

Impact of Performance Appraisal Fairness on Employee Motivation to Improve Performance: LMX Dynamics of the Banking Sector of Pakistan

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Abstract

Examining the mediating impact of leader membership relations, this study investigates how performance appraisal fairness affects employee motivation to improve performance. The research employed a descriptive correlational design, surveying 364 employees in Pakistan's banking sector. Data collection deployed simple random sampling to distribute questionnaires, which were then analyzed using PLS-SEM to engage statistical methods. The findings indicate that performance appraisal fairness increases employees' motivation to improve their job performance. Impartial performance appraisals have the potential to strengthen the bonds between managers and staff, which in turn can increase the incentive to make substantial performance improvements. It is especially true when evaluations are based on clear, up-to-date job descriptions. However, ensuring fairness can be challenging. Managers need to provide consistent and unbiased appraisals to maintain employee motivation. Regular performance reviews with fair assessments can significantly boost employee morale and effort. This research aims to help banks refine their appraisal policies to get the most out of their workforce and achieve specific goals. It suggests that the current appraisal system might impact employee performance and proposes developing clear criteria to guide managers in effective employee evaluations.

Keywords: LMX, Performance Appraisal, Motivation to Improve Performance

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1 Introduction

Performance appraisals are a long-standing practice used by organizations to assess employee performance. According to Davis (1989), he viewed it as an effective instrument for inspiring staff members to meet organizational objectives through awards and chances for professional growth. Today's challenge goes beyond simply hiring talented employees. It motivates current employees to excel and contribute to organizational productivity (Wuryani et al., 2021). Performance appraisals depend on organizational structures and the contextual structures of the organizations (Joseph & Gaba, 2020; Najafi et al., 2010). A growing body of investigations explores the influence of performance appraisals on worker satisfaction and motivation. However, recent studies examining the impact of employee performance on retention often neglect to consider the function of critical human resource practices like performance appraisals, empowerment, reward systems, feedback mechanisms, career development opportunities, motivational strategies, and fostering empathy within the organization (Papa et al., 2020). Dong and Luang (2023) highlight concerns regarding the validity and reliability of performance appraisals, questioning their effectiveness in enhancing employee motivation and retention.

Conversely, others emphasize the critical role of performance management in human resource development. Drawing on Güngör's (2011), the current research examines the influence of performance appraisal fairness systems on employee motivation to improve performance within Pakistan's banking sector. The research emphasizes adapting human resource practices according to the cultural and economic environment. Unlike previous studies that predominantly focused on Western companies, this investigation explores the influence of performance appraisal fairness on employee motivation for performance improvement, with the mediating role of the leader-member relationship, within the unique context of Pakistan, a developing nation where effective performance management practices are considered to be paramount for organizational growth and success but not adhered. The primary purpose of the current research is to determine how various performance appraisal fairness techniques and reward system designs can influence employee motivation to improve performance in Pakistani banks.

2 Literature Review

2.1 Performance Appraisal Fairness

Performance appraisals are a cornerstone of effective HRM practices (Barbieri et al., 2021). A wide range of human resource management decisions, encompassing remuneration adjustments, promotions, training needs identification, and staffing allocations, all hinge on the information gleaned from performance evaluations Cleveland et al. (1989) and Mani (2022), fair performance appraisal designs have garnered significant attention from researchers (Ngo et al., 2008), despite extensive research in this area, these systems often fall short of generating employee satisfaction. The performance appraisal requires employee acceptance (Yamazaki and Yoon, 2016). Even a meticulously planned and flawlessly employed system will produce suboptimal results if employees do not embrace it. According to Rowland and Hall (2012) and with the similar ideology of Jha and Ray (2022), researchers accentuate the importance of understanding employee reactions, which are heavily influenced by their perceptions of fairness for performance appraisals to achieve their intended outcomes (Pichler et al., 2020). Employees' this kind of perception hinges on organizational justice. This concept encompasses three key aspects: interactional justice and distributive and procedural fairness in performance appraisals.

These aspects significantly influence how employees feel and behave towards their jobs. In performance appraisals, procedural justice refers to the extent of fairness of the processes and policies used to determine their score (Ngo et al., 2008; Gu et al., 2020).

Interactional justice relates to the value of interactive treatment employees experience during the

appraisal process. Studies suggest that each type of justice impacts employee satisfaction differently. Procedural justice influences gratification for the entire appraisal system, while distributive justice affects individual contentment with consequences. In conclusion, interactional justice is linked with the satisfaction of the person conducting the appraisal (rater satisfaction) (Lucas et al., 2016; Shimamura et al., 2021). Performance appraisals have been well-studied, but the research focus has shifted. Initial studies examined technical aspects like psychometrics, appraisal formats, and training programs (Levy & Williams, 2004; Lin et al., 2020).

Later research explored the significance of appraisals on employee reactions, including turnover intentions, job satisfaction, and commitment (Brown et al., 2010; Poon, 2004; Bayo-Moriones et al., 2020). Fair treatment is a crucial concern for employees, so their appraisal reactions are often assessed through their perception of organizational justice. This concept, synonymous with fairness (Konovsky, 2000), focuses on how employees perceive justice at work. In the context of appraisals, it relates to their ability to distinguish between fair policies, outcomes, and treatment during the process (Erdogan et al., 2001; Eyoun et al., 2020; Smither, 1998)

Within performance appraisals, three critical aspects of perceived fairness play a role. The first is distributive justice, which is how fair employees believe the outcome (their performance rating) is (Folger, 1977; Purnama et al., 2020). Procedural justice: How fair employees believe the processes and policies used to determine their rating are. Interactional justice: illustrates the value of interpersonal behavior employees' experiences throughout performance appraisal. While traditionally categorized into three forms, Colquitt (2001) proposed a more nuanced view. However, some argue that "interactional justice" is a facet of "procedural justice" (Tyler & Blader, 2000). Others see them as distinct with two aspects each: informational interpersonal justice for interactional and system-rater procedural justice (Erdogan et al., 2001). While the specific distinctions need further exploration, the importance of all aspects is recognized. This study focuses solely on a couple of the performance appraisal fairness dimensions, i.e., procedural and distributive, with the LMX as a mediating variable between performance appraisal fairness and employees' motivation to improve performance.

2.2 Leader-member exchange -LMX

According to the Vertical Dyad Linkage model, LMX theory has existed for over three decades (Day & Misencio 2016). Unlike a one-size-fits-all approach, LMX theory emphasizes that the quality of these relationships can vary significantly within a team (Anand et al., 2011; Zhao et al., 2020). These leader-follower dynamics are built and shaped over time through ongoing interactions. The continuum of the LMX relationship itself can range from weak to vigorous, ultimately impacting how followers perceive their roles and their overall work experience (Lee et al., 2019).

Low-quality LMX relationships focus on essential benefits and obligations outlined in employment contracts (Dulebohn et al., 2011; Mumtaz, & Rowley, 2020). High-quality LMX goes beyond fundamental interactions. It fosters a strong bond built on trust, obligation, respect, loyalty, and a sense of give-and-take (Uhl-Bien & Maslyn, 2003). This theory draws from two key concepts: role theory, which emphasizes well-defined roles, social exchange theory, and expectations (Chang et al., 2021; Erdogan & Liden, 2002). While leaders play a substantial role in shaping the quality of this relationship, followers also contribute significantly. Through their work interactions and contributions, leaders and followers strive to meet goals, fulfill expectations, and build a sense of reciprocity. This aligns with role theory, which suggests individuals have defined roles with specific organizational expectations.

As social actors, people learn and adapt their behaviors to effectively fulfill these roles within their work environment (Jakob et al., 2020; Lamb & King, 2003). As stated in the LMX theory, a follower's behavior plays a significant role in shaping the quality of the leader-follower

relationship (Burch & Guarana, [2014](#)). Specifically, how well a follower completes tasks and demonstrates trustworthiness influences the type of LMX relationship that develops. This relationship quality evolves through ongoing interactions where leaders and followers assess each other's reliability and capabilities (Uhl-Bien, [2003](#); Wilson, & Cunliffe, [2022](#)).

This model outlines the progression from initial interactions with unclear expectations (role-taking) to a stage of negotiation and clarification (role-making) and ultimately to a comfortable, predictable dynamic (role-routinization). In contrast to leadership approaches that average follower perceptions to define leadership style, LMX theory emphasizes the dyad as the fundamental unit of analysis (Munshi & Haque, [2017](#)). Research suggests that these dyadic relationships develop rapidly and exhibit a tendency toward stability over time (Al-Shboul, [2023](#); Liden et al., [1993](#)). The role of emotions in fostering trust, respect, and positive affect between leaders and followers is a recognized influence on LMX development (insert source about emotions in LMX). Several factors contribute to the quality of LMX relationships, including the degree of perceived similarity and liking between leaders and followers, the clarity of mutually held expectations, the leader's propensity to delegate tasks, and the follower's performance (Abbas, [2020](#); Liden et al., [1993](#)). LMX theory is grounded in social exchange theory Chernyak-Hai & Rabenu, ([2018](#)), emphasizing reciprocity in relationships and the norm of reciprocity (Sun et al., [2014](#)). The quality of the leader-follower dyad has been empirically linked to a range of outcomes, including job performance and intentions to leave the firm (Ilies et al., [2007](#)).

2.3 Motivation to Work

Motivation refers to the drive and effort an employee puts into achieving a goal at work. It is closely linked to employee satisfaction and job performance. For managers, understanding motivation is crucial. Since managers work with others, influencing employee behavior to align with organizational goals becomes essential (Hu et al., [2022](#)). Motivation leads employees to strive for success, fulfilling personal aspirations and organizational objectives (Padave et al., [2021](#)). Motivation can be intrinsic (driven by instinct) and extrinsic (based on external rewards). It is a complex mental state subsequent to the interaction between an employee's needs and external factors influencing their behavior.

Yang et al. ([2021](#)) describe it as an internal push to achieve a specific goal, prompting employees to take actions that lead to the anticipated outcome. Motivation is the driving force that propels employees towards achieving goals and experiencing personal satisfaction. Employee attitude towards work situations also plays a role in shaping their motivation. Motivation is an internal force that drives people to act and achieve goals. It is rarely spontaneous but often linked to a plan or specific desires (Gilson et al., [2005](#)). Words like "need," "desire," and "purpose" all contribute to the concept of motivation. In the workplace, motivation plays a crucial role. According to Tian et al. ([2016](#)), sheer motivation enhances the job performance. Ideally, this leads to a win-win situation where employees achieve their aspirations while contributing to organizational goals Beckmann et al., ([2014](#)). Theories confined to motivation, like Herzberg's two-factor theory, explore how different factors influence job satisfaction and motivation. Hygiene factors (like salary or work environment) can prevent dissatisfaction but do not necessarily create high motivation. Motivators (like challenging work or recognition) drive employee engagement and satisfaction (Singh, [2016](#)).

Additionally, focusing solely on year-end evaluations misses ongoing feedback and development opportunities.

2.4 Performance Appraisal Fairness and Motivation to Improve Performance

As organizations grow and their needs evolve, so does the importance of evaluating employee performance. Traditionally, performance appraisals serve as a way to assess employee progress

and growth in their roles. Evaluations are often linked to employee benefits and career advancement opportunities. Maltz et al. (2003) argue that successful organizations extend their performance criteria beyond financial metrics like profitability and productivity. They emphasize the importance of including employee well-being, such as morale, as a critical factor. The logic is straightforward: motivated and satisfied employees are the foundation of an organization's success. When employees are engaged and work hard towards organizational goals, it leads to success for the company and its workforce. This success translates into opportunities for employee growth, career advancement, and higher earnings. To achieve this synergy, organizations should conduct performance appraisals throughout the year.

These ongoing assessments should go beyond results and delve into employee experiences, motivation levels, and growth trajectories. Performance appraisals are a crucial tool in human resource management (Rue & Byars, 2003). They serve several vital functions: Appraisals provide insights into how healthy employees perform their jobs and meet expectations. Based on the appraisal, gaps in skills or knowledge can be identified, paving the way for targeted training and development programs. Effective performance appraisals increase employees' motivation by acknowledging their achievements and setting clear goals for advancement (Selvarajan & Cloninger, 2011), ultimately leading to enhanced employee performance and organizational success (Vasset et al., 2011).

The performance appraisal process employed a well-defined, four-step model (Selvarajan & Cloninger, 2011). The initial stage includes defining clear and measurable performance standards for each staff role. These standards plan the specific expectations and serve as the standard for appraising employee effectiveness. This step assesses how sound employees meet established standards. Various methods can be employed, including evaluating relevant employee traits and behaviors demonstrated on the job and achieving results through productivity measures. More comprehensive approaches involve ranking methods (alternation ranking) or 360-degree evaluations incorporating feedback from multiple sources. Management by Objectives (MBO) is another option, where goals are collaboratively set, and progress is tracked throughout the evaluation period. Following the evaluation, employee performance is compared against the predetermined standards established in step one. This comparison identifies areas of strength or potential development needs for each employee. A comprehensive performance evaluation is conducted for each employee based on the comparison. This evaluation informs crucial decisions regarding training, development opportunities, potential rewards and recognition, and future career paths within the organization.

However, there is growing recognition of the value gained by including other perspectives in the evaluation process (Vasset et al., 2011). Clients, co-workers, and even subordinates may offer valuable insights based on their interactions with the employee. The question of who should evaluate employee performance has no one-size-fits-all answer. Traditionally, the responsibility has fallen solely on managers or supervisors. Feedback from multiple sources can increase accuracy. By gathering information from various perspectives, potential biases can be minimised. This helps in leading to a better-rounded picture of employee performance. To Enhance Fairness Perception: Employees who feel the evaluation process from diverse viewpoints are likelier to perceive it as fair and objective (Tran et al., 2021). Traditional performance appraisals, typically conducted once or twice a year, have limitations. The long interval between setting goals and reviewing them can make them obsolete.

Additionally, it depends only on year-end evaluations and misses ongoing feedback and development opportunities. The appraisals offer a chance for one-on-one discussions, but they can be susceptible to bias, often emphasising weaknesses and creating conflict due to a lack of focus on employee strengths. To overcome these limitations, organizations should prudently consider the suitability of different appraisal systems before implementation (Skarlicki & Folger, 2007). A

successful system goes beyond clearing out poor performers; its primary focus should be employee development and alignment with organizational goals.

Effective performance appraisals need clear communication with all stakeholders (Shaw et al., [2008](#)). Organizations should communicate and explain Key Performance Indicators (KPIs) to all staff to ensure fair and accurate evaluations. Additionally, establishing well-defined benchmarks provides a clear standard against which employee performance can be measured.

The following hypothesis can be conceptualized as:

H1: Performance appraisal fairness significantly affects employee motivation to improve performance

2.5 Performance Appraisal Fairness, Leader-Member Exchange Relationship, and Motivation to Improve Performance

Organizational fairness in appraisals emphasizes three key dimensions, i.e., distributive, procedural, and interactional fairness (Williams et al., [2016](#)). Leader-member exchange theory is a prominent concept in leadership studies. It focuses on the reciprocal social exchanges within leader-follower relationships, termed "dyads" (Park & Kim, [2012](#)). Maharvi et al. ([2023](#)) highlights a fundamental issue about the fairness in performance appraisals influencing LMX. Research suggests that interactional fairness emphasizes the value of leader-follower communication (Burton et al., [2008](#)). When supervisors treat employees fairly in their interactions (interactional justice), it strengthens the leader-follower relationship (Burton et al., [2008](#)). However, the influence of distributive fairness (fairness in outcomes) and procedural fairness (fairness in processes) on leadership has yet to be explored (Masterson et al., [2000](#)).

These concepts are typically seen as applying more at the organizational level. This text argues that distributive and procedural fairness, specifically within performance appraisals, likely influence employee motivation (Baird et al., [2022](#); Erdogan, [2002](#)). The rationale is that fairness in performance evaluation and rewards can impact the leader-follower relationship. Beyond organisational structures, procedural and distributive fairness can also influence leadership dynamics at the supervisor-employee level (Burton et al., [2008](#)). Organisational leaders often invest in cultivating strong relationships with followers, anticipating a reciprocal response through increased effort and enhanced performance (Bartels et al., [2022](#); Klein & Kim, [1998](#)). Procedural fairness, a cornerstone of effective performance appraisals, dictates that supervisors adhere to established rules and standardised procedures during evaluation.

According to well-defined guidelines, employees who perceive their performance as being assessed fairly and objectively are likelier to hold a positive view of their relationship with the leader (Rupp & Cropanzano, [2002](#); Sparr & Sonnentag, [2008](#)). However, research on performance appraisals underscores the potential for bias, such as favouritism or politically motivated considerations, to influence ratings (Alamiri, [2018](#)). Such biases can erode employee perceptions of fairness and weaken the leader-follower dynamic.

According to several authors like DeConinck and Stilwell ([2004](#)), Sparr and Sonnentag ([2008](#)), and Rupp and Cropanzano ([2002](#)), perceptions of fairness, particularly regarding how rewards and outcomes are distributed (distributive fairness), play a significant role in shaping the quality of leader-member relationships. Therefore, it has expected that both distributive and procedural fairness (fairness in processes) emphasizes the importance of fairness perceptions, LMX, and reciprocity norms for employee well-being (Martin et al., [2016](#)). Relationships characterized by high-quality exchange create a sense of responsibility in followers to reciprocate their supervisor's favorable treatment (Love & Forret, [2008](#)). The current LMX assessments often overlook the leader's perspective and expectations for their subordinates (Sin et al., [2009](#)).

LMX theory emphasizes reciprocity as a cornerstone of leader-follower relationships (Cropanzano & Mitchell, 2005; Gooty et al., 2019). In high-quality LMX relationships, favorable leadership treatment creates an unspoken obligation for followers to reciprocate with increased effort and positive behaviors (Wang et al., 2023). This notion is supported by research demonstrating an optimistic association between LMX and various incentives confined to employees, like paybacks (De Coninck, 2009; Xu et al., 2014). Strong LMX relationships can lead to better communication, higher job satisfaction, improved performance, and lower turnover intentions. We further propose that high-quality LMX fosters employee motivation to excel within these relationships. The strong support and opportunities for growth provided by leaders in high-quality LMX significantly motivate followers to improve their performance (Liu et al., 2021; House et al., 2004).

Prior research suggests that distributive fairness (fairness in reward allocation) and procedural fairness (fairness in processes) can influence employee motivation through social exchange dynamics (Tekleab et al., 2005). LMX theory emphasizes the presence of implicit reciprocity expectations (Wang et al., 2005). Our hypothesis posits that personnel who perceive performance appraisals as fair are more likely to develop strong relationships with their upper-echelon positions. These relationships are categorized by mutual expectations of reciprocity, which, in turn, motivate employees to exert greater effort toward performance improvement (Tekleab et al., 2005).

The LMX is emphasized in social exchange theory (Burton et al., 2008; Wang et al., 2005). Leaders treat their followers fairly, and it creates an implicit obligation for followers to reciprocate positively; dynamic reciprocity forms the basis of a healthy social exchange relationship (Blau, 2017). Research supports the idea that LMX bridges interactional fairness (fair treatment by supervisors) and employee motivation (Burton et al., 2008). Nevertheless, a gap is to be addressed that the mediating role of LMX in the relationship between procedural/distributive fairness (fairness in processes and outcomes) and employee motivation has not been extensively studied (Erdogan, 2002). The current study investigates whether LMX relationship quality mediates the connection between these two types of fairness and employee motivation to improve performance.

H2: LMX serves as the mediator between performance appraisal fairness and motivation to improve performance.

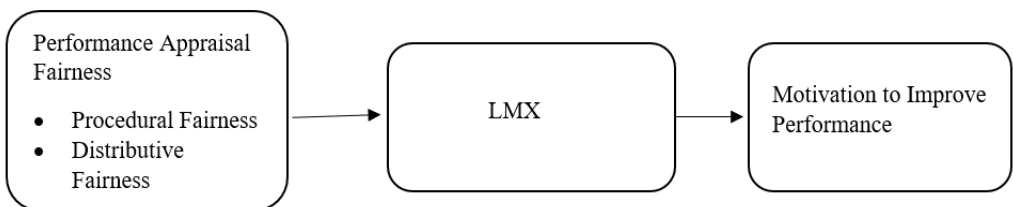


Figure: 1 Conceptual Framework

3 Methods

This descriptive correlational research investigates the connection between performance appraisal fairness, LMX, and employee motivation to improve performance. However, the primary data was collected from 364 bankers through questionnaires (self-administered) distributed to the bankers across various levels of the bank, within 30 banks listed on the Karachi Stock Exchange. To ensure a representative sample, the researchers used simple random sampling. The survey was designed specifically to address the research objectives.

3.1 Measures

This study employed validated measures to assess the core constructs. Leader-Member Exchange (LMX) was operationalized using the established scale developed by Scandura and Graen (1984), which was subsequently adopted by Liden et al. (1993). Performance appraisal fairness was measured via Colquitt's scale (2001). Finally, the 3-item scale developed by Fedor et al. (1989) was utilized to measure employee motivation and enhance performance.

4 Data Analysis

PLS-SEM is suitable for analyzing multifaceted models (Ringle et al., 2015). In this study, all variables were reflective and partial least squares structural equation modeling effectively inspected formative and reflecting models (Hair et al., 2016). PLS-SEM employed the measurement model to measure the variables' validity and reliability; secondly, a structural model was employed to estimate the linkage between variables. Performance appraisal fairness was a second-order construct. Further, for Cronbach's alpha and composite reliability, these loadings range from 0.643 to 0.916, all beyond the recommended threshold of 0.60 consistency. Reliability coefficients ranged from 0.894 to 0.931, approving the measures' internal consistency. Cronbach's alpha values ranged from 0.856 to 0.917, all above the recommended level of 0.70.

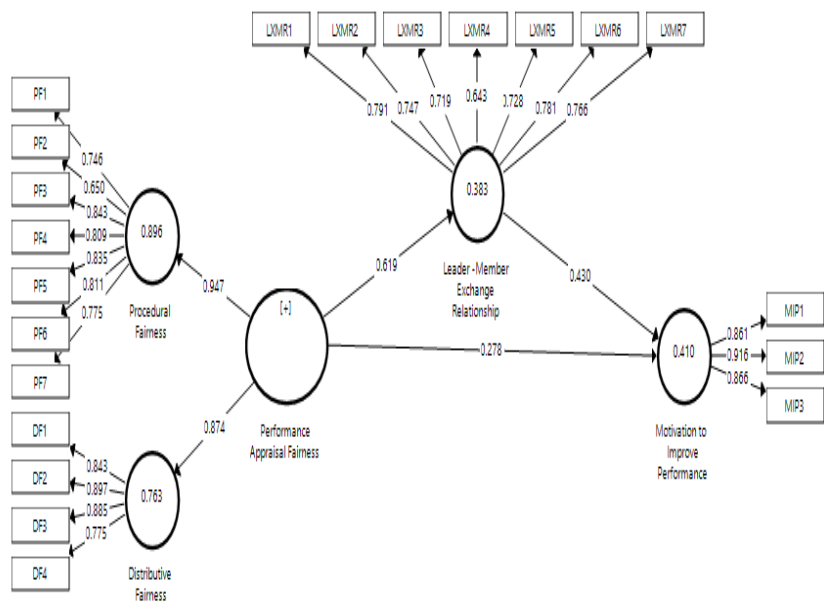


Figure 3: Measurement Model

Table 1: Assessment of Reflective Model

First Order variable	Second Order Construct	Items	Loading	α	CR	AVE
Distributive Fairness		DF1	0.843	0.872	0.879	0.913
		DF2	0.897			
		DF3	0.885			
		DF4	0.775			
Leader-Member Relationship	Exchange	LXMR1	0.791	0.863	0.874	0.894
		LXMR2	0.747			
		LXMR3	0.719			
		LXMR4	0.643			

Motivation to Improve Performance	LXMR5	0.728			
	LXMR6	0.781			
	LXMR7	0.766			
Procedural Fairness	MIP1	0.861	0.856	0.858	0.913
	MIP2	0.916			
	MIP3	0.866			
	PF1	0.746	0.894	0.900	0.917
	PF2	0.650			
	PF3	0.843			
	PF4	0.809			
	PF5	0.835			
Performance Appraisal Fairness	PF6	0.811			
	PF7	0.775			
			0.917	0.922	0.931

Self-generated Table

The average variance extracted (AVE) and outer loading scores were employed to evaluate convergent validity. The AVE scores are higher than the suggested cutoff point 0.50 (Hair et al., 2016), suggesting they effectively capture the relevant components. It also looked at how well the measurements distinguish between various concepts or construct validity. The heterotrait-monotrait (HTMT) ratio (Henseler et al., 2015) was employed to evaluate discriminant validity, the square root of each construct's AVE is compared to its correlations with other constructs using the Fornell-Larcker test (Fornell and Larcker, 1981). Table 2 shows the values

Table 2: Fornell-Larcker test

	1	2	3
Leader-Member Exchange Relationship	0.741		
Motivation to Improve Performance	0.602	0.882	
Performance Appraisal Fairness	0.619	0.544	0.742

Self-generated Table

As Haider et al. (2018) recommended, the HTMT ratio Henseler et al. (2015) was employed to assess discriminant validity, verifying that the measures distinguish between conceptually unlike constructs. HTMT values below 1.0 indicate adequate discriminant validity; a more conservative threshold of 0.85 is also suggested (Henseler et al., 2015). The results shown in Table 3 offer results.

Table 3: HTMT test

	1	2	3
Leader-Member Exchange Relationship			
Motivation to Improve Performance	0.687		
Performance Appraisal Fairness	0.665	0.612	

Self-generated Table

Discriminant validity could be assessed by comparing an item's loading on its targeted construct to its loadings on other constructs (Götz et al., 2009). Table 4 presents further evidence supporting the discriminant validity of the measurement model. Specifically, it was observed that the loadings of each item on the intended construct were greater than the loadings on any other construct.

Table 4: Cross-loading

	1	2	3	4
DF1	0.843	0.506	0.428	0.581
DF2	0.897	0.571	0.461	0.636
DF3	0.885	0.474	0.371	0.563

DF4	0.775	0.383	0.298	0.495
LXMR1	0.596	0.791	0.565	0.562
LXMR2	0.500	0.747	0.450	0.470
LXMR3	0.343	0.719	0.368	0.371
LXMR4	0.418	0.643	0.414	0.400
LXMR5	0.321	0.728	0.428	0.358
LXMR6	0.363	0.781	0.425	0.335
LXMR7	0.324	0.766	0.414	0.338
MIP1	0.372	0.518	0.861	0.441
MIP2	0.431	0.537	0.916	0.497
MIP3	0.415	0.537	0.866	0.444
PF1	0.556	0.505	0.422	0.746
PF2	0.379	0.250	0.338	0.650
PF3	0.639	0.581	0.474	0.843
PF4	0.532	0.395	0.375	0.809
PF5	0.560	0.448	0.403	0.835
PF6	0.502	0.468	0.417	0.811
PF7	0.481	0.393	0.432	0.775

Self-generated Table

The effectiveness of the structural model was evaluated using bootstrapping and collinearity. It was assessed that the variance Inflation Factor (VIF) with values below 5 indicating no collinearity (Hair et al., 2016). VIF scores in this study ranged from 1.00 to 1.621, confirming the no collinearity. Next, path coefficients between the constructs was estimated using significance was determined using the standard error derived from bootstrapping t-value exceeding 1.96 ($p < 0.05$), indicating a significant relationship.

Finally, the coefficient of determination (R^2) was examined to assess the degree of variance explained by the independent variables values of 0.25, 0.50, and 0.75, which are considered weak, moderate, and strong, respectively (Hair et al., 2016). Table 5 presents the R^2 values, indicating that all independent variables explained moderate variation in the dependent variables.

Table 5: Evaluation of Structural Model

	R²	t-value	P-value	Assessment
Leader-Member Exchange Relationship	0.383	8.227	0.000	Moderate
Motivation to Improve Performance	0.410	7.195	0.000	Moderate

Self-generated Table

The standards suggested by Hair et al. (2016) were used to assess mediation. According to the investigation, performance appraisal fairness and motivation to improve performance are connected through a complementary mediator, the leader-member exchange relationship.

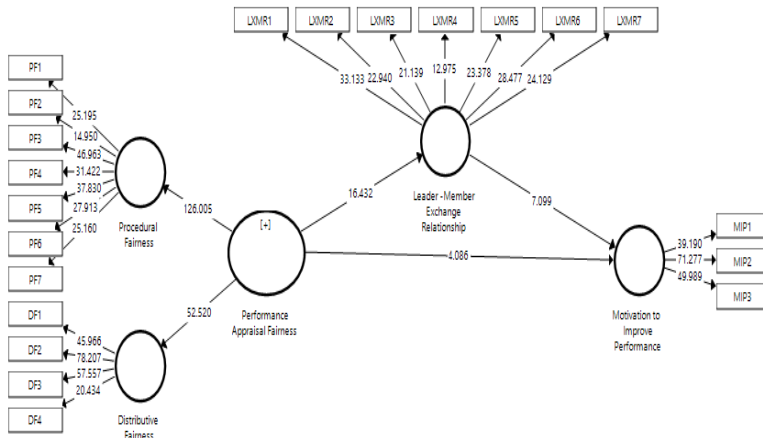


Figure 3: Structural Model

Table 6: Hypothesis Testing

Linkages	β	S. error	t- statics	P- Statistic	Decisions	Confidence Interval	
						2.50%	97.50%
Performance Appraisal Fairness → Leader-Member Exchange Relationship	0.619	0.038	16.432	0.000	Supported	0.547	0.688
Performance Appraisal Fairness → Motivation to Improve Performance	0.544	0.055	9.847	0.000	Supported	0.438	0.645
Leader-Member Exchange Relationship → Motivation to Improve Performance	0.430	0.061	7.099	0.000	Supported	0.314	0.541
Performance Appraisal Fairness → Leader-Member Exchange Relationship → Motivation to Improve Performance	0.266	0.041	6.573	0.000	Supported	0.187	0.344

Self-generated Table

The study results support all two hypotheses: performance appraisal fairness has a significant positive impact on employee motivation to improve performance ($\beta = 0.544$, $p = 0.000$), performance appraisal fairness is also positively linked to the quality of leader-member exchange (LMX) relationships ($\beta = 0.619$, $p = 0.000$), LMX, in turn, has a positive influence on employee motivation ($\beta = 0.430$, $p = 0.000$), the analysis suggests that leader-member exchange relationship partially mediates the connection between performance appraisal fairness and

employee motivation to improve performance ($\beta = 0.266$, $p = 0.000$).

5 Conclusion

Organizational justice theory emphasizes the importance of fairness in performance appraisals for employee motivation (refer to source about the positive impact of fairness on motivation). Perceptions of a fair and equitable evaluation process can significantly enhance employee work satisfaction and intrinsic motivation to perform. A study within the Pakistani banking sector examined the influence of performance appraisal fairness on motivation to improve performance. This research identified a positive correlation between these variables, suggesting that the personnel who perceive their performance appraisals as fair are more likely to be motivated in the Pakistani banking sector.

This research also explored the connection between performance appraisals and employee job motivation within the Pakistani banking sector. The impetus for this investigation stems from concerns about the lack of robust performance evaluation mechanisms in many Pakistani banks. The traditional Annual Confidential Report (ACR) system, used in many organizations, often fails to incorporate employee development and improvement strategies. In the private banking sector, appraisals are frequently based on the outdated ACR system, conducted annually with minimal impact on employee performance. This research emphasizes the critical role of fairness in performance appraisals. Three key dimensions underpin perceptions of fairness in this context: distributive justice, procedural justice, and systemic justice (Cropanzano et al., [2005](#)). Organizations can identify and address potential inconsistencies by actively soliciting and understanding employee perceptions of fairness across these dimensions. Such efforts can help restore a sense of justice among the workforce, eventually nurturing a more positive and prolific organizational climate.

5.1 Practical implications

This study offers valuable intuitions for experts in organizations. It emphasizes the importance of all three aspects of fairness (interactional, distributive, procedural) in shaping leader-member exchange (LMX) perceptions. Employees evaluate supervisory fairness by considering not just how they are treated interpersonally but also the fairness of how rewards and processes are handled. Therefore, paying attention to all three aspects of fairness, mainly during performance appraisals, shows that managers are often blamed for biased performance ratings, even when biases stem from the appraisal system (e.g., forced distribution methods). The study discusses LMX in motivating employees to foster a climate that encourages performance improvement. The organizations should strive to create supportive leadership environments.

In conclusion, this study highlights the significance of fairness (interactional, distributive, procedural) and leader-member exchange (LMX) for employee performance improvement in the banking sector organizations seeking to enhance employee performance; these findings suggest several critical interventions: Supervisor training: Supervisors should be trained to understand the importance of all three aspects of fairness (how they interact with employees, how rewards are distributed, and fairness in processes) in performance appraisals and other workplace interactions will help to ensure that employees perceive them as fair throughout the evaluation process. Lastly, LMX development: Organizations can implement strategies to strengthen LMX relationships. This could involve fostering open communication as long as opportunities for growth and development are available and ensuring supervisors recognize and appreciate employee contributions.

5.2 Limitations and Future Research

Future studies need to gather data from various sources to minimize the influence of a single data collection method. Another limitation is a cross-sectional research design. This means we can

identify associations between variables, but these associations do not necessarily prove cause and effect. Future researchers might consider using a longitudinal approach to determine causality. Probing deeper into motivation for performance improvement could involve exploring additional influences and theoretical frameworks. Self-determination theory, for instance, might offer valuable insights. Additionally, replicating this study with larger and more culturally diverse samples could augment the generalizability of the results.

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