of setting of the study and concepts adopted, thus necessitating the current study. To fill these gaps, this research study will determine the effect that internal organizational policies have on performance of government owned commercial banks in Kenya.

## OBJECTIVES OF THE STUDY

1. To examine the effect of credit appraisal policies on performance of government owned commercial banks in Kenya
2. To determine the effect of recruitment policies on performance of government owned commercial banks in Kenya
3. To assess the effect of employee promotional policies on performance of government owned commercial banks in Kenya
4. To establish the effect of employee welfare policies on performance of government owned commercial banks in Kenya

## REVIEW OF RELATED LITERATURE

### Performance

To perform is to leverage on the available resources in realization of the goals and objectives in the firm. To measure performance, both financial as well as non-financial metrics can be adopted (Felício, Rodrigues & Samagaio, 2016), the non-financial performance looks at aspects like satisfaction of the customers, efficient work processes, effectiveness in handling tasks and flexibility. According to Mugane and Ondigo (2016) many organizations use different tools to measure the performance and this includes key performance indicators (KPI) and balance scorecard (BSC); these tools have become common measures of performance in the recent past and in many corporates.

The financial terms will mostly apply to profit-seeking firms and that is where the banking sector falls under. In this context, performance will be determined on the basis of returns to the investment made, commonly abbreviated as ROI (Return on Investment). It is the ratio of how much more gains are made from a specific amount of money invested. Another financial measure is returns on asset (ROA) which looks at the ratio of returns on the assets put in a project (Singh, 2016). Good performance always ensures a company's profitability which enables a company meet overhead costs, miscellaneous and its tax obligations. Hence, it is very important for a company to ensure the welfare of its members is met and it is able to cope with competitions (Gizaw, Kebede & Selvaraj, 2015).

Commercial banks measure their performance both in financial terms, based on the returns they make from the investments made and the asset base. The higher the increase in returns the higher the performance indicator (Alshatti, 2015). And in the non-financial terms, performance is rated in terms of customer satisfaction which makes these customers be loyal, repeat customers means steady income is generated. At the same time, performance is a measure of market share, and the increase in market share means there is an increase in volume of sales. High reputation of the banks leads to easy penetration into new markets and spread in depth in the market where these commercial banks are felt (Omollo & Oloko, 2015).

### Internal Policies

In the accounting field, the term internal control refers to a means of ensuring that there are sound and effective systems and processes within the business that safeguard the assets and thus enhance performance of the firm. Internal control is put in place to ensure that the rim operates within the legal provisions and regulation generally seen referred to as standard operating procedures. The internal policies of the firm are clearly defined and written guidelines and results into standards including how employees in an organization should behave. It is important that the internal policies are in line with some established requirements for instance as it regards the right to privacy of the staff in the firm.

According to Wilford (2016), in an assessment of internal controls and standards of accounting, it was shown that internal controls include policies and procedures established by financial institutions to reduce risks and ensure that they meet the objectives of operation, reporting and compliance. The directors in the firm create a body which is responsible for ensuring effective operation of internal control programs. There should never be delegation of the supervisory role of employees in the firm by the board. The operational tasks and activities of the board may however be delegated to other people in the firm. It is the responsibility of the boards to ensure that the firm has in place sound and effective systems of internal controls so as to enhance its performance. Internal monitoring programs need to be implemented for purposes of effectively operating the organizations, protecting assets, generating financial records that are very reliable and complying with required laws that are applicable to the organizations.

Guo, Huang, Zhang and Zhou (2015) did a study on policies concerning how staffs are treated and this act as a weakness to systems of internal control. In simpler terms, the focus of the study was on determining the role that employment policies play as far as strengthening of internal controls is concerned. It was evident from the study that employee treatment policies help in predicting ineffectiveness within the systems of internal controls. It was established that having in place policies that are friendly to employees play an important role in reduction of conflicts and enhancing the systems of internal control. It is therefore important that firms work on the best way of improving their employment policies so as to improve the internal control systems and mechanisms.

## Credit Appraisal Policies and Performance

Njeru, Mohammed and Wachira (2014) looked at credit assessment effectiveness on commercial banks ' loan performance in Kenya. This study aims to assess the effectiveness of loan performance credit assessment in Kenya's commercial banks. There were 86 respondents in the population and a census was conducted. Gathering of the required views was done with aid of the questionnaires hence the first hand information sources were used. Efforts were made to ensure that the instruments for gathering the required views are as valid and reliable as possible. It was shown that lending placed a great deal of reliance on the use of past information, thereby increasing the use of credit reference and credit history in credit assessment. It was recommended that the competent and more experienced credit officers should conduct the credit assessment. It was also recommended to use a multi-variate approach to credit risk assessment. Strict measures adopted in conducting the credit assessment ensured increased outputs which lead to high overall performance.

Aliija and Muhangi (2017) looked at the process adopted in appraisal and management of credit facilities and how this affects the ability of microfinance entities to performance. The specific reference of this study was on the MFIs operating in Uganda’s context. The study embraced mixed methods where information was qualitative as well as quantitative in nature. Gathering of the views was done with aid of questionnaires that were distributed among 44 loan and credit officers. It was shown that most MFIs leverage on client assessment as a mechanism of managing credit risk. It was shown that customer assessment and credit performance among MFIs are related. As a recommendation, the study point out the need for MFIs to ensure that there is an improvement in customer assessment methods and techniques and this will improve on performance of credit.

Chido and Chitura (2017) conducted a study on the effectiveness of credit assessment techniques used by commercial banks to improve the quality of assets. An exploratory research design was employed by the researchers. It was shown that there was low level of concentration risk in the entire banking sector since this was spread across all the banking entities. It was further noted that all banking entities in Zimbabwean context leverage on techniques of assessing credit in the effort of determining the kind of borrowers who are credit worthy. It was established that there exists a direct connection between the techniques used to asses credit and the quality of assets in place. Majority of banking institutions do embrace various techniques for assessing credit in the effort to asses and determine the credit worthy borrower while ensuring that there is an improvement in quality of loans issued to customers. The most commonly used technique is the internal rating system especially for most Zimbabwean banking entities.

In Pakistan, Ahmed and Malik (2015) did an analysis of the role played by credit risk on credit performance. The focus of this study was on MFIs operating in the context of Pakistan. Essentially, the study was designed to come up with key factors shaping and influencing loan performance. Among the study variables included the terms of credit, the policy for collection, control of credit risk as well as assessment of customers. The study involved hypothesizing the link between these variables. It was shown that the terms of credit influence performance of loans and assessment of customers.

Mutima (2016) conducted a study on perceived quality of loan assessment reports, quality of relationships, mutual disclosure and performance of loans: A Centenary Rural Development Bank case. The results of the regression analysis revealed that strong predictors of loan performance were mutual disclosure and perceived quality of loan assessment reports. The lack of mutual disclosure, quality of relationships, and correct perceptions of the quality of Centenary Bank's loan assessment reports attributed to poor loan performance. This is because a satisfied client will provide a roadmap with respect to the organization's loan performance. Loan performance strategies should therefore be designed to reflect organizational strategy, realize the vision and strategic intent of the organization by developing the desired culture and values of performance, innovation, risk-taking, etc. To be comprehensive, any performance evaluation measure must include not only contributions to organizational performance through business success measures, but also behaviors in line with the business strategy.

## Recruitment Policies and Performance

Sarinah, Gultom and Thabah (2016) conducted a study on the impact of recruitment and selection of employees on the placement of employees at PT Sriwijaya Air and their impact on employee performance. Sriwijaya Air recognizes the importance of process selection for candidates as this process will result in employees being qualified in accordance with the prescribed qualifications in order to achieve performance from these new employees. The purpose of this study was to determine the effect on the performance of PT Sriwijaya Air Jakarta employees of the recruitment and placement of the selection of employees. The method used for analyzing the path is the method used. Results showed that variables of recruitment and selection have a significant impact on employee placement. Similarly, variable employee placement has a significant impact on the performance of PT Sriwijaya Air Jakarta employees. However, only variable recruitment significantly affects the performance employees. Recruitment is the only variable that directly affecting employee performance. While selecting and placing the variable of the employee does not affect employee performance, describing the job and assessing the employees for correct placement, means these employees work better and produce more.

Oaya, Ogbu and Remilekun (2017) did a study on the role played by staff recruitment and selection as far as employee performance is concerned. The focus of the study was on Nigeria’s context.  It was established that employment agencies and recommendations within the firm results into recruitment of staff who are so committed as well as productive. Hence, the study indicates the need for firms to leverage on employment agencies so as to hire staff who are committed. Furthermore, selection of staff should be conducted on merit and against clearly established indicators. Ramki (2015) analyzed the role of recruitment and selection on retention of employees. The focus of the study was teachers employed in international primary schools 8in Kenyan context. It was established that channels put in place to recruit staff bring about retention among employees. Some of these recruitment channels include the use of press media, agencies and the website of the firm.

Sunday,Olaniyi and Mary (2014)sought to establish a link between recruitment and selection and the influence of this on the ability of the firm to perform. In this study, the views from the field were gathered with the use of questionnaires. In total, 20 instruments were obtained dully filled from the field. It was revealed that some common avenues used to hire staff include ensuring that the general vacancies are advertised to all the applicants and leveraging on agencies and referral programs.

### Employee Promotional Policies and Performance

Gathungu, Iravo and Namusonge (2015) did a study on the impact of promotion strategies on banking sector employee organizational engagement in Kenya. This study aimed to evaluate the effect of promotional practices on employee engagement in Kenya's banking industry. Data were collected from employees in various commercial banks through a self-administered questionnaire. Results of correlation reveal that Promotion has a weak engagement relationship at the level of significance of 0.01. Additional analysis revealed that promotion his negatively and significantly connected with engagement relationship. The study divided the target population into two groups, contract groups and permanent staff. The results indicate that promotion had a significant contract engagement relationship while there was no significant relationship for permanent employees. The study concludes that the promotion criteria and benefits received by employees on promotion need to be improved. In addition, merit-based promotion is needed to motivate the performance and productivity of employees.

Sseruyange (2017) conducted a promotional study as a motivating factor for the performance of employees: a case study of Uganda police forces. The study findings indicate that promotions have an incentive towards police members, especially as they always attribute it to good payoff and generally increase good welfare and living standards. That includes, among others, discipline, years of service, handwork, tolerance, good record intelligence, some of the procedures used in the promotions. The study recommends that promotions as a motivating factor are of paramount importance in any profession and that the following should be done: improvement of the workforce's general welfare, provision of good social facilities, proper induction of officers when promoted, job security to be provided, police officers ' insurance, increase in remuneration, avoidance of polarization.

Cheboi (2014) conducted a study at the headquarters of the Cooperative Bank of Kenya on various perceptions held by staff as far as the determinants of the decisions to promote employees are concerned. The study was conducted in one of the local banks, namely Kenya's Cooperative Bank, which has a population of 92 employees at headquarters ' back-office support department. A sample of 75 employees was selected randomly using stratified sampling from the five working groups. The data was gathered primarily by using questionnaires. The research revealed that employee education and experience greatly influence organizational advocacy decisions. The study recommends that Kenya's Cooperative Bank and the banking industry in general review their promotion policies to enable their employees to advance career wisdom in order to retain and motivate employees to achieve better performance.

### Employee Welfare Policies and Performance

Keitany (2014) conducted a perceived relationship study at Kenya Pipeline Company (KPC) between staff programs of welfare and how employees in the firm perform. The findings of the study showed that there are various employee welfare programs offered at KPC, which included the provision of sports facilities, the provision of pension schemes, meeting rooms, lenient sick and maternity leave, eating canteens, working days off during examination days, partnerships with health insurance companies or healthcare hospitals, the provision of safety clothing KPC also allowed staff to work on a need-based basis from remote stations and to pay compensation for hardship. The study of the findings also showed that welfare programs had a positive impact on employee performance at Kenya Pipeline Company by enhancing their performance attributes to their accountability, meeting performance goals, company loyalty, diligence, proper interpersonal communication, and self-driving to undertake agreed tasks. The study recommends that companies learn to improve employee performance and implement welfare programs.

Moruri, Ogoti, Munyua (2018) conducted a study on how employee welfare facilities influence their performance in North Rift Kenya's Kenya judicial systems. The study examined the relationship between motivational factors and performance of employees in judicial systems located in Kenya's North Rift Region. This paper, based on the study, discusses the relationship between welfare practices of employees and performance of employees. A correlational survey design was used in the study. Descriptive and inferential statistics were used to analyze the data. The significance of the statistics’ relationship was determined using linear regression analysis, the statistical significance of the relationships between selected variables was determined. The study found that employee welfare facilities ' motivational factors influenced judicial employees ' performance. Evidence of improved performance included a decrease in case backlogs and a rapid determination of cases. Based on the study findings, it was recommended that judicial administration design effective employee welfare facilities that are likely to stimulate performance-oriented employee efforts.

Waititu, Kihara and Senaji (2017) used a case of Kenya Railways Corporation to establish how the programs for enhancing the welfare of employees influencd their ability to perform. From the regression model, the study found that employee performance at Kenya Railways Corporation had been strongly influenced by remuneration policies. This was followed by occupational health, which at the firm had a weak positive impact on employee performance. Training and development showed a weak positive impact on employee performance. On the other hand, the employee referral scheme at the firm showed a weak negative impact on employee performance while the succession plan at the firm recorded the least weak and negative impact on employee performance. The study recommends remuneration policies; the firm should adopt occupational health and training and development to improve the organization's employee performance.

## THEORETICAL FRAMEWORK

### Theory of Information Asymmetry

Information asymmetry theory was developed by Dierkens (1991).Bartov and Bodnar (1996) argued that buyers typically use market statistics in markets to determine the value of the goods. Consequently, while the customers view the average market as a whole, the sellers are seen to use to a more intimate knowledge of a certain product. According to Dierkens, information asymmetry provides the sellers with great opportunities to sell their commodities below the market's average quality. In a market, a product or service's average quality will then decrease resulting to the decrease in market size. For each agent, information is made available but the managers and investors of the company seem to have a strong information asymmetry.

This theory explains a situation where the available information is relevant to all of the involved parties that are not known at that particular time (Balakrishnan &Koza, 1993). Aboody and Lev (2000) indicates that inter temporal interconnections involve competitive behavior in such markets. The theory shows two issues linked to the perceived information asymmetry of the financial institution, the moral hazard and the negative selection. The theory states that if organizations can exchange customer information, particularly on creditworthiness of customers, which can lower the loan repayment rate. Dawson, Watson and Boudreau (2010) ascertain that a reducing the asymmetry of data between clients and lenders will enable credit reference offices to create credit risk management practices like rating of credits, thereby expanding bank loans to borrowers who are creditworthy.

The theory is relevant to the study as it expounds on value of information to market players, where they use this information to gain an improvement in their performance. The market players include creditors, lenders, business units gather information which enables them to make and dispose off products as per what the market needs, and this ensures that the players gain in terms of returns and increased outputs.

### Objective Factor Theory

The objective factor theory suggested by Behling et al. (1968) presumes that the choice of recruitment depends on the objective analysis of some tangible components within the organization. These factors, as described by the theory, include organizational size, pay and benefits, policies, organizational image, structure, work environment, location, opportunities for education and training, career growth opportunities, nature of work to be done, among others. Each of these components is weighted to the potential employee in terms of their relative significance. Recruitment is a two-way process involving a recruiter and a recruiter. This means that potential employees must make an informed decision as to whether to apply for a job or not, whereas the recruiter has a choice as to who to recruit and not to (McCrae & Costa Jr, 1999).

According to the theory, the most important predictors of job attractiveness are the type of work, image and work environment. The underlying features include autonomy, challenging work, variety of tasks, nature of colleagues, managers, and training and development opportunities. Other factors include work time flexibility and the physical workplace. Young job seekers are looking for options for flexibility that focus on family-oriented needs. Organizational image involves subjective, intangible, abstract factors and features such as the degree to which potential candidates judge an organization as successful, smart and technical (Bowers & Seashore,1966).

In their study, Bowers and Seashore (1966) suggest that recruitment and selection procedures need to change in response to labor market pressures as discussed in the theory of objective factor. Organizations must focus on increasing candidates ' level of desirability as places to work as a strategy for recruitment. This can be achieved by carefully matching people to jobs, by creating career opportunities, by boosting the intrinsic rewards found in the workplace itself, by properly training managers to increase efficiency, by increasing employee involvement in organizational decisions, by helping employees to cope with changes in the workplace, by facilitating the ability of employees to balance work and life, among other things. Best practice organizations must ensure that their recruitment and selection functions are positioned to provide potential employees with these attractions by aligning all of their policies.

## Functional Theory of Labor Welfare

Functional labor theory is also called the Theory of Efficiency. According to this theory, the most efficient worker is one who is fully mentally and physically satisfied. Employee welfare is a means of maintaining the content of industrial workers so that they can work effectively. Welfare work is used in this theory as a way of safeguarding, developing and preserving the effectiveness and productivity of labor. According to this theory, an employee who is completely satisfied both in terms of mentality and physicality is considered to be the most effective. Employee welfare is a way of preserving the content of workers to enable them to operate efficiently. In this theory, welfare work is considered as a means of safeguarding, developing and ensuring that labor productivity is preserved accordingly (Seeleib- Kaiser & Fleckenstein, 2007).

The theory suggest that an employer will enhance the rate of production by carefully taking care of his workforce hence making it much easier for housing provision, training, balanced diet and implementation of family planning standards which are essential for the welfare of the workforce because they play an important role in boosting the effectiveness of employees in countries that are underdeveloped.

The theory is useful in providing knowledge about characteristics of labor power as reflected in contemporary support of labor. This is achieved if the employees and employers possess the same objectives of attaining greater output through welfare improvement. The theory has been adopted in this research as welfare facilities influence the output of any labor force. Obviously, they tend to become more effective if an employer ensure that the employees are well taken care off (Mishra & Bhagat, 2007).

This theory states that the employer is obliged in taking care the employees' welfare. This aspect of labor welfare is also highlighted in India's constitution. Employee efficiency plays a main role in improving welfare facilities and it is based on how effective it is in the work place; however this relationship is very to assess. Some of the main labor welfares that enhance the effectiveness of the employees mostly in underdeveloped nations include; training programs, housing, interventions on family planning, education and healthy nutrition. The development of human personality is stated here as the goal of employee welfare, which should counteract the baneful impact of the industrial system according to this principle. Therefore, labor welfare services must be introduced both within and outside the plant, i.e. offering intramural and extramural employment welfare facilities. Welfare Totality emphasizes the need to spread the notion of labor welfare across the organizations' the hierarchy. Employees must recognize all of these programs associated with labor welfare (Prideaux, 2001).

## Bureaucratic Theory

Bureaucratic theory was developed by Max Weber (1864-1920). The theory argues that it is important for an organization to operate in a rational way rather than following the irrational ways that lead to poor organizational performance. The theory contains two major important aspects that involve the structuring of an organization into a hierarchical way clearly highlighting the rules and regulations that are required to govern the organization and its members. Max Weber further discovered the appropriate way of operating an organization by inventing a theory called Bureaucratic management approach. The efforts of Max Weber made it possible to successfully displace the old organizational structures of the industrialization period (Wæraas, 2007).

Max Weber also identified some bureaucratic management principles that are concerned with making decisions, proper management of organizational resources and achieving the set goals and objectives.The principles include: chain of command, adequate division of labor, implementation of coherent and complete laws, selection and promotion based on skills and incorporation of process that identify personal and official property. Max Weber who is regarded as the father of bureaucracy insisted that having a bureaucratic organization makes it much easier to exercise a vital control over employees. Dunn and Miller (2007) states that the major difference between the Weber's bureaucratic theory and the traditional managerial organization is that Weber's theory is impersonal and the individual performance level of an employee is identified by rule-based activity. The organizational promotions are also identified on the basis of an individual merit and performance (Lenz, 1981).

## Theory of the Firm

This theory was forwarded in 1963 by Cyert and March (1963) as a micro-economic concept with a base on neo-classical economics, while Grant (1996) looked at it as a knowledge-based theory of the firm which converts policies and regulations into elements that resources and they are beneficial to the firm as it helps the firm make high profits and returns. The theory says that the sole reason for companies ' existence is to maximize their earnings, which simply increases the gap between income and cost. Profit maximization includes two things: decrease / reduce operational expenses and increase revenues. The company's objective is once again to set prices and market requirements and then assign resources to maximize its net benefits (Gavetti, Greve, Levinthal & Ocasio, 2012).

Two main debates that are ranging about the theory of the firm; the first being if firms fight to make profits in the short-term or long-term and there is uniformity that making profits in the short-term is good, but firms need profits in the long-term so as to continue its operations and realize the benefits accrued in the venture or investment (Van Loon, 2012). The second part is whether investors and business owners are willing to take a risk and investment into the venture so as to gain the profits. This follows the idea that any investment has some level of risk, as such investors need to be willing to risk their capital with the possibility of making losses (Foss &Knudsen, 2013). This theory also looks at the decision making process as the investors seek to increase the profit ratios. The investors must also come up with policies to ensure that all activities of the business are geared towards maximization of profits.

This theory is relevant in the study as it seeks to look at the commercial banks quest to increase their performance, productivity and returns through the internal policies put in place to ensure the same. As such the theory explores how commercial banks make internal policies to increase their performance.

# RESEARCH METHODOLOGY

## Research Design

A research design refers to a detailed framework of methods and techniques that the researcher uses to collect and analyze data on a particular topic and present the findings in a more reasonable and understandable way (Lewis, 2015). A descriptive research design was used by the researcher with the main aim of achieving the objectives of the study. Creswell and Creswell (2017) ascertain that descriptive research design is aimed at systematically and accurately describing a situation or area of interest. As such, a descriptive research design attempts to determine the status of the phenomenon being investigated.

### Target Population

Muller and MacLehose (2014) define target population as a group that is to be generalized or inferred by a researcher. The study's target population included 6 commercial banks owned by the government and operates in Kenya (See Appendix I). Census was used in the study where 6 governments owned commercial banks were included in the study. The study's target population was managers and supervisors and junior staffs from the HR, Finance, Internal Audit and customer service departments. The total from each bank was 12 and a total of 72.

### Sample Size

According to Kothari (2008), sample sizes greater than 30 provide the researcher with the advantages of the central limit theorem and the thumb statistical rule that a sample size of 30 or above represents any population. Statisticians have shown that the larger the sample's absolute size, the closer its distribution was the normal distribution and the more robust it was (Kothari, 2008) and 72 respondents were therefore considered sufficient for this study.

### Research Instruments

According to Gillham (2008), the tools used in collecting and gathering data from respondents are referred to as data collection instruments. The study used questionnaires in collecting primary data from the respondents. The questionnaires were appropriate in this study because they had the ability of reaching many respondents within a short period of time; the response time given to the respondents was enough, the respondents are sneered of enough security (confidentiality) and also the questionnaires tend to be objective because the chances of biasness are minimal (Ogula, 2005). The study variables were split the questionnaires because of the first chapter that captures background data. The study used both the closed and open ended format of questionnaires to gather data from staff members in the various banks.

### Data Collection Procedures

The researcher distributed all the questionnaires with great care and control so as to ensure that all the participants had received the questionnaires at the expected time. Questionnaire register was retained by the researcher to ensure that everything is achieved as expected. A drop and pick later technique was used by the researcher to administer the questionnaires.

### Data Analysis Procedure

Data analysis is aimed at fulfilling the objectives of the research and providing solutions to the questions raised in the research (Galletta, 2013). According to Tisdell, (2015), data must be cleaned, coded and analyzed. Open ended questions were used to derive qualitative data. Qualitative analysis was used for the purposes of analyzing the perception and attitudes of data (non-numerical) that was collected from the study. Quantitative data was analyzed using descriptive statistics as it created room for narration for purposes of interpreting data variables.

Content analysis was performed on the open ended questions for the non-numerical data. Statistical Package for Social Sciences (SPSS) version 23.0 computer program was used to analyze the coded data. Chi square was used for the purpose of determining the relationship between variables. Findings of the study were presented in form of percentages, frequency tables and proportions. A multiple regression analysis was also conducted by the study. The multiple regression equation is;

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_{4+} \varepsilon}$$

Where: Y= Performance; $B_0$ - intercept coefficient; $\varepsilon_{i\ -}$ error term (extraneous variables); $X_1$ – Credit Appraisal Policies; $X_2$ – Recruitment policies; $X_3$ – Promotional policies; $X_4$ – Employee welfare; $\beta_1$,$\beta_2$, and$\beta_3$ = regression coefficients

## RESEARCH RESULTS

The study found out that credit appraisal policies had a positive effect on performance of commercial banks. Commercial banks had implemented the internal rating system that had brought an improvement in the credit performance of the banks to a great extent. This was seen where commercial banks were aware on how to establish borrowers ' creditworthiness and improved their customer assessment techniques. The findings also indicated that commercial banks were aware on how to improve the quality of loan, and they also use credit assessment techniques when establishing borrowers ' creditworthiness. The use of a multi-variety approach to credit risk assessment led to an increase in performance and they also employed technical people who were experienced and competent officers who conducted credit assessment.

The study established that the recruitment method employed by the commercial banks such as employment agencies in the recruitment of employees and advertising job vacancies to the general public to recruit potential employees helped to improve the performance of the employees. However commercial banks had good system of establishing productive communications between employees and senior management. Furthermore employee assessment and recruitment was conducted by the HR and recruitment was based on the candidate’s ability to fulfill their job responsibilities.

Furthermore, the findings revealed that employee promotion policies affected the performance of commercial banks to a great extent. This was seen effective where commercial banks promoted performing employees, motivated employees to achieve better performance and promoted employees with good record intelligence so that they could retain them for a longer period. The findings further indicated that commercial reviewed their promotion policies to enable employees to advance career wisdom and to receive benefits. Commercial banks had also introduced merit-based promotion to motivate the performance and productivity of employees.

Moreover the study established that employee welfare had a great impact on the performance of the commercial banks in Kenya. Employees were provide with effective welfare facilities that were likely to stimulate performance-oriented employee such as sports facilities, a pension scheme and occupational health and training and development to improve the organization's employee performance. Commercial banks had also improved the workforce general welfare in the organization, improved employee performance and implemented welfare programs and allowed staff to work on a need-based basis from remote stations.

## INFERENTIAL STATISTICS

Regression analysis was carried out to investigate effects of internal organizational policies on performance of government owned commercial banks in Kenya. The researcher applied the statistical package for social sciences (SPSS) version 20.0 to code, enter and compute the measurements of the multiple regressions for the study. Regression analysis was used to estimate the changes in performance of government owned commercial banks that can be explained by internal organizational policies studied. The results are indicated in the subsequent sections.

The study conducted the model summary to get values of R and the adjusted R in order to test the model fitness of regression. The findings of the model summary are indicated in Table 1.

**Table 1: Model summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .880[a] | .774 | .755 | 1.41083 |

From the Model Summary, the coefficient of correlation R is 0.880, showing a strong positive correlation between effects of internal organizational policies on performance of government owned commercial banks in Kenya. The coefficient of determination R square is 0.774 showing that 77.4% change in performance of government owned commercial banks in Kenya is explained by effects of internal organizational policies (credit appraisal policies, employee promotion policies, recruitment policies and employee welfare policies). The other factors explain 22.6%.

An Analysis of Variance (ANOVA) was conducted at 5% level of significance. This was done so as to determine the overall fitness of the regression model. The results are presented in Table 2.

**Table 2: ANOVA Statistics**

| Model | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| Regression | 320.968 | 4 | 80.842 | 41.2174 | .000[b] |
| Residual | 93.551 | 47 | 1.990 | | |
| Total | 414.519 | 51 | | | |

From the findings, the study found out that the value of F calculated is 41.2174.In comparison to the value of F critical (at df.4, 47) which is 2.57, it can be seen that F calculated is greater than F critical. This shows that the overall regression model was significant as presented in Table 4.11.

The study carried out regression beta coefficient of the study variables as determined by the p values; this was conducted to identify the significance of the individual variables (credit appraisal policies, employee promotion policies, recruitment policies and employee welfare policies) to the study. The results are indicated in table 3.

**Table 3: Regression Beta Coefficients**

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| (Constant) | 6.567 | 5.428 | | 1.210 | .232 |
| Credit Appraisal Policies | .526 | .117 | .601 | 4.484 | .000 |
| Recruitment Policies | .624 | .107 | .609 | 5.853 | .000 |
| Employee Promotional Policies | .432 | .079 | .770 | 5.495 | .000 |
| Employee Welfare policies | .175 | .070 | .252 | 2.495 | .016 |

The established regression equation becomes:

$$\mathbf{Y = 6.567+0.526X_1 + 0.624X_2+0.432X_3+0.175X_4}$$

Where: $\mathbf{Y}$ = Performance; $\mathbf{X_1}$ = Credit appraisal policies; $\mathbf{X_2}$ = Recruitment policies; $\mathbf{X_3}$ = Employee promotion policies; $\mathbf{X_4}$ = Employee welfare policies

According to the findings, effects of internal organizational policies on performance of government owned commercial banks in Kenya would be 6.567. An increase in credit appraisal policies, other factors kept constant would result in a 52.6 % increase in performance of government owned commercial banks. A unit improvement in recruitment policies would lead to an increase of 62.4%performance of government owned commercial banks in Kenya. A steady increase in employee promotional policies would lead to an increase of43.2% performance of government owned commercial banks in Kenya and an increase in employee welfare policies would lead to 17.5 % increase in performance of government owned commercial banks in Kenya. At 5% level of significance, the study stated that credit appraisal policies ($p<0.05$) has significant effect on performance of government owned commercial banks, the finding conquers with Ahmed and Malik (2015) who found out that credit terms, collection policy, credit risk control and customer assessment; were taken into account and the directions of their influence on the loan performance were hypothesized, the credit term has a significant positive impact on the performance of the loan, recruitment policies ($p<0.05$) was also found to have a significant effect on performance of government owned commercial banks this was in line with Sundayet al. (2014) who realized that the method used in the recruitment and selection process was very effective and also helped to improve the performance of employees.. It was also revealed that employee promotional policies ($p<0.05$) has significant effect on performance of government owned commercial banks, this conquers with Kosure (2015) who indicated that the perceived value of incentives for investment promotion had a significant impact on the performance of the firm and employee welfare policies ($p<0.05$) was also found to have significant effect performance of government owned commercial banks. The finding is in line with Moruri et al. (2018) who found out that employee welfare facilities ' motivational factors influenced judicial employees ' performance in the organization.

## CONCLUSION

The study found out that credit appraisal policies had p value which was less than 0.05 with a positive beta coefficient. Based on this finding, this study concludes that credit appraisal policies are key drivers of performance government owned commercial banks. This is because credit appraisal policies comprise of internal rating system which help in determining the credit worthiness of borrowers. At the same time, credit appraisal policies leads to improvement in the quality of the loans and effective credit assessment techniques.

The study established that the relationship between recruitment policies and performance of commercial banks was positive and significant; the p value was less than 0.05. In regard to this finding, the study concludes that adoption of suitable recruitment methods such as using the employment agencies and advertising job vacancies to the general public to recruit potential employees in the recruitment of employees led to an improvement in performance of employees. Concurrently possessions of good systems help establishing productive communication between the employees and senior management.

The study findings further indicated that employee promotional policies had a positive and significant beta coefficient. From this finding, the study concludes that employee promotional policies have a direct and far reaching effect on performance of commercial banks. Through employee promotional policies, firms are able to promote employees who perform better with good intelligence. Employee promotional policies also help firms to retain their employees and encourage others to also work smart to achieve better performance. Moreover, a merit-based promotion by the banks motivated the performance and productivity of employees which improved employee’s promotion to receive benefits.

Moreover, the results of the study revealed that Employee welfare policies had a beta coefficient with the p value less than 0.05.In view of this, the study concludes that employee welfare policies have a significant effect on performance of commercial banks in Kenya. Commercial banks were able to design effective employee welfare facilities that stimulated performance oriented of the employee such as sports facilities, pension schemes and occupational health and training and development that improved the organization's employee performance.

## RECOMMENDATIONS

On credit appraisal the study recommends that all commercial banks should ensure that they possess efficient and effective credit appraisal techniques to be able to measure the reducing asset of quality problems to improve the banks performance. Moreover commercial banks should be testing their systems before implementing them and also ensure that their credit appraisal techniques match with the international standard when it comes to credit scoring and internal rating system. Every banking institution should have credit appraisal techniques that comprise methods, processes, controls, data collection and IT systems that support the quantification of default and loss estimates. Banks should link integrate their credit risk management systems with general management systems which will enable risk management unit respond to the changing external and internal business conditions.

The study father recommends that commercial banks should use good approaches which in turn will lead to selection of quality employees that gives a better organizational performance. Commercial banks should also use reliability and validity selection instruments to get skilled, desirable and qualified employees and select the best employees for specific position to maintain the performance level. All commercial banks should develop a clear employer brand and create job posts that reflect their organizations to improve the recruitment systems for better improvement of employee performance.

Furthermore, on employee promotional policies the management of commercial banks should employ less subjective ways in setting targets, performance measurements performance review and giving incentive to employees in the promotion practices in order to enhance employee commitment to improve the performance of the organization. The remuneration policy of the organization should include all levels of organization and all categories of employees with special emphasis on the identified risk takers. The organization should support levels of remuneration and compensation necessary to attract, retain and motivate employees. There is need to offer fair and adequate promotional opportunities to employee so as to maximize employee job satisfaction and efficiency in work performance

Finally, study recommends that commercial banks should conduct employee satisfaction surveys so as to establish ways in which the banks can provide the best working conditions for their employees to improve their productivity and that of the firm. The study also recommends that commercial banks should provide employees with sports facilities, a pension scheme and adopt occupational health and training and development to improve the organization's employee performance. Occupational health should be paid more attention in maintaining it in the organization. The study recommends that effective occupational health should be performed by the company to provide a sense of security to employees, but also could provide satisfaction to employees. Occupational health should be applied and considered seriously by the company, for then it is expected that it would prevent and reduce the occurrence of occupational accidents in the workplace.

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