

# **EFFECT OF PERFORMANCE APPRAISAL SYSTEM ON EMPLOYEE MOTIVATION**

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## **ABSTRACT**

*Performance appraisal system (PAS) is one of the major factors that can influence both intrinsic and extrinsic motivation of employees in an organization. This study aims to determine the relationship between performance appraisal system and motivation and investigates the extent to which performance appraisal practice impacts employees' motivation. Data was collected through self administered questionnaire distributed to a sample of 200 employees of Moha Soft Drinks Industry S.C., Ethiopia. Stratified simple random sampling technique has been employed to select the respondents. Statistical analysis such as descriptive, Pearson product moment correlation coefficient and simple regression analysis were employed to analyze the data. The findings indicate that there is positive and significant relationship between PAS and employee motivation. On the basis of the findings, appropriate recommendations along with implications for further research have been forwarded.*

**Key Words: Performance Appraisal System, Motivation, Intrinsic Motivation, Extrinsic Motivation**

## **BACK GROUND OF THE STUDY**

Performance appraisal system is among the ancient management practice that is used to evaluate performance of employees in organizations (Grint, 2007; Tripathi, 2001). It is one of the traditional management responsibilities discharged for variety of purposes: administrative, developmental and motivational. Recently, performance appraisal has been considered as a sub-system of human resource development as it is used for taking important decisions like promotion, compensation, termination, feedback & communication, training & development. PA can serve as motivational tool as it involves in appraisal interviews, counseling, participation in goal setting and work planning (Rao, 2009; Pareek& Rao, 1992).

Performance appraisal is an integral part of performance management because important management practices such as motivation, work performance, rewards, employee performance, internal communication, employee training & development are all based on the performance appraisal. Thus, PA can serve as key component of competitive advantage for any organization (Saeed and Shah, 2016; Becker and Huselid, 1998). In today's highly competitive business environment, the role of human resource becomes more vital. Among the HR functions, one of the most critical issues that are believed to bring global success is performance appraisal (Marwat, Qureshi & Ramay, 2004). According to these authors, the central issue of PA purpose is to enhance an individual as well as organizational performance with a continual motivation.

Motivation, which is one of highly researched concepts have been argued with different opinions by different scholars and practitioners. According to Mullins (2005), motivation is a driving force to achieve some goal. Robbins and Judge (2013) define motivation as the processes that account for an individual's intensity, direction, and persistence of effort toward attaining an organizational goal.

Motivation could be intrinsic or extrinsic. Csikszentmihalyi, Abuhamdeh & Nakamura (2005) and Ryan & Deci (2000) conceptualize intrinsic motivation (IM) as the process of doing something because of inherently interesting force enjoyable agent and where as extrinsic motivation (EM) as doing something to get something as it leads to separable outcome from the outside. Mullins(2005) argues that extrinsic rewards that are given by others, externally in satisfying lower order needs(Human needs of Maslow's theory) while intrinsic rewards are given from internally called self performance reward. He believes that intrinsic rewards directly come from the higher order needs such as individual's feeling of self-esteem and self-actualization to an individual him or herself. For this reason, intrinsic motivation is said to be self-rewarding motivation type (Ibid).

There is widely accepted view that motivation can create a positive working situation where as lack of motivation or individual's negative perception can negatively affect company performance. These motivation issues among other things are influenced by performance appraisal. Some scholars like Herzberg (1968, 1987) and Mullins (2005) Thomas and Bretz (1994) argue that employee motivation depends on the manager's actions and behaviors toward the employees. If performance appraisals are perceived as unfair, therefore, the benefits can diminish rather than enhance employee's motivation and performance. Thus, biased assessment service in PAS can result in de-motivated employees.

## **LITERATURE REVIEW**

### **DEFINITION AND CONCEPT OF PERFORMANCE APPRAISAL**

PA is the base for PAS and performance management. Aggarwal and Thankur( 2013) have noted that PA is synonymous with phrases such as performance review, performance evaluation, performance assessment, performance measurement, employee evaluation, personnel review, staff assessment and service rating; at times these phrases are interchangeably used. Various authors have defined PA in the following ways:

- Alo (1999) defines PA as the process of assessing the success of an individual and an organization on a given task to achieve a certain goal in a given time.

- Foot and Hook (2011) define PA as a systematic way of reviewing and evaluating of an individual and team task performance on a continuing basis. This definition indicates the developmental value of PA as we are evaluating what is being done rather than what has already been done. It also states that the PA system should be conducted on a regular basis. Similarly, Boswell and Boudreau (2002) have defined PA as any effort concerned with enriching attitudes, experiences and skills that improve the effectiveness of employees.
- According to Pulakos (2004), PA is a regular assessment and systematic monitoring of employees' performance that will be a base for an effective performance management system.
- Becker and Huselid (1998) have explained that PA is the process of People judge others as well as people judge themselves on a regular basis. Therefore, this definition recognizes that PA could take a form of self-appraisal of one's performance.

There is little difference in meaning in the above definition. In more comprehensive way, PA can be defined as the systematic, periodic and regular review of work performance through identification, observation, measurement & development of achievable goal performance of an individual or a team to enhance effectiveness of an organization. PA critically contributes to the success of other HRM practices as it provides the necessary information for decision making in HRM functional areas. Different researchers have identified several purposes and various uses of PA to an organization (Boswell and Boudreau, 2000; Longenecker and Goff, 1992).

Although PA is one component of PM, it is vital, in that it directly reflects the organization's strategic plan. Even though rating focuses either on an individual or team basis, an effective appraisal system must measure the accomplishments of goals and objectives of an organization. PA provides a feedback system that is used to effectively execute other HR functions such as Human Resource Planning, Compensation, Training, Recruitment and Selection, Promotion (Borman, 1979; Pulakos, 2004). If these purposes of PA are well organized, PA enhances productivity of an organization (Singh & Rana, 2015). When performance of the employee is assessed and discussed in thorough detail, it is used in communicating the weaknesses and strengths observed in job performance.

In spite of the significance of PA, raters do not like appraising employees and employees do not like receiving PA too. Neither raters nor ratees like PAS due to the negative attitude they possess for the system (Coens and Jenkins, 2000). But the purpose and the importance of PA are increasing since its existence of early 1900s till today (Vignaswaran, 2005). An effective appraisal system highly contributes to professional development of employees. A formalized and orderly appraisal plan will empower a standard evaluation of the people's performance, highlight potential and recognize training and development needs. In general, an effective performance appraisal plan can enhance the future performance of staff and other benefits for concerned bodies (Foot and Hook, 2011). To that end, managers have to pay attention to developing and maintaining an effective performance appraisal system (Jabeen, 2011).

## **DEFINITION AND CONCEPT OF MOTIVATION**

The concept of motivation has been described by many scholars in different ways. Bartol and Martin (1998) have defined motivation as a force that reinforces behavior, provides direction to behavior, and energizes the tendency for persistence. Luthans (2005) perceives motivation as a combination of needs, drives and incentives. In similar fashion, Mullins (2005) argues that motivation is a driving force within individuals by which they attempt to achieve some goal. Robbins and Judge (2014) have forwarded more comprehensive definition which is similar to that of Bartol and Martin (1998). According to them, motivation is the process that accounts for an individual's intensity, direction, and persistence of effort toward attaining an organizational goal. In this definition there are three key elements that are worth noting. The first is intensity or how hard the person tries to accomplish the task. The second element is direction and that is the effort that is channeled or directed toward organizational goals. The final element is persistence or how long a person can maintain the effort.

In general motivation can be viewed in two ways as intrinsic motivation(IM), which refers to doing something because from inherently interesting force or enjoyable agent (Csikszentmihaly et al. 2005; Ryan & Deci,2000) and extrinsic motivation(EM),which refers to doing something because it leads to separable outcome from the outside (Ibid).Thus, from these scholars' concept, motivation can be summed up as the processes that account for an individual's intensity, direction, and persistence of effort toward attaining a goal (Robbins and Judge, 2014).

Some theories explain about intrinsic motivation (IM) from perspective of motivating employees either directly or indirectly in the form of esteem needs (related to desire of respect, appreciation) and self- actualization in taking of new challenges that make them happy (Baure and Erdogan, 2012; Mullins, 2005; Robbins and Judge, 2014). On the contrary, extrinsic motivation (EM) theory explains that employees are motivated due to external factor of employer force applied to them. As Vroom's expectancy theory of motivation argues, to motivate employees externally organizational resources must be distributed fairly (Armstrong and Taylor, 2014).Other authors (Taylor, 2003) suggest that good leadership makes use of a combination of both intrinsic and extrinsic motivation.

## **RELATIONSHIP BETWEEN PAS AND EMPLOYEE MOTIVATION**

Scholars have noticed that PAS and motivation have great interaction to each other. In other words, motivation is influenced by PAS fairness. Many studies explained the importance of PAS in various ways to improve organizational performance mainly through enhancing employee motivation, and commitment and job satisfaction. (Champonda, 2014; Jabeen, 2011; Saeed and Shah, 2016; Singh and Rana, 2015; Sabeen, Mehboob, and Muhammad, A., 2008).

Performance appraisal is essential as it gives the necessary feedback on performance of employees on the basis of which managers can identify training needs and plan for employee development (Levy and Williams, 2004). Thus, Performance appraisal system is usually viewed as a critical element for boosting employee motivation (Selvarajan and Cloninger, 2012). There are various accounts of empirical studies that demonstrate the positive

relationship between PAS and motivation. For example, a study conducted on nursing staff in a hospital located in India has indicated that the nursing staff exhibited high work performance when they are satisfied with the existing performance appraisal system (Mathew and Johnson, 2015).

Another study illustrated that Perceived fairness of performance appraisal system is found to be a critically important dimension of performance appraisal for employee motivation in Telecom sector of Pakistan (Malik and Aslam, 2013). A study conducted on Nigerian public sector concluded that as employees are properly motivated with the necessary and adequate training needs based on regular feedbacks about their performance, innovation tended to increase rapidly on the job thereby leading to organizational competitive positioning (Salau et al., 2014). Kisang and Kira (2016) in their study conducted on Kenyan Commercial banks have found that objectivity of performance appraisal and feedback positively influences employees' motivation.

### **STATEMENT OF THE PROBLEM**

For many years people used PA to assess others as well as themselves to judge performance (Becker, 1998; Foot and Hook, 2012; Jabeen, 2011). Yet, some organizations fail to have a full understanding about the idea of PAS, its role and implication (Goff & Longenecker, 1990). Some conduct performance appraisal like a ritual.

Performance appraisal has a great implication to employee motivation. In order to reach at the required performance level, it is necessary for any organization to develop a better motivation in the mind and spirit of employees through effective PAS. It has been noticed that without a clear purpose of effective PAS, there is no motivation at all to employees and no organizational success (Bartol and Martin, 1998; Jabeen, 2011).

The Previous research conducted recently on the topic have found that there is a positive and significant relationship between performance appraisal and motivation (Jabeen, 2011; Berehanu, 2014; Malik and Aslam, 2013; Selvarajan and Cloninger, 2012; Salau et al., 2014). However, these studies have an empirical gap in that they didn't clearly demonstrate the interaction of PAS with the two types of motivation, extrinsic and intrinsic. There are limited researches conducted in the case of Ethiopian firms (Dagmawit, 2013; Solomon, 2016; Girum, 2014). They all demonstrate that employees are not happy about the appraisal practice. They fail to examine the effect of performance appraisal practice on employee motivation.

Having this underlying rationale in mind, the preliminary interview conducted with unit head of Human Resource Management indicated that there are critical problems associated with the practice of PA in the selected company such as lack of a clear performance appraisal standards, rater's bias and poor communication of the results of the PAS which put the PAS under question in the mind of the ratees. Thus, this study tries to identify the major problems and challenges of PAS and examine the impact of PAS on employee motivation. Finally, attempt has been made to consolidate facts from different literatures and to narrow the gap in the existing body of knowledge in the area.

## **OBJECTIVE OF THE STUDY**

The overall aim of this study is to investigate the impact of performance appraisal system on employee's motivation. The study attempts specifically to:

- Determine the relationship between PAS and employee motivation
- Investigate the impact of PAS on employee intrinsic motivation
- Examine the influence of performance appraisal system on employee extrinsic motivation.

## **RESEARCH METHODOLOGY**

### **THE STUDY POPULATION, SAMPLING METHOD AND SAMPLE SIZE**

The target population consists of all permanent employees who have been employed for at least two years at Nifas Silk Plant of Moha Soft Drinks Industry S.C irrespective of their current employment position in the organization. The source list was obtained from the HRM department at Moha Nifas Silk Plant. The preliminary survey has been undertaken by the researcher organization to get balanced distribution of respondents on the basis of grand total population of 400 that was obtained in November 2017.

According to Field (2005) whenever it is possible to access the entire population, it is possible to collect data from sample and use the behavior within the sample to infer things about the behavior of the population. Out of 400 employees 200 samples was selected for the study. For each stratum, the formula used is indicated below.

$$n = \frac{N}{1 + N(e)^2}$$

Where, N= the total population size= Sample size, e= the error term which is 5 %, i.e. at 95% confidence interval level). The sample of employees was obtained from each department using stratified random sampling technique the basis of stratification being the units the employees are working for. After determination of total sample size from each department, the strata were made based on the formula of Slovin which is stated by *Yamane* (1970).

## **MEASUREMENT**

For the purpose of this study mixed approach method (qualitative and quantitative methodology) are used as the measuring instrument. The researcher adopted standardized instrument from two previous studies conducted by Girum (2014) and Jabeen (2011) which had been reported to have an acceptable reliability and validity.

## **VARIABLES OF THE STUDY**

Independent and Dependent variable involved in the study are performance appraisal system and motivation (intrinsic and extrinsic motivation) respectively. An effective PAS has been operationalized to have included the following facets: Setting Performance Appraisal Expectation; Communication Feedback; Comprehensiveness of Performance Appraisal; Rating Accuracy/Reliable and Validity; and Rater Assurance/Rater accuracy. In this study demographic variable consists of gender, age, experience and educational level.

## DATA ANALYSIS

Descriptive statistics such as the mean and standard deviation were used to describe the perception of employees on performance appraisal system and motivation. Frequencies and percentages were used to reflect the demographic characteristics of employees. The researcher used Pearson correlation analysis and regression analysis to investigate the relationship between performance appraisal system and employees' motivation.

## RESULT AND DISCUSSIONS

### Level of Employee Perception towards performance appraisal System (PAS)

**Table 1: Descriptive Statistics of Facets of PAS**

No	Facets of Performance Appraisal System	Mean	Std. Deviation
1	Setting Performance Appraisal Expectation/Standard/	2.34	1.103
2	Communication/Feedback/level	2.35	1.247
3	Comprehensiveness of Performance Appraisal System	2.56	1.442
4	Rating Accuracy/Reliability and Validity	2.43	1.220
5	Rater Assurance /Rater Accuracy/	2.65	1.315
	Overall PAS	2.46	1.265

As shown in table 1, overall perception of employees (mean score) about PAS upon 5 point scale is found to be 2.46 with standard deviation of 1.265. The lower the mean score, the less that respondent disagreed with the statement and vice versa. The figures for standard deviation (SD) also indicate the degree to which responses varied from each other; the higher the figure for SD, the more variation in the responses.

In general, mean score of the respondents for all facets of PAS indicate that there is low level of satisfaction with the current performance appraisal practice. Thus, from this finding it can be generalized that the respondents are dissatisfied with the current performance appraisal system of the organization due to poorly standardized performance appraisal setting, poor communication feedback between rater and ratee and unfair treatment of raters in performance appraisal. Similarly, partiality of comprehensiveness of performance appraisal system and rating accuracy/reliability and validity/ are among the problems that make PAS poorly standardized one. This research has been supported by other empirical reviews such as Abraham et al. (2014) and Girum (2014).

### Employee's perception towards their motivation

**Table 2: Descriptive Statistics of perception of employees on motivation**

Types of motivation	Mean	Std. Deviation
Intrinsic motivation	2.09	.975
Extrinsic motivation	2.189	.971
overall Motivation level	2.140	.973

The results show that the mean score for intrinsic motivation was 2.09 with SD = .975, the mean for extrinsic motivation was 2.189 with SD = 0.971, the mean and standard deviation for total employee motivation was 2.140 and 0.973 respectively.

Upon 5 point Likert scale, employees have low intrinsic and extrinsic motivation thereby indicating less attention given on the part of the organization to employee motivation

The response which was obtained from interview part supported that the organization gives focus on extrinsic motivation than intrinsic motivation, especially on holiday gift like drink package and incentives to motivate employees.

Employees are also provided with other services such as staff cafeteria, transport, and medical aids. Even though managers interviewed claim that there is good level of extrinsic motivation, the data here reflects otherwise. Thus, the finding of the overall response from questionnaire indicates that there is low level of intrinsic as well as extrinsic motivation.

### Relationship between PAS and Employee Motivation

**Table 3: Pearsons Product Moment Correlation Matrix**

	Over all PAS.	Over all IM mean	EM, Extrinsic Motivation.
<b>Over all PAS</b>			
<b>Intrinsic Motivation</b>	.265** .000		
<b>Extrinsic Motivation</b>	.341** .000	.149* .047	
<b>Over all Motivation</b>	.450** .000	.253** .001	.281** .000

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

\*. Correlation is significant at the 0.05 level (2-tailed).

As indicated in Table 3, the correlation coefficient is relatively strong and represents statistically significant relationship between overall motivation and performance appraisal system ( $r = 0.450$ ,  $p < 0.01$ ). The result further demonstrates that there is a weak correlation between performance appraisal system and intrinsic employee motivation ( $r = 0.265$ ,  $p < 0.01$ ) and performance appraisal system and extrinsic employee motivation ( $r = 0.341$ ,  $p < 0.01$ ). Even though there is a weak correlation between performance appraisal system and the two components of motivation, statistically there is a significant positive relationship between performance appraisal system and overall motivation.

**PAS influence on employee Motivation**

**Table 4 Simple Regression Result on Employees Attitude of PAS & overall Motivation**

1. Model summary					
Model	R	R <sup>2</sup>	Adjusted R <sup>2</sup>	F	Sig.
1	.450 <sup>a</sup>	.202	.198	44.413	.000 <sup>a</sup>
2. Beta coefficients					
Model	Un-standardized Coefficients		Standardized Coefficient	t	Sig.
	B	Std. Err	Beta		
(Constant)	1.346	.224		6.003	.000
Employees attitude of PAS	.592	.089	.450	6.664	.000

a. Predictors: (Constant), PAS

b. Dependent Variable: OM, Overall Motivation

The result of the regression model in Table 4 indicates the value of the regression coefficient R= .450, R- square = .202 and adjusted R- square = .198 and the model F= 44.413 and significance level of P=.000 indicates that the model is significant at p<.001, 2-tailed. Thus, the aggregate effect of employees' attitude of performance appraisal on employee motivation is explained by the value of the R square, which indicates that 20.2% variation of employee motivation explained by employees' attitude towards performance appraisal system. The beta coefficient of the model in table 4 indicates the beta value for the predictor variable (employees' attitude of performance appraisal system) is .592. The t-value of 6.664 and the p-value of .000 indicates the model is significant at p<.001. Therefore, the beta coefficient (Beta= .450) implies the level of employee motivation increases as employees' attitude of performance appraisal system (satisfaction with PAS) increases.

**CONCLUSION**

- Finding of the study indicates that there is a poor implementation of performance appraisal system thus, leading to low level of employees' satisfaction towards the current performance appraisal practice. To put it in another word, the respondents are '*dissatisfied*' with the overall performance appraisal system which is measured with facets of PAS that included setting performance standard expectation, communication level, rater accuracy and rating reliability.
- The correlation analysis indicated that employees' attitude of PAS has significantly and positively related with employees motivation. Also, from regression analysis it is possible to deduce that employees' attitude towards PAS significantly and positively predicts employee motivation.

**RECOMMENDATIONS FOR ADMINISTRATORS**

- The results of this study suggest that there is positive and significant relationship between performance appraisal system and employee motivation. However, there is a minimum level of employees' satisfaction with the performance appraisal system in the organization which is expected to harm employee motivation. For this reason management of the organization should reformulate their system of performance appraisal to ensure fair and standardized performance appraisal system in order to positively contribute to employee motivation. Managers can

improve the attitude of employees to PAS through creating a transparent performance appraisal standard and reasonable performance expectation among supervisors. Managers should also effectively communicate the feedback so that employees can use it for developmental value, and improve accuracy and validity of the rating system so that it can clearly reflect job performance of employees.

Management is advised to conduct training for raters (supervisors) in order to increase rater's awareness and avoid or minimize rating bias. It is important to upgrade communication between appraiser and appraisee on one- to -one basis for performance appraisal system to be used as a tool for motivation of employees.

## RECOMMENDATIONS FOR FURTHER RESEARCH

- The study recommends for further, research to be conducted on the alignment of PAS with organizational vision to make PAS more effective and comprehensive. This will assist in unlocking the abilities of the PAS in the realization of a company's vision. It is also important to check the suitability and relevance of the rating tool through document analysis.
- Further research should also be conducted to determine the influence of the intrinsic and extrinsic motivation outcomes on employee performance. This will help in determining whether the PAS is needed in various organizations in improving service delivery.

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