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The impact of Performance Appraisal on Employee Performance: The Mediating Role of Employee Motivation

Dr. Omar Ahmed Shaikh

Assistant Professor, PhD Scholar, Karachi University Business School
Shaikh.omar.os@gmail.com

Shayan Munir

Research Scholar, Karachi University Business School
shayan.munir786@gmail.com

Abstract: One of the significant aspects in the success of organizations is the performance of employees, and this is particularly in developing economies such as Pakistan where the formal HR practices are yet to take a formal approach. The research reviewed the relationship between Performance Appraisal (PA) and Employee Performance (EP) and a mediating variable Employee Motivation (EM). The mediating variable between the two variables was a quantitative cross-sectional survey design. Structured questionnaires were used to gather data with the Pakistani organization employees. The demographic distribution revealed that there was moderate gender imbalance; 62.63 percentage of the respondents were males, and 37.37 percentage were females. Most of the participants were between 30 and 39 years (52.53%), with the next highest percentage of 20-29 years (29.20%), 40-49 years (16.16%), and 50 and above (2.02%) meaning that the predominant percentage of the respondents were young and mid-career professionals (81.73% of 20-39 years). Findings indicated that the performance appraisal has a positive impact on employee motivation and the motivational level has a strong positive effect on the performance of employees. The mediation testing established that the PA and EP relationship is mediated by the employee motivation partially, indicating that appraisal enhances performance in a direct and indirect manner through motivation. This has limitations in terms of self-reported measures and omissions of other performance drivers like leadership support and fairness in rewards. The study suggests transparent, equitable and feedback-based appraisals with more reward parity to maintain motivation and enhance performance.

Keywords: Job Satisfaction, performance appraisal, employee motivation, employee performance, Employee turnover, Pakistani Organizations.

1.1 Introduction

The supervisors in charge of the performance review process should treat each employee fairly and communicate the findings and comments to them in a positive way.

Employee motivation, job happiness, and work performance are just a few of the areas where a biased performance review system in a manufacturing company will impact workers. Javidmehr and Ebrahimpour's (2016) previous study revealed that 80 percent of managers are probably biased when evaluating their staff. Staff discontent with the unfair performance review has several detrimental effects, including a higher staff turnover rate and decreased commitment. According to a previous study by Hee and Jing (2018), a manufacturing company's productivity will decline if its performance appraisal system is not implemented correctly. Furthermore, a system of performance reviews that is

unjust and biased will affect employee motivation.

A key mechanism used by human resource management (HRM) is the performance appraisal system, which serves as a structured approach to assess employee achievements, provide feedback (Aguinis, 2019). Performance appraisal serves as both an evaluative tool and a developmental mechanism that supports employee learning, recognition, and career advancement (DeNisi & Murphy, 2017). Organizations are under constant pressure to improve employee performance and productivity in an increasingly competitive global business environment.

The impact of performance reviews on employee performance has been disputed despite their extensive use. Researchers contend that psychological elements like employee motivation frequently operate as a mediator between the direct and indirect effects of performance reviews (Iqbal, Ahmad, Haider, & Batool, 2019). A key psychological factor that converts appraisal feedback into practical performance enhancements is motivation. Employees are more likely to feel motivated and perform well at work when they believe that performance reviews are fair, open, and constructive (Nawaz & Pangil, 2016). On the other hand, personnel may get demotivated and perform worse if appraisal systems are prejudiced or poorly designed (Kuvaas, 2006).

According to recent empirical research, employee performance and performance appraisal are mediated by employee motivation (Sanyal & Biswas, 2014; Malik & Aslam, 2013). According to Khan, Nawaz, Aleem, and Hamed (2012), a fair and impartial appraisal system can encourage both internal and external motivation, which will enhance work satisfaction, organizational commitment, and performance results. Therefore, companies that want to use performance appraisal systems as tools for performance enhancement must grasp the mediating function of motivation.

There are still research gaps, nevertheless. Few studies have examined the mediating mechanism of motivation in various organizational and cultural contexts, despite the fact that existing research recognizes the connection between performance and assessment. Furthermore, emerging economies like Pakistan need more research because of their distinct workplace dynamics, cultural values, and HR procedures, while the majority of studies have been carried out in established economies (Sharma, Sharma, & Agarwal, 2016).

Therefore, the purpose of this thesis is to examine how performance reviews affect employee performance, with an emphasis on the mediating function of employee motivation. By presenting empirical data from the Pakistani context and offering managers useful advice on how to create performance evaluation systems that not only gauge performance but also boost worker motivation and output, the study adds to the body of knowledge in HRM.

1.2 Problem Statement

To accomplish their strategic objectives, organizations mostly depend on employee performance, and one of the most popular HRM techniques for assessing, directing, and improving such performance is performance evaluation (Aguinis, 2019). The usefulness of performance reviews in raising employee performance is still up for debate, despite their extensive use. Numerous firms still struggle with issues including unfair assessments, a lack of openness, and insufficient feedback, which can lead to discontent among employees and subpar performance results (Kuvaas, 2006).

Although prior research has examined the direct correlation between employee performance and performance appraisals, it frequently ignores the psychological processes that explain how and why performance is impacted by appraisals (DeNisi & Murphy, 2017). One important component that converts evaluation results into real performance gains is motivation, both internal and external (Deci & Ryan, 2000). Yet, not enough research has been done on the mediating function of motivation, especially in developing nations where HR procedures and organizational cultures diverge greatly from those in the West (Sharma, Sharma, & Agarwal, 2016).

Instead of using performance appraisal systems as a strategic instrument for development, many firms in Pakistan use them as a formality. Employees sometimes believe that appraisals are subjective, unjust, or unrelated to possibilities for professional advancement and rewards (Iqbal, Ahmad, Haider, & Batool, 2019). Employee motivation is lowered and the intended function of assessment systems is compromised by this lack of credibility. As a result, employee performance does not entirely improve as anticipated.

Consequently, there is a significant study void on whether performance reviews directly improve performance or if their efficacy is reliant on how much they inspire people. Without this information, businesses run the danger of spending money on evaluation methods that don't result in appreciable increases in output. By examining the mediating function of employee motivation in the relationship between performance evaluation and employee performance in the setting of Pakistani organizations, this study fills this knowledge gap.

1.3 Research aim and objectives

The aim of the study is to find out the Impact of Performance Appraisal on Employee Performance: The Mediating Role of Employee Motivation.

1. To examine the impact of performance appraisal on employee performance.
2. To examine the mediating role of employee motivation on performance appraisal and employee performance.

Chapter 2 Literature Review

2.1 Introduction

The performance of employees has been a major issue of interest to organizations that have sought to be competitive in a highly dynamic and globalized business world. Due to the dynamism in the market, the changing customer demands, and the emerging market forces, the pressure to maximize the productivity of the workforce in the firm has increased. In this regard, the performance appraisal systems have become one of the most powerful human resource practices in managing and improving employee behaviour and performance. An effective performance appraisal does not only assess employee contributions, however, it also helps to state expectations, establish feedback systems, enhance accountability, and promote a culture of constant improvement. Nevertheless, the performance appraisal systems, although highly used are controversial in the literature, particularly whether or not performance appraisal systems have direct effects of improving employee performance.

Recent research indicates that performance appraisal does not necessarily affect performance in linear way; rather its effect tends to occur via psychological and motivational mechanisms that workers undergo. In cases where workers are made to feel appreciated, judged and assisted with constructive feedback, they experience better levels of intrinsic and extrinsic motivation, which ends up improving their quality of work, dedication and effective. On the other hand, appraisal systems that are poorly done can lead to dissatisfaction, low morale and low performance. This is why the analysis of mediating role of employee motivation will bring an insight into how and why the performance appraisal practices can lead to better employee outcome.

These constructs have been investigated by scholars in different theoretical perspectives which include goal-setting theory, expectancy theory, equity theory and social exchange theory. Both theories show varying processes in which the appraisal practices can boost motivation and performance. Moreover, the new appraisal systems focus on the developmental features, ongoing feedback, and participation in employees, which additionally have an impact on motivational states. With the trend in organizations moving towards strategic human resource management, it is imperative to know these interconnections in order to come up with appraisal systems that would actually make a difference in the performance.

Considering these academic and practical issues, the chapter presents an overall literature review of the three crucial constructs, namely, performance appraisal, employee motivation, and employee performance. It also integrates empirical evidence on how performance appraisal correlates with performance of employees with the significant role played by employee motivation as a mediator. The chapter creates a conceptual ground of the current study, and the gaps in the research that it addresses bring about the reasons why it is significant. The conceptual framework of the study is also developed based on the literature review which assists in explaining the underlying mechanisms through which appraisal practices predict performance outcomes.

2.2 Hypothesis Development

The nexus between performance appraisal, employee motivation, and employee performance has received intensive organizational research investigations. Performance appraisal is a human resource practice that helps to structure the feedback, explain expectations, and identify areas of development (DeNisi and Murphy, 2017; Aguinis, 2019). Employees who feel that the performance appraisals are fair, transparent, and developmental are more inclined to develop enhanced motivation to perform. The motivational impact of appraisal is also positive that is in line with Expectancy Theory in which employees work hard when they are convinced that it will result in the desired outcomes, and the Equity Theory which asserts that fairness should be a factor in determining the level of motivation (Vroom, 1964; Adams, 1965). The existing empirical evidence points to the significant positive effect of appraisal satisfaction on intrinsic and extrinsic motivation, commitment, engagement, and overall performance (Kuvaas, 2011; Fletcher, 2018). In its turn, employee motivation has been invariably connected with the performance results. Motivated workers also exhibit a better degree of task performance, contextual contributions and adaptive behaviors (Latham and Pinder, 2005; Deci and Ryan, 2000). Motivation is a psychological process that converts the gains of appraisal practices to actual performance deliverable. The developmental appraisal systems that empower, recognize, and support employees increase the chances that they would work harder, continue to face challenging tasks, and become more innovative (Gagné and Deci, 2005; Pulakos et al., 2019). The Self-Determination Theory also helps in confirming this correlation, whereby psychological needs, including autonomy, competence, and relatedness realized through supporting appraisal procedures, promote intrinsic motivation and spur high performance (Deci and Ryan, 1985). With this theoretical and empirical background, it is clear that, employee motivation acts as a mediating variable in the relationship between performance appraisal and employee performance. Though performance appraisal gives feedback, recognition and developmental advice, motivation is a determinant of whether these inputs will be internalized by the employees and transformed to greater heights of performance. This mediating mechanism has been empirically validated by a number of studies. As an example, Kuvaas (2011) showed that employee motivation is a significant mediator between appraisal satisfaction and performance outcomes, and Kim and Holzer (2016) discovered that appraisal fairness positively influences performance indirectly via encouraging motivational impacts. On the basis of this theory synthesis and empirical evidence, the following hypotheses can be upheld:

H1: Performance appraisal positively and significantly impacts on employee motivation.

H 2: Employee motivation positively and significantly influences employee performance.

H3: Performance appraisal positively and significantly influences the performance of employees.

H4: Employee motivation mediates the effect between employee performance and performance appraisal.

The conceptual framework of this study is based on these assumptions and is used to shape the empirical investigation. H1 and H2 represent the direct associations among appraisal, motivation and

performance, whereas H4 serves to consider the indirect channel by which performance appraisal contributes to the performance through motivation. The testing of these hypotheses will give information on how the human resource practices affect the employee outcome and the practical implications of the testing are on how to design the appraisal systems in such a manner that they improve motivation and performance.

2.3 Research Gap

Although there is a lot of information about a relationship between performance appraisal, employees motivation and performance, there are still a number of gaps that explain why the current study is necessary. In terms of contextual gap, the majority of previous research was carried out in the Western/developed country context (Kuvaas, 2011; Fletcher, 2018), and few information on the ways in which these relationships are implemented in the developing world, where cultural, organizational, and economic aspects might affect employee perceptions and responses to appraisal systems.

There are gaps in the theoretical knowledge since, whereas, it is known that employee motivation is a mediating mechanism, there is a paucity of studies that have systematically tested its mediating effect in a sound theoretical framework of Expectancy Theory, Equity Theory, and Self-Determination Theory. Methodological flaws can also be observed; most of the studies use a simple regression analysis or a cross-sectional design instead of using more sophisticated methods to test the mediation effects such as structural equation modeling, which makes the results less robust and generalizable (Kim and Holzer, 2016). In addition, empirical gaps are caused by the excessive emphasis on the administrative components of performance appraisal, including promotions and changes in salaries, and understudied developmental and motivational parts, including the level of feedbacks, impartiality, and awards (Pulakos et al., 2019).

Finally, there are sector-specific gaps, since little work has explored such relationships within such sectors as banking, healthcare, or service industries in Pakistan, even though the role of employee performance in those fields is increasing. To fill these gaps, the present research aims at offering a thorough analysis of the relationship between performance appraisal and employee performance in the light of a mediation concept that is motivation in a developing-country situation and through a rigorous methodological and theoretical framework.

Research Methodology

3.1 Introduction

The systematic and structured approach used in the study makes the findings valid, trustworthy, and generalizable to the rest of the population. The chapter starts by addressing the research design which describes the general direction and rationale used in the research. This is then followed by a description of the population and sampling plan, the way the participants were chosen and the reason why the method used is suitable. This is followed by a discussion of the research instrument wherein the reason why the structured questionnaire was used and how the questionnaire was set up to measure the study variables is explained. Data collection process and methods of data analysis are later given in details with the statistical tools and methods to be used in interpreting the derived results being identified. Lastly, there is also the consideration of ethical and methodological constraints that present transparency and integrity to the research process.

3.2 Research Design

The research type that has been embraced in this research is the quantitative research design, which is appropriate in the study to analyze the relationship between variables using statistical and numerical techniques of measurements. Quantitative research enables the researcher to gather organized information and subject the data to stringent statistical methods to examine the hypothesis and come up with conclusion about the population. The main reason why a quantitative methodology was chosen in

this study is the fact that quantitative research will allow objective evaluation of employee perceptions on performance appraisal, motivation, and performance, thereby reducing brassiness of the researcher.

The quantitative research is also a better option when the researcher wants to test cause-effect relationships or predictive relationships between variables and this is what happens in this research. In particular, a correlational research design is used in the current study, and it is aimed at discovering and examining the relationships between variables without controlling them. The correlational research is suitable when one aims to establish the association between changes in one variable with changes in another one. In this research the independent variable will be performance appraisal, the mediating variable will be employee motivation and the dependent variable will be employee performance. A correlational research design enables the researcher to investigate the nature, direction and significance of these associations, which furnishes the researcher with empirical data on the postulated hypotheses.

3.3 Population of the Study

The sample population of this study is composed of employees of the chosen organization and it will comprise a total of 170 employees. A population is defined as a totality of persons who satisfy given conditions and are of importance to the research goals. The population used in this research would be employees who have undergone performance appraisals and their motivation and level of performance may be easily evaluated.

The nature of the population is very important in choosing the right sample and the results may be applied to the group as a whole. The population of employees represented in the study is comprised of employees across various departments and levels in the organization, which it means that the study will include different points of view on performance appraisal, motivation, and performance. The fact that employees representing various departments were involved in the study enhances the sample representative and enables a better insight into interrelations between variables of the study. The study, through its approach of taking into consideration the whole population of eligible employees, makes sure that the conclusions are a true measure of the actual experiences and perceptions of the workforce of the organization.

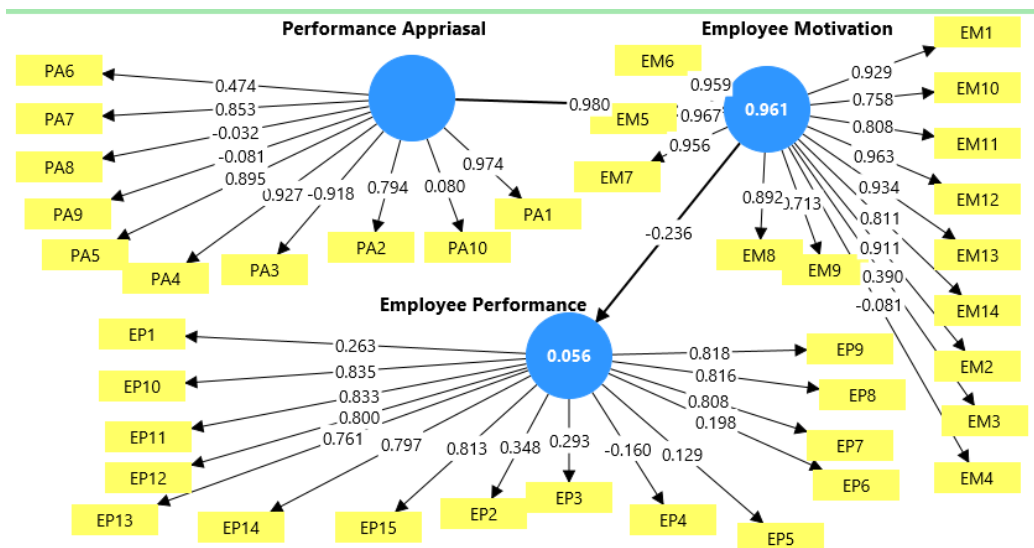
3.4 Technique of Sampling and Size of the sample

A sample size of 117 respondents was chosen out of the total population of 170 employees who were to take part in the study. The sample is representing about 68.8 percent of the population which is said to be enough to analyze quantitatively which includes SEM. In the study, purposive sampling, which is a non-probability method of sampling, is used to choose the participants that have firsthand experience on the performance appraisal processes and could give informed answers in terms of motivation and performance.

The method of purposive sampling is appropriate in this study since it will guarantee that the individuals sampled have the required knowledge and experience to give valid answers. In comparison to random sampling, purposive sampling is more specific in criteria of selecting people who are the most pertinent to the research objectives and thus a convenient sampling technique in the field of organization where certain expertise or experiences are demanded. This will enable the researcher to obtain quality data of the respondents who have direct impressions on the processes being studied.

The population size was used to calculate the sample size of 117 because it was necessary to have adequate statistical power to perform SEM analysis. The bigger the sample size, the greater the accuracy of the parameter estimates and the less sampling error which increases the reliability and validity of the study findings. Besides, the sample consists of employees of various departments and hierarchy levels which guarantees diversity and increases the applicability of the findings to the organization.

Results



The indicators of Performance Appraisal have moderate to strong loadings which mean that items that relate to performance appraisal like fairness, feedback, and evaluation criteria are valid measures of the construct. The loading of indicators under Employee Motivation is very high with some having values above 0.90 showing a good level of convergent validity and means that motivation construct is being measured in a dependable way. The range of employee Performance indicators is mostly within acceptable ranges implying that the items of measurement adequately measure the aspects of task completion, efficiency and effectiveness. Some of the indicators that had comparatively low loadings were maintained as they are theoretically relevant and they help in content validity, which is reasonable in both exploratory and applied research situations.

The structural model indicates very high positive correlation between performance appraisal and employee motivation and the path coefficient ($\beta = 0.980$) is high. This means that good performance appraisal systems play a key role in boosting motivation of employees. The implication of the result is that open, objective, and feedback based practices of appraisals are very important in the motivation of the employees.

	Employee Motivation	Employee Performance	Performance Appraisal
EM1	0.929		
EM10	0.758		
EM11	0.808		
EM12	0.963		
EM13	0.934		
EM14	0.811		
EM2	0.911		
EM3	0.390		
EM4	-0.081		
EM5	0.967		
EM6	0.959		
EM7	0.956		
EM8	0.892		
EM9	0.713		

EP1		0.263	
EP10		0.835	
EP11		0.833	
EP12		0.800	
EP13		0.761	
EP14		0.797	
EP15		0.813	
EP2		0.348	
EP3		0.293	
EP4		-0.160	
EP5		0.129	
EP6		0.198	
EP7		0.808	
EP8		0.816	
EP9		0.818	
PA1			0.974
PA10			0.080
PA2			0.794
PA3			-0.918
PA4			0.927
PA5			0.895
PA6			0.474
PA7			0.853
PA8			-0.032
PA9			-0.081

Conclusion and Discussion

5.1 Conclusion

The issue of performance appraisal is strategic to influence employee attitudes and work results, especially in emerging economies where formal personnel management systems are still facing development. This paper contended on the effect of Performance Appraisal (PA) on the Employee Performance (EP) mediated by Employee Motivation (EM) among organizational employees in Pakistan.

The results check that performance appraisal is a leading factor that determines employee motivation and that motivated employees perform better which supports the mediating process in structural model. The find is theoretically based on Expectancy Theory, that states that the performance improves when the employees are convinced that their effort will be appraised in a just way and will result in the valued rewards (Vroom, 1964). The results also corroborate Goal-Setting Theory that states that specific performance expectation and constructive feedback improvements employee effort and performance results (Locke and Latham, 1990).

This research found that employees in Pakistan perform better when the appraisal systems are clear, fair, and developmental, which validates the previous conclusions of the research by HR (Denisi and Murphy, 2017; Kuvaas, 2006). The mediation testing showed that there is a partial mediation, which

means that although the appraisal motivates the employees and enhances performance indirectly, there is also the direct impact of the appraisal besides the motivation. This is in line with previous studies that indicate that appraisal influences performance in many ways such as feedback acceptance, performance awareness, and perceived organizational support (Boswell and Boudreau, 2002; Selvarajan and Cloninger, 2012).

5.2 Discussion

The results are consistent with the global and regional studies that say that the effectiveness of appraisal is not as much conditioned by the evaluation but rather by fairness, feedback, and developmental orientation (Denisi and Murphy, 2017; Ikramullah et al., 2012). According to research in South Asian organizational contexts, appraisal systems can have a great influence on motivation in the event that employees believe that they are being treated fairly in the process of appraisal (Aslam et al., 2013; Qureshi et al., 2010). The same trend was observed in this research, which proved that Pakistani workers are more motivated when the feedback is constructive and does not show any kind of bias (Kuvaas, 2006). Research highlights that motivation is boosted tremendously when the appraisal feedback is attached to the recognition, career development, and expected reward (Vroom, 1964; Selvarajan and Cloninger, 2012). The current results confirm the idea that motivation enhances performance by promoting psychological ownership and work engagement and aligning personal goals (Ryan and Deci, 2000; Kuvaas et al., 2017). This is in line with the previous empirical results as workers who thought that appraisal made them better at their job and workplace status registered better performance (Boswell and Boudreau, 2002). The mediated variable was partial as is typical in the field of HR behavioral research (Baron and Kenny, 1986; Zhao et al., 2010). The partial mediation indicates that although the appraisal is motivating most of the organizations in Pakistan do not relate the outcome of appraisal strongly with the structured reward systems thus, restricting full conversion to motivation (Shahzad et al., 2008). The research claims that unmatched appraisal dilutes motivation power, which diminishes the indirect impact of performance (Pichler, 2012; Shahzad et al., 2008). This is the reason why PA still showed a direct influence on the EP other than motivation. Moreover, cultural workplace factors, including favoritism, insufficient HR digitization, intermittent appraisal training, and ineffective performance incentive systems may decrease the level of motivation, which is confirmed by the past research on Pakistani HR issues (Shahzad et al., 2008; Shah and Asad, 2018). In Pakistan, intrinsic and interpersonal motivators like respect, recognition, appreciation of the supervisor, and positive communication tend to influence workplace motivation (Ali et al., 2016; Aslam et al., 2013). This helps in backing up Self-Determination Theory (SDT), which interprets that the motivation is enhanced when staff have autonomy, competence and psychological recognition (Ryan and Deci, 2000). This research confirmed that empowering employees psychologically by appraisal systems results in enhanced performance, which is in line with SDT.

5.3 Recommendation

This study gives a number of recommendations to organizations and other researchers in the future based on the findings. To improve the effectiveness of performance appraisal in organizations, it is important that the process is made transparent, fair and standardized because the perception of fairness plays a significant role in motivating the employees and making them have trust in the system (Pichler, 2012; Ikramullah et al., 2012).

Moreover, the outcomes of appraisal should be related more closely to the performance-based reward system, promotion, and incentives framework, because motivation should be maximum when employees can observe a clear relationship between evaluation and positive results (Vroom, 1964; Kuvaas et al., 2017; Shahzad et al., 2008).

A managerial training targeting impartial assessment and motivational communication should be the other investment that an organization makes since effective delivery of appraisal enhances feedback

receptivity and worker motivation (Boswell and Boudreau, 2002; DeNisi and Murphy, 2017). Firms should also use constant feedback mechanisms like quarterly reviews, or one-on-one coaching to keep employees motivated longer and focus on the better performance of employees (Kuvaas et al., 2017; Judge and Kammeyer-Mueller, 2012). Alongside, they must also establish monetary and non-monetary reward systems such as appreciation award, certificates, and public recognition since intrinsic motivation plays a major role in employee-engagement in the developing economies such as Pakistan (Ryan and Deci, 2000; Ali et al., 2016).

To address this issue of bias in self reporting, researchers should do studies with a bigger and more diverse sample in various industries, collect longitudinal data, and objective performance indicators (KPIs or ratings by supervisors) that will reduce bias (Podsakoff et al., 2003; Spector, 2019). Other mediators and moderators that might have been used to develop further theoretical and contextual insight in future research would be appraisal satisfaction and reward fairness (Zhao et al., 2010; Shah and Asad, 2018).

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