



# A LITERATURE REVIEW ON THE EFFECT OF PERFORMANCE APPRAISAL METHODS ON EMPLOYEE PERFORMANCE

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**Abstract:** This literature review explores the contemporary landscape of performance appraisal methods and their impact on employee performance, focusing on research published between 2020 and 2025. To understand the evolution and effectiveness of various appraisal methods, a systematic analysis of peer reviewed articles and empirical studies were conducted. The findings reveal a trend towards more holistic and continuous feedback mechanisms, contrasting sharply with traditional annual reviews. Techniques such as 360-degree feedback, self-assessment and real-time performance tracking were highlighted as increasingly beneficial in fostering employee engagement and productivity. Furthermore, the integration of technology, particularly through performance management software, was noted as a catalyst for enhancing appraisal accuracy and efficiency. Recommendations include organizations adopting a blended approach that combines qualitative and quantitative metrics, encouraging a culture of openness and training managers to deliver constructive feedback effectively. The review concludes with a call for future research to address gaps in understanding the long-term implications of these methods on employee well-being and organizational success.

**Key words:** Performance appraisal, employee performance, goal setting, employee productivity

## Abbreviations and Acronyms

PA	Performance appraisal
PAS	performance appraisal systems
HRM	human resources management
MBO	Management By Objectives
BSC	Balanced Scorecard
SAMB	Syarikat Air Melaka Berhad
MNCS	Multi-National Companies

## 1.0 Background to the Research Study

Performance appraisal (PA) systems are fundamental tools within human resources management (HRM) that systematically assess employee performance and contributions towards organizational goals. Employee performance is regarded as one of the most important factors influencing organizational performance, Istivani (2022). The performance of an organization is directly and indirectly linked to the performance of the employees. The success or failure of an organization is considered to be linked to the capability to measure precisely the performance of employees and utilize such measurement to objectively maximize productivity and outcome from employees, Istivani (2022).

Performance appraisal is the process of routinely evaluating an employee's output on the job and overall value to the company, Orhero, Okolie & Ch. (2020). A worker's skills, accomplishments, and growth are assessed through yearly reviews, performance reviews or evaluations, or employee appraisals (or lack thereof). Companies use performance reviews to provide employees with comprehensive feedback on their work as well as to support decisions regarding salary increases, bonuses, and termination. Although they can be carried out at any time, most people choose to perform them once, twice, or three times a year. Therefore, performance appraisal is a set of organizational activities targeted at attracting, developing, and maintaining competent staff, Istivani (2022).

Employee contributions should be discussed with managers at all times of the year, not just a performance reviews. More frequent communication keeps everyone on the same page, improves the working relationships between employees and managers, and lessens the pressure of annual reviews, Alase & Akinbo (2021). At regular periods (at least once a year), one on one meetings are held between managers and employees to discuss work performance in relation to the execution of roles and responsibilities; the organization's needs and how individuals contribute to the achievement of the organization's goals.

Organizations across sectors increasingly recognized the role of performance appraisal methods as strategic tools to improve employee productivity, motivation and engagement. There has been a shift from traditional annual review towards more flexible, continuous feedback approaches and technology integrated models.

Research across diverse sectors and geographies underscore that well-structured appraisal systems positively influence employee task performance, motivation and organizational outcomes, although their effectiveness often hinges on contextual factors such as feedback quality, fairness and Organizational climate.

### 1.1 Research Problem Statement

Employee performance is a critical determinant of organizational success and effective performance appraisal methods are essential tools for managing and enhancing this performance. However, many organizations struggle to implement appraisal systems that accurately reflect employee contributions, foster motivation and lead to tangible improvements in performance. Traditional appraisal methods such as annual reviews or rating scales are often criticized for being subjective, inconsistent or disconnected from actual performance outcome. This disconnect raises a critical question. Do current performance appraisal methods effectively influence and improve employee performance; do they hinder it through bias, lack of clarity and poor feedback mechanisms?

In many cases, employees perceive appraisal processes as unfair or demotivating, which can negatively impact their engagement, job satisfaction and overall productivity. Furthermore, managers may lack the training or tools needed to conduct effective appraisals, resulting in missed opportunities for growth and development,

Therefore, there is need to investigate how different appraisal methods impact employee performance, with particular attention to their fairness, frequency, feedback quality and alignment with organizational goals. Understanding this relationship will help organizations design appraisal systems that not only evaluate performance accurately but also drive continuous improvement and employee development.

## 2.0 LITERATURE REVIEW

The effectiveness of employees' performance appraisal systems is a critical aspect of organizational management. Several studies have highlighted the impact of performance appraisal on various factors such as job satisfaction, organizational commitment, and employee morale.

- Moreira et al. (2024) investigated how employee perceptions contribute to enhancing performance evaluation systems. They found that neglecting organizational culture and social factors can lead to ineffective appraisals, emphasizing the need to bridge the gap between theory and practice to better understand organizational behaviour.
- Thomas et al. (2024) examined the role of performance appraisals in employee performance within deemed universities. Their study revealed that structured PA processes, including regular feedback and clear goal setting, positively influence employee motivation and performance. They highlighted the importance of aligning appraisal systems with employee development initiatives to foster career progression.
- Dhanabhakya & KP, (2023) revealed that the effectiveness of performance appraisal significantly influences employee morale in private-sector banks. In addition to its impact on employee attitudes, performance appraisal also plays a crucial role in job satisfaction and job performance (Dasanayaka et al., 2021).
- Alsuwaidi et al. (2021) analyzed the impact of performance appraisals on employee motivation. Their comprehensive analysis revealed that well-structured appraisal systems could enhance motivation by providing clear expectations and recognition, thereby improving overall performance.
- Sawitri & Arifin, (2021) highlighted the significance of evaluating the financial position of young employees, indicating the broader implications of performance appraisal on employees' financial capability.
- (Raveendran & Hameela, 2020) emphasized that performance appraisal is integral to ensuring that employees contribute to achieving an organization's mission and objectives.
- (Khan et al., 2020) highlighted the impact of performance appraisal on employees' satisfaction, indicating that a significant percentage of employees perceived the performance appraisal system as ineffective.
- Zamani, Ghani, Radzi, Rahmat, Kadar & Azram (2021) claimed that organizations use performance evaluation as a basis for administrative choices like hiring, promoting, allocating financial incentives, employee development, and determining training requirements.

### 2.1 Theoretical Review

Theoretical framework provides a structured foundation for research by linking concepts and guiding the analysis of key variables within a study. The theoretical framework is grounded in the Goal Setting Theory, which serves as the lens through which the impact of performance appraisal on employee performance is seen.

#### 2.1.1 Goal Setting Theory

Goal setting theory first proposed by Edwin Locke in 1968, plays a significant role in shaping effective performance appraisal methods. The theory emphasizes that specific and challenging goals, when accompanied by appropriate feedback, lead to higher levels of employee performance. The theory suggests that employees perform better when they are involved in setting clear, measurable objectives that align with organizational goals. One of the most relevant appraisal methods that incorporates this theory is Management By Objectives (MBO), where managers and employees collaboratively set performance targets and evaluate progress based on goal achievement.



The principles of Goal Setting Theory – clarity, challenge, commitment, feedback and consideration of task complexity – can be applied across various appraisal systems to ensure a more objective, motivating and development –oriented process.

When used effectively, goal setting not only improves the accuracy and fairness of performance evaluations but also promotes continuous growth and alignment between individual performance and broader organizational objectives.

### 2.1.2 Critics of Performance Appraisal

Researchers and management have been attempting to find better ways to improve organizational performance for many years, but most managers still find managing and evaluating performance to be a major challenge today, Armstrong (1994). Many authors have expressed their disapproval of performance appraisals throughout the literature.

Shields, Brown, Kaine and Rooney (2020) stated that rarely in business history has a system promised so much and delivered so little. Critics of performance appraisal according to Redman and Wilkinson (2009) contend that it is an expensive procedure that can result in conflict between the appraiser and the appraisee, is useless and might even be impeding the development of employee performance.

W. Edwards Deming (1982) believed that appraisals focus too much on individual performance in systems where outcomes depend heavily on systemic factors.

Alfie Kohn (1993) argued that performance evaluations, especially when tied to rewards or rankings, reduce creativity, collaboration and internal drive.

Tom Coens & Mary Jenkins (2000) argued that performance appraisals are often counterproductive, subjective and fail to improve performance. Samuel A, Culbert (2010) argued that performance reviews create fear and do not foster real improvement.

Peter Scholtes (1998) aligned Deming's philosophy, criticized appraisals for ignoring the systematic nature of work performance and promoting competition over collaboration

## 2.2 Empirical Literature Review

Several studies have been undertaken to identify and validate the importance of performance measurement systems on employee and organizational success.

- In Eastern Uganda, Aza et al (2024) surveyed 336 civil servants including HR managers and department heads, to examine performance appraisal practices in local governments. They found that central governments control negatively influenced perceptions of appraisal systems, which were often viewed as routine and unproductive.
- Peri Cignitas, Antonio Torrents Arevalo, & Vilajosana Crusells, (2022) conducted a study to determine whether there is a quasi-experimentally demonstrable relationship between Balanced Scorecard (BSC), and employee well-being and general performance of a firm. The findings of the study proved that there is a strong relationship between employee happiness and the increase in performance of organizations, while the BSC application increases employee happiness and indirectly the performance of the employee.
- A study by Mishra et al (2021) evaluated performance appraisal practices of Indian Multi National Companies and concluded that performance evaluation in these organizations is highly formalized, systematic and transparent.
- Moreover, a study by Nair and Nair (2021) evaluated the effectiveness of 360-degree feedback in employee performance evaluation in Indian MNCs. The study found that 360-degree feedback is an effective tool for evaluating employee performance and improving employee engagement and motivation.

- A study conducted by Alvi and Khan (2021) analyzed the performance appraisal system of ITC Ltd and found that the company focuses on a balanced scorecard approach, which incorporates financial and nonfinancial measures.
- By connecting performance to rewards, utilizing the PAS to establish goals and benchmarks, and use performance appraisal to determine employee strengths and weaknesses, performance appraisal systems (PAS) assist increase employee motivation, Ugoani, (2020).
- Pulakos and Battista (2020) investigated the relationship between performance appraisal and job satisfaction, also known as human resource management outcome, in Malaysia's state-owned company, Syarikat Air Melaka Berhad (SAMB), without or with the moderator variable of the supervisor-employee quality. The authors discovered that the extent to which the supervisor-employee relationship is of high quality is significant and can improve job performance and satisfaction.
- A study by Rane and Ahire (2020) examined the performance evaluation system of an Indian pharmaceutical company and found that the company had a robust performance appraisal system that included a combination of self-evaluation, peer evaluation, and supervisor evaluation. However, the study did not compare the performance evaluation of supervisor and operational level employees.
- According to Orhero & Okolie, (2020) when a company employs performance appraisal as a motivational tool to promote organizational performance, there are considerable beneficial consequences. Additionally, the study found that employing several appraisal methodologies boosts motivation by increasing satisfaction.
- Riego and Lapuz (2020) using descriptive- correlation research design carried out their study in an academic institution in Philippines where they examined the relationship between management style, performance appraisal and employee development of selected personnel. The study found that there was a low-moderate positive relationship between management style, performance appraisal and employee development.
- Siyum (2020), studying Ethiopian hospitals, demonstrated that performance measurement strengthens team dynamics and fosters constructive feedback. However, Liu et al (2020) warned of potential "gaming" behaviours in performance systems, particularly under pressure to achieve favourable outcomes.

### 3.0 RESEARCH METHODOLOGY

The study employed a qualitative systematic literature review (SLR) design to synthesize findings from existing empirical and theoretical studies conducted between 2020 and 2025. The study focused on understanding the relationship between performance appraisal methods and employee performance across different sectors and geographic contexts.

Relevant studies were retrieved from reputable academic databases, including google scholar, researchgate, emerald insight etc. A total of eight studies were selected after an initial pool of 15 papers were identified. A thematic analysis approach was adopted to extract and compare key findings

The selected studies utilized both qualitative and quantitative approaches to examine the impact of performance appraisal methods, providing a comprehensive perspective on the challenges and benefits of its adoption. By comparing these varied approaches, the review offers a holistic view of PA impacts within different operational contexts, highlighting the role of PA strategies in fostering employee performance.

Author	Methodology	Research Findings	Research Implications
Moreira et al 2024	Narrative literature review to outline prevailing gaps in performance evaluation research	The intended benefits of performance appraisals are not realized in practice.	Advocates for reconsidering the value of regular performance reviews, emphasizing the disconnect between literature and actual practice.
Thomas et al 2024	Qualitative descriptive design, focusing on performance appraisals within deemed universities	Performance appraisal serve multiple HR functions- supporting promotions, pay rises, incentives and motivation, resulting in positive impacts on employee performance	Formalized appraisal mechanisms in academic institutions help align performance with recognition and development, suggesting these systems are valuable in enhancing employee outcomes
Author	Methodology	Research Findings	Research Implications
Dhanabhakyan & KP 2023	Quantitative survey – based analysis	Performance appraisal systems was found to significantly and positively impact employee morale- suggesting that better designed or implemented appraisal practices are associated with higher morale among employees	Organizations should focus on enhancing appraisal systems to foster better morale among employees
Sawitri, N. & Arifin, A.2021	Quantitative survey based study	Financial capability and income directly influence financial behavior.	Highlights the importance of financial well-being in employee outcomes.
Raveendran & Hameela, 2020	Explanatory and cross sectional	Perceived quality of the performance appraisal system positively affects employee's job performance	Focus on transparent and equitable appraisal processes
Alsuwaidi et al. 2021	Descriptive research	Perceived fairness in performance appraisals positively influences employee motivation	Emphasizes fairness and transparency in performance appraisal processes to enhance employee motivation.
Khan et al 2020	Quantitative survey	Performance appraisal has a significant positive effect on employee satisfaction	Implementing effective performance appraisal mechanisms can enhance satisfaction levels among administrative staff – implying a broader benefit for institutional HR practices
Zamani et al 2021	Quantitative approach	Notes that appraisal quality heavily depends on assessor's expertise and accurate job descriptions	Appraisal systems should ensure appraisers are skilled and familiar with employee roles

#### 4.0 DISCUSSIONS

This scoping review synthesized evidence on performance appraisal (PA) systems, highlighting their diversity in methods, impacts, challenges and facilitators across multiple sectors and regions. The findings confirm that while PA systems are widely recognized as crucial tools for managing employee performance and fostering organizational growth, their effectiveness heavily depends on implementation quality and contextual factors.

Consistent with previous research Armstrong M. (2014), Ramous Agyae GY, Mensah L, Aidoo Z., Ansah I. O. (2016) and Kuvaas, B (2006), the review showed that PA methods such as Management By Objectives (MBO) and 360-degree feedback can enhance employee motivation and satisfaction when applied with transparency and fairness. This aligns with Self Determination Theory 8, which emphasizes the role of autonomy, competence and relatedness in motivating employees.

The review underscores the importance of on-going training and capacity building for managers, as well as the need for periodic review and adaptation of appraisal criteria to remain aligned with evolving demands Ivaldi S., Scarati G., Nuti G. (2015), Majid J. (2016) and Nikpeyma N., Abed Saeedi Z. Azargashb E., Alavi Majd H, (2014).

#### 5.0 CONCLUSION

Different scholars have different concepts on performance appraisal in regard to employee performance and different employees from various organizations perceive performance appraisal differently. There is conclusive evidence that performance appraisal is significant on employee performance. However, inadequacies in performance appraisals are related to organization structure context while others are associated with the processes. No single appraisal method suits all industries.

#### 6.0 RECOMMENDATIONS

- The study recommends a hybrid approach tailored to organizational context and job with emphasis on objective evaluation, customization and rater relevance to improve performance outcomes.
- The study recommends a tailored appraisal systems and manager training to enhance fairness and relevance.
- The study recommends that there should be a robust management of performance expectations to preserve system integrity.

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