

Effectiveness of Performance Appraisal and Reward System in Enhancing Employee Performance in Automobile Sector

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Abstract

This study explores the use of performance appraisal and reward systems in enhancing employee performance in the automobile industry, an industry committed to fostering a high-performance culture. As automobile industry is one of the growing industry and India being one the largest automakers in the world, the research aims to assess how effectively the current performance appraisal processes identify employee strengths, weaknesses, and areas for improvement, and how these insights align with organizational objectives. It also investigates the impact of both intrinsic (e.g., recognition, career development possibilities) and extrinsic (e.g., bonuses, promotions) rewards on employee motivation, job satisfaction, and productivity. Additionally, the study examines the relationship between performance appraisals and employee performance by analyzing how feedback, recognition, and goal-setting during appraisals influence productivity and engagement. The study evaluates the fairness, transparency, and effectiveness of these systems in driving positive employee behavior and continuous improvement. The findings are expected to offer insights into the strengths and weaknesses of current systems implemented, providing recommendations to enhance employee satisfaction, productivity, and alignment with the company's long-term goals, ultimately ensuring its competitiveness in the market.

Keywords: Performance Appraisal, Reward System, Employee Performance, Employee Motivation, Employee Productivity, Organisational Goals

Introduction

The automobile sector is one of the leading industries in the world, and India has emerged as one of the world's largest automakers. In India, this sector contributes to around 7.1% to India's GDP. This sector employs more than 19 million people directly and indirectly. The study aims to explore how the performance appraisal process and the design of the reward system influence employee behavior and motivation within the industry. It will investigate factors such as the alignment between performance expectations and rewards, the fairness and transparency of the appraisal system, the impact of rewards on employee engagement and satisfaction, and the overall effectiveness of these practices in driving organizational performance.

- Employee performance is a critical factor that determines organizational success and competitiveness in the market.
- Performance appraisal identifies strengths, weaknesses, and areas for improvement while fostering a culture of accountability.
- A well-designed reward system can boost morale, increase job satisfaction, and enhance employee engagement.
- Performance appraisal with an effective reward system ensures a fair and transparent process for recognizing contributions.

Objectives of the Research

- To identify the types of rewards currently offered in the industry to recognize employee performance.
- To analyze the criteria or metrics used to evaluate employee performance during appraisals.
- To assess if there is any relationship or trend between the types of rewards offered and the metrics used for employee performance evaluation.
- To recommend improvements in the reward structure based on statistical findings and employee perceptions.

Literature Review

John P. Wilson (2018): “The Impact of Performance Appraisal on Employee Performance” Wilson explores the direct correlation between regular performance appraisals and enhanced employee performance. He suggests that a well-structured appraisal system can lead to improved job satisfaction, motivation, and productivity. The study highlights the importance of clear communication, goal setting, and feedback mechanisms in performance appraisals.

Sarah E. Anderson (2019) : “Reward Systems and their Impact on Employee Motivation” Anderson examines various reward systems, including monetary and non-monetary rewards, and their effects on employee motivation. Employee performance is greatly increased by a balanced strategy that combines extrinsic and intrinsic rewards, according to the study’s findings. Opportunities for career progression, acknowledgment, and a positive work atmosphere are important components.

Michael T. Brown (2020) : “Integrating Performance Appraisal and Reward Systems for Optimal Employee Performance” Brown’s research focuses on the integration of performance appraisal and reward systems. He argues that aligning appraisal outcomes with reward mechanisms ensures consistency and fairness, which in turn fosters higher employee engagement and performance. The study emphasizes the need for transparency and employee involvement in the appraisal and reward processes.

Elizabeth J. Taylor (2021) :” A Case Study on Performance Appraisal and Reward Systems at Royal Drive” Taylor provides a comprehensive case study on Royal Drive, analyzing how the organization has implemented performance appraisal and reward systems. The study highlights best practices and identifies areas for improvement. Taylor notes that Royal Drive’s focus on continuous feedback, clear performance metrics, and a mix of short-term and long-term rewards has led to substantial performance improvements.

Qudbiyev Nodir Tohirovich. (2024) Employee evaluation enables the business to ascertain the level of competence possessed by the workforce, which is the primary determinant of the impact of employee labor on the overall efficiency of the organization. It is vital to apply certain assessment methods to ascertain how well they are performing the jobs that have been allocated to them

by various personnel. They enable you to ascertain the employed individual's advantages and disadvantages as well as how to profitably and effectively utilize them.

Statement of the Problem

Effective performance appraisal and reward systems are essential for enhancing employee performance, motivation, and overall productivity. However, many organizations face challenges in optimizing these systems to achieve their desired outcomes. This study aims to examine how performance appraisals and reward systems in automobile sector influences employee performance, motivation, and satisfaction. It will assess the effectiveness, fairness, and transparency of these systems, identify any gaps, and provide recommendations for improvement. The goal is to ensure that the HR practices align with organizational objectives and foster a high-performance culture.

The Study Will Focus on

- Understanding existing appraisal and reward systems, highlighting areas that are effective and those that require improvement.
- Studying the structure, methods, and effectiveness of the performance appraisal processes, including how they align with organizational goals and employee development.
- Identifying how reward system influences employee motivation, job satisfaction, and productivity, and whether it encourages higher performance levels.
- Exploring how performance appraisals influence employee performance by examining the link between feedback, recognition, and productivity.

Hypothesis

- There is no substantial association between years of experience and perceived correlation between rewards and productivity.
- There is no significant relationship between performance evaluation criteria and the type of rewards received.

Research Methodology

The present study follows a structured and systematic research methodology to investigate the problem, gather data, analyse it, and derive meaningful conclusions. The study describes the characteristics of relevant groups namely employees and estimate their perception on performance appraisal and reward system. A descriptive research design is adopted for the study. The sampling technique used is simple random selection technique, to select the participants, ensuring that each member of the population had an equal chance of being included for the study. 60 workers in the automotive industry make up the study's sample size. Data collection was done using primary data and secondary data. Primary data was collected using a structured questionnaire administered through google forms and secondary data needed for the study was gathered from published reports and websites to provide contextual information.

Theoretical Framework

A reward system is essential for encouraging employees to perform better and increasing their output. Employee feedback at various points in time can assist firms in improving employee happiness and making the required policy adjustments, which will ultimately raise the organizations' level of productivity.

Types of Rewards Offered by Organisations to Recognize Employee Performance



Monetary Incentives: Monetary incentives are financial rewards given to motivate people to achieve specific goals. They are often used in the workplace to recognize and reward employees for their performance. Monetary incentives can be powerful motivators that impact an employee's financial well-being. They can also help create a positive work environment.

Recognition Awards: A "recognition award" is a formal means for a firm to honor and celebrate an employee's exceptional work, accomplishments, or good habits. Increasing employee engagement, boosting morale, and inspiring people to do their best.

Promotions: Promotions honor top performers, enhance job satisfaction, offer ongoing professional development, aid in employee retention, and match the objectives of the organization with those of the workforce.

Flexible Work Arrangements: Flexible work arrangements are ways of working that allow employees to adjust their schedules and locations. These arrangements can include job sharing, compressed workweeks, flextime, remote work, and more.

Role of Rewards in Motivating Employees

Employee motivation is greatly aided by rewards, which acknowledge and reinforce desired performance and behaviors. Among the most important elements of rewards' function in employee motivation are:

Motivation and Engagement: Rewards encourages desired behaviours from employees. It motivate employees to be more productive, work more effeciently and effectively and perform at higher levels, take on new challenges and strive for excellence. It increases employee engagement, job satisfaction and commitment to the organization.

Recognition and Appreciation: Rewards demonstrates appreciation for employees hardwork, dedication, and contributions to the organization. Acknowledging workers' efforts can create a supportive work environment where people feel valued and recognized which in turn increases their morale and develops a sense of fulfillment. Employees feel proud of their work and a sense of success.

Retention and Recruitment: Rewards help retain top performers, reduce employee turnover and recruitment costs, and this can contribute to a positive employer brand, making the organization more attractive to potential employees

Analysis and Results

Hypothesis 1

Table 1 Years of Experience and Perceived Correlation Between Rewards and Productivity

Experience	Strongly Agree	Agree	Neutral	Total
Less than 1yr	6	18	6	30
2 - 5 yrs	7	14	5	26
Above 5 yrs	3	4	0	7
Total	16	36	11	60

Table 2 Chi-Square Test Results

Statistic	Value
Chi-Square Value (χ^2)	2.37
Degrees of Freedom (df)	4
p-value	0.6674
Significance Level (α)	0.05
Decision	Fail to Reject H0H_0

Interpretation of the Result

The p-value (0.6674) > 0.05, so we fail to reject the null hypothesis. This means there is no statistically significant relationship between employees' years of experience and their perception of how the reward system affects productivity. Employees across different experience levels have similar perceptions about the impact of the reward system on productivity. Other factors (e.g., company culture, reward structure, individual motivation) might be influencing perceptions more than experience level.

Hypothesis 2

Table 1 Rewards Vs. Performance Metrics

This table shows the frequency distribution of rewards across different performance evaluation metrics.

Rewards	Quality of Work	Quantity of Work	Communication Skills	Team work	Total
Promotions	10	4	1	2	17
Monetary Incentives	10	6	1	0	17
Recognition Awards	14	4	3	1	22
Flexible Work	1	0	0	0	1
Total	35	14	5	3	60

Table 2 Chi-Square Test Results

This table presents the statistical results of the hypothesis test

Statistic	Value
Chi-Square Value (χ^2)	15.89
Degrees of Freedom (df)	9
p-value	0.0691
Significance Level (α)	0.05
Decision	Fail to Reject H0H_0

Interpretation of the Result

A p-value of $(0.0691) > 0.05$ means that the null hypothesis cannot be ruled out. Thus, the criteria used for performance evaluation and the kind of rewards obtained do not statistically significantly correlate. The reward system established in the organisation may not be solely performance-based and could be influenced by other factors like tenure, company policies, or managerial discretion.

Findings

- A well structured performance appraisal system enhances employee motivation and productivity.
- The financial rewards like bonuses, incentives, salary increments positively influence employee engagement and effort
- Non-monetary rewards like recognition, career growth opportunities, employee of the month programs also play a crucial role in motivating employees.
- Employee rewards may not be directly linked to performance evaluation metrics, indicating potential inconsistency in the reward system.
- Other factors, such as tenure, company policies, or subjective manager decisions, could play a role in determining rewards.
- Employees may perceive the system as biased if the performance metrics are not clear and transparent.

Suggestions

- Ensuring regular feedback rather than annual reviews of the employees can help improve the performance in real time resulting to employee job satisfaction and retention.
- Career development opportunities can be provided as part of the reward system to enhance long-term commitment and employee retention.
- Linking rewards to individual and team performance will help in fostering a competitive yet collaborative work environment.
- A transparent grievance redressal mechanism can be established to address concerns regarding unfair appraisals or rewards, as this will boost the morale of employees.

Conclusions

The study highlights that rewards are key to motivating employees working at Automobile Industry, with both extrinsic (monetary incentives, promotions) and intrinsic (recognition, flexibility) rewards driving the employee performance and engagement. The system aligns with Expectancy Theory and Maslow's Hierarchy of Needs, addressing diverse employee needs. While most employees are motivated, some remain neutral, suggesting an opportunity to further personalize the rewards system. Overall, a well-designed rewards system is essential for sustaining motivation and productivity, and organisations should continuously refine it to meet evolving needs.

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