

# The Effect of Performance Appraisal on Employee Motivation and Productivity

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**Abstract-** Performance refers to the degree of accomplishment of the tasks that make up an individual's job it indicates how well an individual's fulfilling the job demands. When properly conducted performance appraisals not only let the employee how well he is performing but should also influence the employee's future level of effort, activities, results and task direction. It provides information about the performance ranks basing on which decisions regarding salary fixation, confirmation, promotion, transfer and demotion are taken. It also provides feedback information about the level of achievement and behavior of subordinate. This information helps to review the performance of the subordinate, rectifying performance deficiencies and to set new standards of work is necessary.

The study focuses on to find out the impact of performance appraisal on employee's performance and also analyses that motivation affects the relationship of performance appraisal and employee's productivity. An employee's performance appraisal can act as motivation for an employee to improve his productivity. When an employee sees his goals clearly defined, his performance challenges identified and career development solutions in place to help advance his career, the effect is to motivate the employee to achieve those goals. Creating a comprehensive plan for employee development and giving an employee achievement to strive for will inspire a higher level of efficiency. Employee's performance is the major issue in an organization.

**Index terms-** Performance Appraisal, Employee Productivity, Internal Customer Satisfaction and motivation

## 1. INTRODUCTION

Performance appraisal may be defined as a structured formal interaction between a subordinate and supervisor, that usually takes the form of a periodic interview (annual or semi-annual), in which the work performance of the subordinate is examined and discussed, with a view to identifying weaknesses and strengths as well as opportunities for improvement

and skills development. In many organizations - but not all - appraisal results are used, either directly or indirectly, to help determine reward outcomes. That is, the appraisal results are used to identify the better performing employees who should get the majority of available merit pay increases, bonuses, and promotions. By the same token, appraisal results are used to identify the poorer performers who may require some form of counseling, or in extreme cases, demotion, dismissal or decreases in pay. Whether this is an appropriate use of performance appraisal - the assignment and justification of rewards and penalties is a very uncertain and contentious matter.

Motivation is an important subject area for researchers and practitioners of management all over the world. Motivation is equally relevant to public and private sectors and civil and military establishments. An employee performance appraisal can act as motivation for an employee to improve his productivity. When an employee sees his goals clearly defined, his performance challenges identified and career development solutions in place to help advance his career, the effect is to motivate the employee to achieve those goals. Creating a comprehensive plan for employee development and giving employee achievements to strive for will inspire a higher level of efficiency. Once employee performance is measured against the set goals and objectives, a need can be identified about the future strategies of employee motivation.

## 2. OBJECTIVES OF THE STUDY

The study seeks to establish the link that exists between performance appraisal and employee motivation, productivity

- To analyse the impact of Performance Appraisal System on Employees Motivation and work performance.

- To examine and explore the link between performance appraisal and motivation
- How does performance appraisal influence employee motivation and productivity?

### 3. DEFINITION OF TERMS

#### 3.1.1 Motivation

Motivation is the psychological processes that cause the arousal, direction, and persistence of voluntary action that is goal oriented (Kreitner and Kinicki, 2007).

#### 3.1.2 Motives

Motives provide direction to human behaviour as they are directed towards certain conscious or subconscious goals (Waters-Marsh, 2008).

#### 3.1.3 Performance Appraisal

Performance appraisal is where a superior evaluates and judges the work performance of subordinates (Harter, Schmidt and Hayes, 2002).

#### 3.1.4 Employee Productivity

Productivity can be defined as “quality or volume of the major product or services that an organization provides” (Moorhead & Griffin, 2012).

### 3.1 CHALLENGES IN APPRAISING EMPLOYEE PERFORMANCE

Performance appraisals are often retrospective. A typical traditional appraisal usually occurs once or twice a year. There would be extended time gaps of months between establishing goals and reviewing them, and objectives that were set upon in the beginning of the year are usually only dragged out during appraisal time (Afriyie, 2009). While performance appraisals provide the perfect opportunity for managers and staff to have a one-on-one discussion, it is unfortunately open to biased ratings (Khan, 2013). For example, some managers tend to be liberal or strict in their rating of staff. Managers may also fall into the trap of the “recent performance effect” where they generally only recall the recent actions of employees at the time of the appraisal and award points based on recent favourable or unfavourable events rather than whole years’ worth of activities (Jones and Wright, 2007).

### 3.2 EMPLOYEES’ PERCEPTION OF APPRAISAL SYSTEMS

Most employees have mixed feelings with performance appraisal systems. Whilst some believe it carry some biases and largely fails to meet its objectives, others find it a means to justify their performance (Rasch 2004). According to Rasch (2004), managers commit mistakes while evaluating employees and their performance. Some of these biases are perceived by employees as ways of unfairly interpreting their performances. Biases and judgment errors of various kinds may spoil the performance appraisal process. Bias, according to Shelley (1999), refers to inaccurate distortion of a measurement. Moats points out that, even when a performance evaluation program is structured appropriately, its effectiveness can be diluted by the improper use of subjective, as opposed to objective, measures.

### 3.3 EFFECT OF PERFORMANCE APPRAISAL PROCESS ON EMPLOYEE MOTIVATION

Performance appraisal system is an important drive that looks for better, more accurate, more cost-effective ways for of evaluating job performance and employee motivation. Performance appraisal system is a significant technique aimed at enhancing the performance of the employee in the organization (Vasset, Marnburg and Furunes, 2011). Performance appraisal is often considered one of the most important human resource management functions (Selvarajan and Cloninger 2008), and an effective performance appraisal and management system is an integral part of organization’s human resource management effectiveness (Guest 1997 cited in Selvarajan and Cloninger, 2011).

### 3.4 PERFORMANCE APPRAISAL AND EMPLOYEE PRODUCTIVITY

Wellins, Bernthal, Phelps (2006) define engagement as extent to which people enjoy and believe in what they do and feel valued for doing it. Employee engagement is assessed through attitudes or organizational climate surveys. Surveys are typically filled in by managers and employees. Scores from the survey are correlating with various business metrics including staff turnover, absenteeism, productivity and sales. Wellins, Bernthal and Phelps (2006) suggests that performance appraisal enables the right

employees are placed in the right jobs, exceptional leadership and organizational systems and strategies are the key drivers of employee engagement. An organization drives engagement by leveraging three sources of influence for change that includes the employees, leaders and organizational systems and strategies. Such systems foster employee engagements through hiring, promotion, performance management, recognition, compensation, training and career development.

#### INFLUENCE OF REWARD SYSTEMS ON EMPLOYEE PRODUCTIVITY

##### REWARD SYSTEMS

Macey, Schneider, Barbera and Young (2009) points out that the rewards system should be capable of identifying the employees' strength and weaknesses for enhanced performance. If the employees fail to meet the set target a career development plan can be implemented through training and provision of appropriate reward system to enhance their performance (Mone & London, 2010). The reward should reflect the business. The development of reward management can be seen along the lines suggested by Etzioni (2005) in terms of coercive (work harder or lose your job), remunerative (work harder and receive more money) and normative (work harder to achieve organizational goals). Such findings are a serious challenge to those who feel that appraisal results and reward outcomes must be strictly isolated from each other.

##### EMPLOYEE PROMOTION

In developing an appraisal system for organizations, management needs to think through pay increases and promotions (Moulder, 2011). A number of studies like Prowse and Prowse (2009); Macey, Schneider, Barbera and Young (2009) have pointed that employees get motivated to work when they get frequent promotions after appraisal system in their work place. While some also argued that factor such as promotion, training and career development, and appreciation and improved work place environment gives employees greater opportunities and this will either directly or indirectly influence their satisfaction on the job (Erdogan, 2012). When high performances are recorded for employees, it must be

supported with a basis for pay increases and promotions (Jackson & Schuller, 2012).

##### PERFORMANCE-BASED PAY

One widely accepted notion for improving individual performance is tying pay to performance in order to increase productivity (Swiercz, 2009). Performance based pay is a system which specifically seeks to reward employees for their contribution as individuals or as a part of a group, or to reward employees on account of the organisations overall positive performance (De Silva, 2008). There are various types of schemes which fall within the description of performance-based pay. But all of them are designed to share with or distribute to employees the financial results of organisational performance. The schemes fall into the following broad categories: individual-based incentive schemes, profit sharing, gain sharing, employees share option scheme or skill/competence based pay.

#### 4. LITERATURE REVIEW

Rue and Byars, (2005), Performance appraisal is a process is described as a way of determining and communicating how the employees do their jobs and coming up with a plan for improving the process of carrying out work responsibilities. Performance appraisal is essential as it gives updates on the performance of the employees; it identifies training needs and come up with plans for employee development (Livy, 2007). The performance appraisal has some shortcoming in it and is actually creating some discrepancy in the process, then it will affect the motivational level of the employees and ultimately it will affect their efforts and the risk taking ideas for the betterment of the organization. Also they will lose interest in the affairs of the organization (Robert & Kim, 2007).

Selvarajan and Cloninger (2008) suggest that some organizations are dissatisfied with their performance appraisal process. This implies that the performance appraisal process is not an appropriate mechanism for addressing employee motivation. But performance appraisal is considered to be essential to create a positive effect work environment and improve the quality of service. . Performance appraisal process can also be referred to as a procedure for determining employee performance (Herbert et al., 2009).

Performance appraisal system is not only an important tool of HRM to develop their employees, but is also used by different companies to reward their employees in form of bonuses, promotions, and pay raise etc. Usage of performance appraisal to reward employees is also used by different theories of motivation like reinforcement theory etc. (Talya and Berim, 2010). Performance appraisal system is usually identified as a critical element for boosting employee motivation (Selvarajan and Cloninger, 2011).

#### 5. RESEARCH DESIGN

The study made use of both primarily and secondary data. The primary data used were personal interviews and observations. The secondary data were collected through the use of the libraries and other writer ups by other researchers.

#### 6. DISCUSSION OF FINDINGS

The study was to find out why most of the organizations fail in appraisal the performance of their employee. Performance appraisal is important both to the organization, it provides information about job performance and potentials. No wonder Knidau, A.F. et al (1963:97) states that approval of performance is providing the organization with people who are qualified to step into higher positions as they open up the way.

#### 7. RECOMMENDATIONS

The study therefore gives the following recommendations that the performance appraisal in the company should be divorce from salary action separate appraisal should be held for different purpose. A situation where a manager would be helping on employee's to improve his performance while at the same time presiding as a judge over the same employee's salary level is only idealistic and impartial.

#### 8. CONCLUSION

The basic purpose of an appraisal system should be to improve the employee performance that will leads towards the organization success. It is concluded from above study, that there is an insignificant relationship of work performance with motivation.

The system should first of all contribute to motivate all of the employees. In many organizations, annual performance appraisals form the basis for the rewards employees get. It can be noted that many authors have conducted research on Performance Appraisal, focusing on effectiveness of Performance Appraisal and Training needs and Performance Appraisals for promotion, identifying material for Performance Appraisal decisions for manufacturing industries or service sector organizations.

Performance appraisal system is often considered one of the most important factors for employee motivation. A substantial proportion of the respondents suggested that the performance appraisal system has helped improve job performance at work. The regular assessment of performance leads to employee motivation. Performance appraisal system is essential for measuring job performance and employee motivation. The performance standards are quantified and pegged against an individual evaluation which is essential for employee motivation. Performance appraisal rating can be considered as a technique that has a positive effect on work performance and employee motivation. The employees may be motivated if the appraisal process is based on accurate and current job descriptions. The performance appraisal identifies performance problems to improve employee productivity and motivation.

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