

## A Study on Evolving Trends in Performance Appraisal System

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### **Abstract**

*To review employees work and competencies, it is important to analyze their contribution to the organization which can be possible through a proper performance appraisal system. This paper focuses on understanding and exploring various performance appraisal technique used in an organization.*

**Keywords:** *HRM, Performance appraisal technique, employee's motivation.*

### **Introduction:**

Performance appraisal is the process of evaluating work done by employees in an organization. It is answer to the question that how well employees are working and whether there is a need for improvement or not. It covers identification of capabilities of employees with the alignment of organizational objectives and goals. Performance appraisal work as tool by human resource department to analyze their strength and weaknesses and determine the pay scale such as incentives, bonuses and living wages. Performance appraisal is not only useful from organizational point of view, but it also provides an insight to the employees for their improvement through feedback and suggestion system. Different techniques have been used to evaluate the performance of the employees from years which includes traditional and modern methods of performance appraisal. In many organization 360 degree method is prevalent which provides overall feedback of an employee. Performance appraisal is crucial part of any company as it improves regular productivity of employees through understanding. Continuous recognition provides motivation to employees and increases their managerial skills.

Improved employee performance

Performance appraisal also gives opportunity to employees to compare themselves with other performers. According to a survey conducted by society for human resource management it was found that 72% of the businesses conducts review only once in a year and only 2% employees are happy with performance management system. This clearly focused on the need for employee's recognition system and sense of realization to value employees.

Performance appraisal is a subsystem of human resource management which is relevant with the manpower functioning and development. Performance appraisal provides path and direction for the management of performance as it is necessary to assign right people on right work. High performing employees are asset of any organization and hence compensatory benefits should be provided for the same.

HRM function includes manpower planning, training and development, succession planning etc which can be effectively assign through proper performance appraisal system.



#### *Literature review*

Yasasvi R.k et al (2024). The objective of this study was to see the development of the organization through appraisal process. Also it judged the gap between expected and actual performance required to fulfill the goal of the company. It also highlighted the ways to improve the system of performance appraisal through different techniques.

Madhavi S et al (2022). This study revealed the concept of performance appraisal which includes its goal and procedure. It also focused on satisfaction level of employees after the evaluation process of the performance. The findings were the need for proper recognition system and focus on skills and ability of employees in an organization.

Dangol P (2021). The study focused on studying role of performance appraisal system and its impact on motivation level of employees. Descriptive research design was adopted in this research. Structured questionnaire was used to collect the data from respondents. It was found from the research that regular appraisal system is necessary for the employees motivation. Unbiased appraisal system is appreciable as per respondents results.

Kumar M, et al (2017). The research examined about the performance appraisal system implications on individual as well as organizational growth. Again the study concludes that

efficiency and effectivity can be achieved through regular appraisal system in an organization. Concept of post appraisal counselling was also noticed during the study.

Najafi L et al (2010). The study carried out in a health care system to see the effect of performance appraisal system on employees motivation and job promotion. It was observed during the research that the performance system needs to be revised as the quality is very poor and inappropriate. It has a little effect on motivation level and improvement is also not upto the mark.

### ***Empirical Explanation***

*Table 1: Evolution of Performance Appraisal Systems in Organizations Outcomes*

<b>Dimension</b>	<b>Traditional Appraisal System</b>	<b>Modern Appraisal System</b>	<b>Emerging AI-Enabled System</b>
Time Frame	Annual or bi-annual	Quarterly / Continuous	Real-time, continuous
Evaluation Authority	Supervisor only	Supervisor + peers	Algorithm + multi-source input
Feedback Nature	One-way, delayed	Two-way, periodic	Instant, predictive
Focus Area	Past performance	Performance & development	Performance, potential & prediction
Bias Level	High (subjective)	Moderate	Low (data-driven)
Employee Involvement	Low	Moderate	High (self-tracking dashboards)
Technology Usage	Minimal	HRIS, online forms	AI, analytics, machine learning
Outcome Orientation	Salary & promotion	Skill development	Talent optimization

*Source: Compiled from Dangol (2021), Kumar et al. (2017), Najafi et al. (2010)*

Table 1 presents a comparative overview of the evolution of performance appraisal systems from traditional to modern and AI-enabled models. The table clearly demonstrates a structural shift in appraisal practices over time. Traditional appraisal systems are characterized by infrequent evaluations, supervisor-centric judgment, minimal employee involvement, and high levels of subjectivity. In contrast, modern appraisal systems emphasize continuous or periodic evaluation, two-way feedback, and developmental orientation

supported by digital HR tools. The emerging AI-enabled appraisal systems represent the most advanced stage, offering real-time feedback, predictive performance analytics, and reduced human bias through data-driven decision-making. This evolution reflects the growing organizational focus on transparency, fairness, employee engagement, and strategic talent management rather than mere administrative evaluation.

*Table 2: Comparative Analysis of Performance Appraisal Techniques*

<b>Appraisal Technique</b>	<b>Key Features</b>	<b>Strengths</b>	<b>Limitations</b>	<b>Suitability</b>
Rating Scale Method	Numeric rating on traits	Simple, low cost	High subjectivity	Small organizations
Confidential Report	Supervisor narrative	Control-oriented	Lack of transparency	Government sector
Management by Objectives (MBO)	Goal-based evaluation	Objective-oriented	Time-consuming	Managerial roles
360-Degree Appraisal	Multi-source feedback	Holistic assessment	Data overload	Service & IT sector
Self-Appraisal	Employee self-evaluation	Enhances accountability	Over/under-rating	Knowledge workers
AI-Based Appraisal	Data-driven evaluation	Reduces bias, predictive	High cost, privacy issues	Large organizations

Table 2 provides a detailed comparison of widely used traditional and modern performance appraisal techniques by examining their features, strengths, limitations, and organizational suitability. The table highlights that traditional techniques such as rating scales and confidential reports, although simple and cost-effective, suffer from subjectivity and lack of transparency. Modern methods like Management by Objectives (MBO) and 360-degree appraisal address these limitations by focusing on goal alignment and multi-source feedback, thereby improving objectivity and comprehensiveness. Self-appraisal enhances employee accountability but may lead to biased self-assessment. AI-based appraisal systems emerge as the most advanced technique, offering predictive insights and reduced evaluator bias, though

they involve high implementation costs and data privacy concerns. Overall, the table illustrates that no single appraisal technique is universally ideal; rather, organizations must select appraisal methods based on size, sector, and strategic goals.

*Table 3: Impact of Performance Appraisal System on Employee and Organizational Outcomes*

Performance Appraisal Dimension	Employee Motivation	Job Satisfaction	Skill Development	Organizational Productivity
Fairness & Transparency	High	High	Moderate	High
Regular Feedback	Very High	High	High	High
Recognition & Rewards	High	Very High	Moderate	Moderate
Development-oriented Appraisal	High	High	Very High	High
Technology-enabled Appraisal	Moderate–High	Moderate	High	Very High
Biased / Irregular Appraisal	Low	Low	Low	Low

*Source: Synthesized from Yasasvi et al. (2024), Madhavi et al. (2022), Roberts (2003)*

Table 3 examines the relationship between key dimensions of performance appraisal systems and their impact on employee and organizational outcomes. The table reveals that appraisal systems emphasizing fairness, transparency, regular feedback, and developmental orientation significantly enhance employee motivation, job satisfaction, and skill development, which ultimately contribute to higher organizational productivity. Recognition and reward-based appraisal systems strongly influence job satisfaction, though their impact on long-term skill development may be moderate. Technology-enabled appraisal systems show a particularly strong effect on organizational productivity by enabling data-driven performance monitoring and talent optimization. Conversely, biased or irregular appraisal systems negatively affect both employee morale and organizational efficiency. The findings underscore the critical role of well-designed appraisal systems in fostering sustainable employee performance and organizational growth.

### ***Discussion***

Based on previous researches it was observed that for the motivation of employee's performance appraisal process is important as it increases performance of the employees working in an organization. Current and accurate job descriptions helps in the process of appraisal according to a study conducted in a service industry in Nepal. Unbiased appraisal system also increases employees' perception of fairness. Also study focused on each and every profile like employees, subordinates and customers to understand the effect of appraisal either they result on positive or negative side.

Reliability & validity of the appraisal system was checked and the respondents results showed that there is a moderate role of vision & mission of the company in any performance appraisal system and hence found less reliable and valid. The need for the revision of performance appraisal quality was also observed during a study as existing system failed to motivate the employees in exchange of their hard work and focuses only for the development of the organization.

It was also noticed that the expectations from performance appraisal system are same for employees and organization that is determination of promotion or transfer & salary administration and benefits. Artificial intelligence is also playing important role in performance appraisal system as it reduces error. AI is being efficiently used in keeping and maintaining employees data like their emails, leave, overtime records which is helpful in predicting the future development of employees. Data analysis is prevalent these days to identify high performers and appreciation is done on the basis of outcomes. AI is highly recommend in manpower planning which includes real time feedback support system. Performance appraisal with the help of AI identifies high potential talent which supports in organizational growth and development. Brands like google, IBMR, Deloitte, Unilever, Accenture etc are using Artificial intelligence in performance evaluation of their employees .

### ***Recommendations***

Quality of the appraisal system should be taken care of as employer-employee relationship has strong influence on the organizational goals. There should be a systematic parameter for lower and middle level employees in appraisal system otherwise biased results will come. Proper feedback system should be adopted to avoid barriers in communication. Chance to overcome the weakness of an employee should be provided to improve the efficiency of the employees. Few researches also concluded that there should be self-appraisal system in every

organization which is rare in present scenario. Lengthy and time consuming appraisal technique should be provided for organizational betterment. Employee-centric approach should be adopted as it will affect the overall development of employees. Trust between employer –employee is necessary to overcome the limitations .

### ***Conclusion***

The research highlights on evolving trends of performance appraisal system. The finding suggests that modern techniques are replacing traditional way of evaluating workers in an organization. Also technology is contributing in the growth of companies and employees as well in association with performance management system. The importance of employee happiness at workplace was observed and linked with their motivation level during work. Without encouraging employees, organization cannot be able to increase the efficiency and productivity of the employees.

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