

## **Role of Performance Appraisal System and its Impact on Employees Motivation among Consultancy Firm**

**Dr. Kanika Garg<sup>1</sup>, Ms. Ashima Thakur<sup>2</sup>**

<sup>1</sup>Department of Management Studies, Tilak Raj Chadha Institute of Management & Technology, Yamuna Nagar, Haryana, India.

<sup>2</sup>Department of Management Studies, CT University Ludhiana, India.

Corresponding Author's email address: kanika.garg@timt.ac.in, ashima24257@ctuniversity.in

---

### **Article History:**

**Received: 12-12-2024**

**Revised: 25-01-2025**

**Accepted: 05-02-2025**

### **Abstract:**

Performance appraisal systems are critical in providing feedback, setting expectations, and recognizing achievements, thereby influencing employees' engagement, satisfaction, and productivity, which in turn supports their career development. If properly implemented, the system can help in holistic organizational development. Therefore, this study explores the role of performance appraisal systems and their impact on employee motivation within consultancy firms. Data were collected from 155 respondents working in the Consultancy Firm. For this study, a standardized questionnaire was used to explore the role of performance appraisal systems and their impact on employee motivation within consultancy firms. The performance Appraisal questionnaire was developed by McKinsey Quarterly (2006) and Employee Motivation (Locke and Lanthan, 2002). The results indicate a positive correlation between Performance Appraisal and Employee Motivation. The R<sup>2</sup> value shows that 36.2% of the overall variation in Employee Motivation was explained by Performance Appraisal.

**Keywords:** Performance appraisal, Employee Motivation, Employees Engagement, Satisfaction.

---

### **Introduction:**

Performance appraisal systems play a pivotal role in shaping organizational outcomes by providing employees with clear feedback, setting expectations, and acknowledging achievements. When effectively implemented, these systems not only influence employee motivation but also enhance their job satisfaction, engagement, and overall productivity. This is particularly relevant in consultancy firms where the alignment of individual performance with organizational goals is crucial for sustaining high-quality services and fostering professional growth. This study examines the relationship between

performance appraisal systems and employee motivation in the context of consultancy firms. Drawing on a sample of 155 employees from a consultancy firm, the study utilizes a standardized questionnaire adapted from McKinsey Quarterly (2006) and Locke and Latham's (2002) work on employee motivation. The collected data were analysed using regression analysis to quantify the effect of performance appraisal on employee motivation. The results indicated a positive correlation between performance appraisal and employee motivation, with performance appraisal explaining 36.2% of the variation in motivation levels. This finding underscores the significant role that performance appraisal systems play in driving motivation, which in turn has the potential to boost productivity and improve organizational performance. In addition to this core analysis, this study contributes to a broader understanding of how performance appraisals can serve as a motivational tool. Previous research has explored various aspects of performance appraisal systems, including their impacts on job performance, affective commitment, and satisfaction. However, this study specifically focuses on the consultancy industry, providing a contextual lens through which organizations in this sector can evaluate and enhance their performance management practices. The findings highlight the importance of well-structured and transparent performance appraisals in fostering an environment conducive to employee motivation, and consequently, organizational success.

### **Review of Literature**

The performance appraisal system (PAS) plays a crucial role in enhancing employee motivation among Consultancy firm by providing structured feedback and recognition. Effective performance management fosters a climate of trust and engagement, which is essential for motivating employees.

### **Importance of Feedback and Recognition**

Appraisal and recurrent feedback enable workers to understand their strengths and weaknesses, hence potentially uplifting motivation towards performance improvement (**Mone & London, 2009**).

### **Connection between Appraisal and Training**

This study explores how performance appraisal systems affect job performance at the Bank of Ceylon in Sri Lanka's Northern Province. By surveying 173 employees, the research focuses on four main aspects: fairness, satisfaction, relationships with peers and supervisors, and accuracy of the appraisals.

The results indicate that fairness and employee satisfaction are significant factors that influence job performance, while the quality of relationships and the accuracy of appraisals do not have the same level of impact. Given these findings, the study highlights the importance of cultivating a sense of fairness and enhancing overall satisfaction with the appraisal process. (**Raveendran, T. and Hameela, T. 2020**)

### **Intrinsic vs. Extrinsic Motivation**

Though PAS may extrinsically motivate an employee, it is likely that intrinsically driven employees will have a sceptical approach towards it (**Oh & Lewis, 2009**). Thus a balanced approach must be adopted for every type of motivational driver.

**Keurkunan, (2024)** The performance appraisal system significantly influences employee motivation by enhancing satisfaction through accurate appraisals, clarity in performance criteria, and developmental feedback, ultimately fostering commitment to the organization and encouraging employees to improve their performance within consultancy firms. **Gomathy, (2022)** The performance appraisal system enhances employee motivation by linking performance to rewards, setting objectives, and identifying strengths and weaknesses. Utilizing multiple appraisal techniques, such as 360-degree feedback, leads to greater satisfaction and improved motivational levels among employees in consultancy firms. The study tried to measure the performance-based analysis of an employee and understanding the capabilities **Bhanawat (2021)** depicted that the performance-based analysis of an employee and understanding the capabilities of that person, and giving a chance to grow is the appropriate technique to enhance employee career. To accomplish this purpose, the necessary data were collected through a survey conducted among the current 60 employees of Avani textiles in Sangrur, Punjab. The tools used were the percentage, standard deviation, mean, regression, and ANOVA. The findings of this study state that women's contributions should be increased in all sectors, resulting in the overall empowerment of women. Employees' awareness should be enhanced while assessing the performance appraisal task.

**Shikha and Shalini (2021)** examined the relationship between performance appraisal justice and affective commitment (AC) of employees in the Indian banking sector and examined the moderating effects of age and gender on this relationship. To accomplish this purpose, 298 employees from the banking sector were randomly selected to examine the relationship between performance appraisal justice and AC, along with the moderating roles of age and gender. The tools used for this study were descriptive statistics, reliability, structural equation modelling, and factor analysis. The results indicate that performance appraisal justice significantly predicted the AC of bank employees in India. In the study of **Yousif Al-Jedaiaa and Ahmed Mehreza(2020)** found positive correlation between employees' motivation and performance. The present study also depicted the mediating role of motivation in the effect of performance appraisal on job performance in the government sector. To accomplish this, a descriptive research design was adopted in the form of a survey. The survey was distributed, and 294 responses were collected. The tools used in this study were Cronbach's alpha coefficient, correlation, reliability, and regression analysis. The results indicate a positive correlation between employees' motivation and performance. In the Study of **Baird et. Al (2020)** explores the mediating role of the quality of performance appraisal systems, assessed using four quality dimensions (trust, clarity, communication, and fairness). To accomplish this, data were collected from 203 Australian lower-level managers using an online survey, which included descriptive statistics, correlation, structured equation modelling, reliability, and bootstrapped regression analysis. The results indicate that while employee empowerment is positively associated with all four dimensions of

the quality of the performance appraisal system, one specific dimension, trust, mediates the association between employee empowerment and business unit performance.

**Khan et. al. (2020)** The study depicted the importance of organizational justice and its types, along with employee satisfaction, in the performance appraisal system. To accomplish this purpose, data were collected from a sample of 180 respondents who replied to their opinions regarding the variables included in the study. The tools used in this study were descriptive statistics, correlation, reliability, and regression analysis. This study found a link between the three kinds of organizational justice and performance appraisal. Additionally, a strong association was found between employee satisfaction and components of organizational justice. **Rodjam et. al. (2020)** The study depicted that the more the employees are satisfied from their work environment, the employees perform better and productivity enhance. To accomplish this purpose, the data were collected by using convenience sampling technique. Self-administered questionnaires were used for data collection. For analysing the data smart PLS were used. The findings of this study show that all the human resource management practices have significant and positive relationships with employee performance and job satisfaction mediates the relationship among variables. **Chahar, (2020)** The paper discusses that the performance appraisal system directly impacts employee job performance and is moderated by employee motivation, suggesting that effective appraisal systems can enhance motivation levels among employees in consultancy firms, ultimately leading to improved performance outcomes.

**Idowu, (2017)** The study highlights that performance appraisal systems significantly enhance employee motivation in consultancy firms by linking performance to rewards, setting objectives, and identifying strengths and weaknesses, with multiple appraisal techniques yielding greater satisfaction and higher motivational levels. For good performance encourage employees to achieve goals and boost overall performance. The Author **Raghav & Srivastava, (2016)** also examined performance appraisal systems, particularly the modern 720 degree method, and found significantly impacts employee motivation by providing regular feedback, identifying skill gaps, and fostering ongoing evaluations, which encourage employees to achieve their goals and enhance their overall performance. **Umihanic & Cebic, (2012)** The paper analyzes the performance appraisal system's functions, highlighting that its current documentary and administrative focus fails to enhance employee motivation. Redesigning the system is necessary to improve motivation levels among employees in various institutions, including consultancy firms.

## Material and Methods

### Objectives of the study

To analyse impact of Performance Appraisal on Employee Motivation among Consultancy firm

### Research Design

The present study is **descriptive in nature**, as it seeks to study previous findings in new contexts in terms of respondents' groups, industries, and geography using a Likert scale.

**Type of Investigation:**

The present study is a **causal relationship** because the researcher has attempted to determine the cause-and-effect relationship of Performance Appraisal on Employee Motivation.

**Time Horizon:**

The study was **cross-sectional** as data were collected at one time.

**Study Setting:**

The study setting is **non-contrived** as the study has been carried out in natural environment and no researcher interference has been there in data collection

**Measurement & Scaling: -**

A five-point **Likert scale (interval)** was used to conduct the survey to analyze the impact of **Performance Appraisal on Employee Motivation using the following measures and scale:**

**Measures:**

- Performance Appraisal (adapted from the Mckinsey Quaterly, 2006)
- Employee Motivation (adapted from Locke and Lanthan, 2002)

**Scale:**

5- Strongly Agree , 4 – Agree, 3 -Neutral, 2 - Disagree, 1 – Strongly Disagree

**Results and Discussion**

Correlation and Regression analysis were used to quantify the impact of the independent variable on the dependent variable. Researcher has applied this tool to measure the effect of independent variables on dependent variables

In the above-mentioned study, the researcher found that the data is metric, as it is measured using a Likert scale. Furthermore, after applying correlation analysis, it was found that there was a linear relationship among the various variables of the study.

Table 1

**Correlations**

	Performance Appraisal	Employee Motivation
--	-----------------------	---------------------

Performance Appraisal	Pearson Correlation	1	.602**
	Sig. (2-tailed)		.000
	N	155	155
Employee Motivation	Pearson Correlation	.602**	1
	Sig. (2-tailed)	.000	
	N	155	155

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

**Interpretation:**

There is a positive correlation between Performance Appraisal and Employee Motivation. After applying correlation we get the value .602 which shows that there is a positive correlation between Performance Appraisal and Employee Motivation.

Table-2

Model Summary

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.602 <sup>a</sup>	.362	.358	.51476

a. Predictors: (Constant), Performance Appraisal

Table 6 presents the R and R<sup>2</sup> values. The R value represents a simple correlation and is 0.602, which indicates a positive correlation between Performance Appraisal and Employee Motivation. The R<sup>2</sup> value indicates 36.2% of the total variation in the dependent variable; Employee Motivation can be explained by the independent variable Performance Appraisal.

**Step 2: Model fit**

Table-3

Coefficients

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.816	.190		9.542	.000
Performance Appraisal	.513	.055	.602	9.323	.000

a. Dependent Variable: Employee Motivation

$$\text{Performance Appraisal} = 1.816 + 0.513 (\text{Employee Motivation})$$

This shows that if performance appraisal increased by 100%, Employee Motivation increased by 51.3%.

The coefficient table provides the necessary information to predict Performance Appraisal from Employee Motivation that contributes to the model. Performance Appraisal (B= 0.513) has a significant impact on Employee Motivation, as the p-value is less than 0.05.

Table-4

ANOVA

ANOVA<sup>a</sup>

**ANOVA<sup>a</sup>**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	23.031	1	23.031	86.914	.000 <sup>b</sup>
Residual	40.542	153	.265		
Total	63.573	154			

- a. Dependent Variable: Employee Motivation
- b. Predictors: (Constant), Performance Appraisal

### **Interpretation:-**

The ANOVA table indicates the regression model and predicts the dependent variable. The ANOVA table represents the statistical significance of the regression model. The p-value is 0.00, which is less than 0.05, indicating that the regression model significantly predicts the outcome variable, that is, it is a good fit for the data.

### **Conclusion**

There are several facts of organizational management that revolve around the effect of a performance evaluation system on employee motivation. Performance reviews have the potential to greatly boost morale in the workplace when used properly. To begin, they aid workers in coordinating their efforts with the organization's objectives by outlining specific duties and responsibilities as well as expected levels of performance. From the above study it is concluded that there is a positive correlation between Performance Appraisal and Employee Motivation. After applying correlation we get the value .602 which shows that there is a positive correlation between Performance Appraisal and Employee Motivation. **Khan et. al. (2020)** also witnessed that there is positive relationship between Performance Appraisal and Employee Motivation

Their confidence and motivation to succeed in their professions might be greatly enhanced by this clarity. Furthermore, performance reviews that are both thorough and organized allow for both positive and negative criticism. Employees are more likely to strive for personal growth and professional advancement when they get feedback that highlights both their strengths and opportunities for improvement. The above study also found that  $R^2$  value is 36.2% which is of the total variation in the dependent variable; Employee Motivation can be explained by the independent variable Performance Appraisal. **Raghav & Srivastava, (2016), Chahar, (2020), Bhanawat (2021)** also supported that the performance-based analysis of an employee Promotions, pay raises, or bonuses—rewards that are contingent on performance—can also serve as strong incentives. There is a correlation between employees' levels of dedication and performance and the monetary compensation they receive. It must be stressed, nonetheless, that the design and implementation of a performance evaluation system determines how well it can increase employee motivation. Demotivation, tension, and animosity can result from poorly carried out evaluations, which in turn have a negative impact on motivation.

### **Reference :**

1. Awan, S. H., Habib, N., Shoaib Akhtar, C., & Naveed, S. (2020). Effectiveness of Performance Management System for Employee Performance Through Engagement. *Sage Open*, 10(4). <https://doi.org/10.1177/2158244020969383>

2. Raveendran, T. and Hameela, T. (2020) 'Perceived quality of performance appraisal system and its impact on job performance of employees in Bank of Ceylon', *Journal of Business Studies*, 7(2), p. 77-95. Available at: <https://doi.org/10.4038/jbs.v7i2.62>.
3. Seong Soo Oh, & Lewis, G. B. (2009). Can Performance Appraisal Systems Inspire Intrinsically Motivated Employees? *Review of Public Personnel Administration*, 29(2), 158-167. <https://doi.org/10.1177/0734371X09331616>
4. Bhanawat, Hemant. (2021). The Satisfaction Level of Employees towards the Prevailing Performance Appraisal System. *Turkish Journal of Computer and Mathematics Education (TURCOMAT)*. 12. 1508-1514. 10.17762/turcomat.v12i11.6073.
5. Rana, Shikha & Singh, Shalini. (2021). Performance appraisal justice and affective commitment: examining the moderating role of age and gender. *International Journal of Organizational Analysis*. ahead-of-print. 10.1108/IJOA-04-2020-2124.
6. Yousif Al-Jedaiaa and Ahmed Mehreza15(2020).The effect of performance appraisal on job performance in governmental sector: The mediating role of motivation. *Management Science Letters* 10 (2020)
7. Kevin Baird1,Amy Tung1,Sophia Su(2020).16 Employeeempowerment, performance appraisal quality and performance. *Journal of Management Control* (2020)
8. Khan, M. H., Hussain, A., & Khan, M. A. 19(2020). The importance of organizational justice, appraisal purposes and employee satisfaction in performance appraisal system in academic sector of Pakistan. *Journal of Accounting and Finance in Emerging Economies*, 6(1), 191-200
9. Rodjam, C., Thanasrisuebwong, A., Suphuan, T., & Charoenboon, P.25(2020). Effect of human resource management practices on employee performance mediating by employee job satisfaction. *Systematic Reviews in Pharmacy*, 11(3), 37-47
10. Gomathy, Dr. C. (2022). The use of performance appraisal and reward system in enhancing employee performance in an organisation. *Indian Scientific Journal Of Research In Engineering And Management*, 06(03). <https://doi.org/10.55041/ijsrem11894>
11. Keurkunan, A. (2024). The Role of Performance Appraisal and Performance Management in Promoting Employee Satisfaction, Motivation and Commitment. <https://doi.org/10.62811/th.0166>
12. Chahar, B. (2020). Performance Appraisal Systems and Their Impact on Employee Performance: The Moderating Role of Employee Motivation. *Information Resources Management Journal*, 33(4), 17–32. <https://doi.org/10.4018/IRMJ.2020100102>
13. Idowu, A. (2017). Effectiveness of Performance Appraisal System and its Effect on Employee Motivation. 3(5), 15–39. <https://doi.org/10.20321/NILEJBE.V3I5.88>
14. Raghav, N., & Srivastava, N. (2016). The modern performance appraisal outlook – An approach to employee motivation. *TIJ's Research Journal of Social Science & Management - RJSSM*, 6(7).
15. <http://www.theinternationaljournal.org/ojs/index.php?journal=tij&page=article&op=view&path%5B%5D=5525&path%5B%5D=pdf>
16. Umihanic, B., & Cebic, M. (2012). Functions of the Performance Appraisal System: Analyses and their Impact on Level of Employees' Motivation. *International Journal of Sustainable Economies Management*, 1(1), 1–15. <https://doi.org/10.4018/IJSEM.2012010101>