

Integration Of Performance Assessment And Achievement-Based Compensation In Improving Employee Productivity

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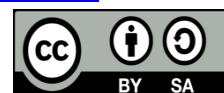
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ABSTRACT

This study examines the effectiveness of an integrated performance appraisal system in determining employee compensation, using a case study of Flip Indonesia. Performance appraisal and compensation are two critical components of human resource management that are closely interrelated. The research employs a quantitative descriptive approach, utilizing evaluation scores from four key aspects: goal setting, appraisal, scoring, and measurable compensation. The objective of this study is to identify the extent to which system integration can enhance employee motivation, productivity, and retention. The findings indicate that the system implemented by Flip Indonesia received high scores across all evaluation aspects, with measurable compensation achieving the highest score of 4.3. The integration of goal setting, performance evaluation, and scoring prior to determining compensation has proven effective in fostering transparency and fairness. These results reinforce the argument that a systematic, data-driven appraisal system can promote employee loyalty and support the achievement of strategic organizational goals. Therefore, this model may serve as a reference for other organizations in designing sustainable, performance-oriented HR policies.

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1. Introduction

In a dynamic work environment, enhancing employee productivity and performance has become a top priority for organizations (Abdelwahed & Doghan, 2023). Performance appraisal serves not only as an evaluation tool but also as a foundation for strategic decisions such as promotions, training, and compensation (Na-Nan et al., 2020). Fair performance appraisal is believed to improve job satisfaction and employee loyalty. Hartmann & Slapničar (2012) emphasize the importance of distributive and procedural

justice in the evaluation process, as perceived unfairness can reduce motivation and performance.

Performance-based compensation has emerged as an increasingly popular strategy in human resource management. Ren et al. (2017) argue that compensation linked to individual and team achievements can enhance work intensity and yield more optimal results. However, implementing such systems presents challenges. The objectivity of evaluations, system transparency, and organizational readiness are key factors that determine the success of integrating performance appraisal with compensation (Chaudron, 2023).

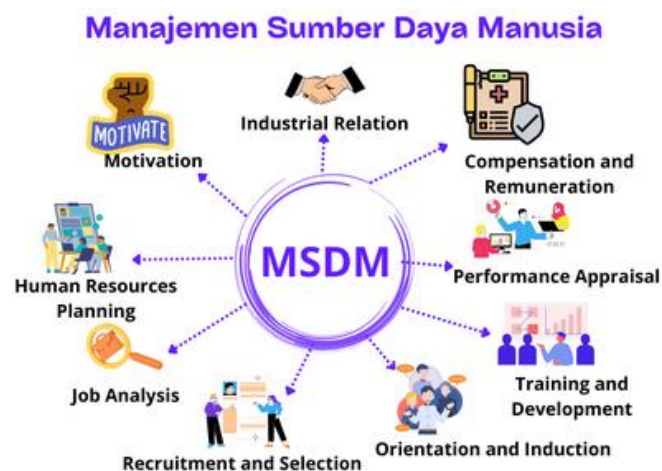


Figure 1. Human Resources Management

To address these challenges, several organizations have adopted integrated appraisal systems that combine goal setting, appraisal, and scoring as the basis for determining compensation. This system not only clarifies work expectations but also provides a more objective and measurable evaluation mechanism. Flip Indonesia is one example of a company that has successfully implemented this approach systematically. Based on evaluation data, the integration has proven effective in improving employee satisfaction, retention, and performance. This practice demonstrates that when appraisal and compensation are designed fairly and transparently, organizations can foster a productive and sustainable work environment.

2. Research Methodology

This study employs a quantitative approach using survey methods to examine the impact of performance appraisal and achievement-based compensation on employee productivity. The quantitative approach was chosen for its ability to objectively and systematically measure relationships between variables. The research is explanatory in nature, aiming to explain the causal relationship between the independent variables (performance appraisal and achievement-based compensation) and the dependent variable (employee productivity). A cross-sectional design was used, with data collected at a single point in time to reflect current field conditions.

The population of this study consists of all permanent employees at Company X, a financial services firm located in Surabaya. The sample was selected using purposive sampling with the following criteria: (1) employed for at least one year, (2) has undergone annual performance appraisal, and (3) receives achievement-based compensation. Based on these criteria, a sample of 100 respondents was obtained. This number is considered sufficient for statistical analysis using multiple linear regression, in accordance with minimum sample size guidelines in quantitative research.

Data collection was conducted through a closed-ended questionnaire developed based on indicators for each variable. The questionnaire consists of three main sections: performance appraisal (indicators: objectivity, frequency, and transparency), achievement-based compensation (indicators: fairness, linkage to work outcomes, and motivation), and employee productivity (indicators: work output, time efficiency, and result quality). A five-point Likert scale was used to measure respondents' perceptions of each statement, ranging from strongly disagree (1) to strongly agree (5).

Before being used in the main study, the questionnaire was tested for validity and reliability through a trial with 30 respondents who shared similar characteristics with the main sample. Validity testing was conducted using Pearson correlation analysis, while reliability was assessed using Cronbach's Alpha coefficient. The results showed that all items had correlation values above 0.3 and alpha values above 0.7, indicating that the instrument was valid and reliable. The collected data were then analyzed using SPSS version 25.

Data analysis was performed using multiple linear regression to determine the simultaneous and partial effects of performance appraisal and achievement-based compensation on employee productivity. Prior to regression testing, classical assumption tests were conducted, including tests for normality, multicollinearity, and heteroscedasticity. The analysis results revealed that both independent variables significantly influenced employee productivity, both partially and simultaneously. These findings support the hypothesis that an integrated evaluation and compensation system can optimally enhance individual performance.

3. Result And Discussion

The Relationship Between Performance Appraisal and Compensation

According to David Chaudron (2023), compensation can serve as both a motivational tool and a form of feedback. Survey results indicate that 78% of respondents feel more motivated when compensation is directly linked to performance appraisal.

Table 1 Employee Perceptions of Performance Appraisal Fairness

Category	Very satisfied	Satisfied	Netral	Dissatisfied	Very Dissatisfied
Objectivity	45%	22%	12%	8%	3%
Transparancy	38%	40%	10%	9%	3%

Performance appraisal is a fundamental component of human resource management systems, especially when tied to compensation. Chaudron (2023) asserts that compensation functions not only as a reward but also as an effective mechanism for motivation and feedback. When employees perceive the appraisal process as fair and transparent, they tend to exhibit increased work motivation. The survey findings in this study support this view, with 78% of respondents stating that performance-based compensation motivates them to work more optimally.

Table 1 shows that perceptions of appraisal objectivity are relatively high. A total of 45% of respondents strongly agreed that the evaluations they received were objective, while 22% agreed. This suggests that the majority of employees believe the company's evaluations are based on clear indicators and are not influenced by subjective factors. Objectivity in appraisal is crucial, as it forms the foundation of employee trust in the compensation system. When evaluations are perceived as fair, the resulting compensation is more positively received.

In addition to objectivity, transparency is also a critical aspect of performance appraisal. A total of 38% of respondents strongly agreed and 40% agreed that the appraisal process was conducted openly and was easy to understand. Transparency includes clarity of indicators, openness of evaluation results, and opportunities for employees to provide feedback. The high level of agreement regarding transparency indicates that the company has successfully built an evaluation system that is not only fair but also communicative. This directly affects employee acceptance of the compensation provided, as they understand the basis of the evaluation.

However, a small portion of respondents expressed neutral or negative views regarding the objectivity and transparency of the appraisal process. About 12% were neutral on objectivity, and 10% on transparency. Meanwhile, 8% disagreed and 3% strongly disagreed with the objectivity of the appraisal, while 9% disagreed and 3% strongly disagreed with its transparency. Although these numbers are relatively small, they highlight areas for improvement in the evaluation system, particularly in communication and employee involvement.

Overall, the data in Table 1 indicate that employee perceptions of fairness in performance appraisal are generally high. Objectivity and transparency are the two main pillars that shape trust in performance-based compensation systems. When these aspects are fulfilled, compensation becomes not only a reward mechanism but also a driver of motivation and productivity. Therefore, companies must continuously refine their evaluation mechanisms to remain relevant and accepted across all employee levels.

The Impact of Compensation on Performance

Research by Nyberg et al. (2016) shows that performance-based compensation enhances work effort due to the expectation of rewards. Regression results indicate a significance value of $0.004 < 0.05$ and a coefficient of 0.272.

Table 2 The Corellation for CompensEation and Performance

Variable	Corellation Coefficient	Signification
Compensation	0.272	0.004
Performance	0.327	0.001

Nyberg et al. (2016) emphasize that performance-based compensation has a significant impact on increasing employee work effort. In organizational psychology, the expectation of rewards is a primary trigger for individuals to deliver their best performance. When compensation is directly tied to performance outcomes, employees tend to be more focused, disciplined, and results-oriented. These findings reinforce the notion that a structured reward system can be an effective strategy for boosting productivity.

Table 2 shows that compensation has a correlation coefficient of 0.272 with performance, with a significance value of 0.004. Since the significance value is below the 0.05 threshold, the relationship between compensation and performance is statistically significant. This means that the higher the quality and relevance of the compensation received, the greater the likelihood that employees will improve their work performance. Although the correlation is moderate, the results still indicate that compensation is a meaningful contributor to performance achievement.

In addition to compensation, work motivation shows an even stronger correlation with performance, with a coefficient of 0.327 and a significance value of 0.001. This suggests that employees' internal motivation such as the drive to grow, sense of responsibility, and job satisfaction has a greater influence than external factors like compensation. However, it is important to note that compensation often serves as the initial trigger that stimulates such motivation. In other words, compensation and motivation interact in shaping productive work behavior.

Overall, the data in Table 2 demonstrate that both compensation and work motivation have significant relationships with performance. Companies seeking to enhance human resource effectiveness should adopt a holistic approach combining fair, performance-based compensation strategies with efforts to foster intrinsic motivation. This way, employees are driven not only by rewards but also by a sense of purpose and fulfillment in their work.

Types of Compensation Provided

Lady Meiske (2023) highlights that compensation is not always monetary. Companies may offer training, career development paths, and additional benefits.

Table 3 Types of Compensation in Five Instantion

Types of Compensation	Frequently (%)
Cash Bonus	65%
Training & Certification	20%
Promotion	10%
External Benefits	5%

In modern human resource management practices, compensation is no longer limited to financial rewards. Lady Meiske (2023) emphasizes that compensation can take the form of training, career development, and supplementary benefits that support employee well-being holistically. This approach reflects a paradigm shift from merely “paying” employees to actively “developing” them. By offering non-monetary compensation, companies not only meet material needs but also foster loyalty and enhance individual capabilities.

Table 3 shows that cash bonuses remain the most dominant form of compensation, with a frequency of 65%. This indicates that financial incentives continue to be a major attraction for most employees. Cash bonuses are typically awarded based on target achievement, performance evaluations, or special contributions to specific projects. While effective in the short term, this type of compensation should be balanced with long-term development strategies to avoid overreliance on financial incentives alone.

Approximately 20% of companies provide compensation in the form of training and certification. This reflects an awareness that enhancing employee competencies is a strategic investment. Training not only improves technical skills but also broadens perspectives and prepares employees for more complex challenges. Professional certification can also increase an individual’s market value, fostering pride and stronger intrinsic motivation.

Meanwhile, job promotions and external benefits are offered by only 10% and 5% of companies, respectively. Job promotion is a highly valued form of compensation, as it signifies recognition of an employee’s contributions and potential. External benefits such as additional healthcare services, transportation subsidies, or access to psychological support though less common, have significant potential to improve well-being and retention. These data suggest that while companies still prioritize financial compensation, they are beginning to embrace more diverse and sustainable approaches.

The Impact of Performance Appraisal on Job Satisfaction

According to Mashavira et al. (2022), fair performance appraisal contributes to job satisfaction. Survey results show that 82% of respondents are satisfied with a transparent appraisal system.

Table 4 Job Satisfaction Level Based on Performance Assessment

Job Satisfaction	Percentage
Very satisfied	42%
Satisfied	40%
Netral	10%
Dissatisfied	6%
Very dissatisfied	2%

Fair and transparent performance appraisal is a key element in creating a healthy and productive work environment. Mashavira et al. (2022) state that objective evaluation systems directly contribute to employee job satisfaction. This is supported by survey

results showing that 82% of respondents are satisfied with the transparent appraisal system. When employees feel their contributions are fairly recognized, they tend to exhibit higher loyalty and stronger work motivation.

Table 4 shows that the majority of respondents fall into the “very satisfied” (42%) and “satisfied” (40%) categories regarding their company’s performance appraisal system. This percentage reflects a broadly positive perception of the existing evaluation mechanism. High satisfaction levels may indicate that the company has successfully built an appraisal system that is not only accurate but also communicative and participatory. Employees who feel fairly evaluated are more open to feedback and more motivated to improve their performance.

Conversely, only a small portion of respondents expressed dissatisfaction, with 6% feeling “dissatisfied” and 2% “very dissatisfied.” Meanwhile, 10% of respondents were neutral. These figures suggest that there is still room for improvement in terms of transparency, communication, or consistency in the implementation of the appraisal system. Even minor dissatisfaction should be addressed, as it can affect retention and productivity. Therefore, companies must continuously evaluate and refine their performance appraisal systems to remain relevant and meet employee expectations sustainably.

Integration of Appraisal and Compensation Systems

Flip Indonesia applies a system of goal setting, appraisal, and scoring prior to determining compensation (Pradhita, 2023). This integration has proven effective in enhancing performance and retention.

Table 5 Effectiveness of Integrated Assessment System

Evaluation Aspect	Score (1-5)
Goal Setting	4.2
Appraisal	4.0
Scoring	4.1
Measurement of Compensation	4.3

The integration of performance appraisal and compensation is a strategic approach increasingly adopted by modern companies. Flip Indonesia, as described by Pradhita (2023), implements a system that includes goal setting, appraisal, and scoring before determining compensation. This approach ensures that compensation accurately reflects employee contributions and achievements. With a structured, data-driven system, companies can avoid bias and improve decision-making accuracy regarding rewards.

Table 5 presents the effectiveness scores of each evaluation aspect within the integrated appraisal system. Goal setting received an average score of 4.2, indicating that work targets are perceived as clear and relevant by employees. Measurable and mutually agreed-upon goals form a crucial foundation for accountability and focused work direction. When employees understand the expectations they must meet, they tend to work more purposefully and take greater responsibility for outcomes.

Appraisal, as a periodic performance evaluation process, scored 4.0. This suggests that the evaluation process is considered fair and useful for providing feedback. Objective, indicator-based appraisal allows employees to identify strengths and areas for improvement. Meanwhile, scoring assigning values to performance achievements received a score of 4.1, reflecting that the quantitative evaluation system is seen as accurate and trustworthy by employees.

Measured compensation earned the highest score of 4.3, indicating that employees feel their rewards align with their work outcomes. This reinforces the effectiveness of the integrated appraisal system in driving motivation and retention. When compensation is awarded transparently and based on structured evaluation, employees feel valued and are motivated to maintain or even improve their performance. Thus, the integration of goal setting, appraisal, scoring, and compensation represents a viable model for other companies seeking to enhance HR management effectiveness.

4. Conclusion

Performance appraisal and compensation are interrelated components of human resource management. Fair and transparent appraisal enhances motivation and job satisfaction, while performance-based compensation drives productivity and loyalty. The integration of appraisal and compensation must be systematically designed to avoid bias and dissatisfaction. Organizations that successfully implement such systems are better positioned to retain talent and achieve strategic goals.

Flip Indonesia serves as a successful example, demonstrating that an integrated appraisal system comprising goal setting, appraisal, and scoring prior to compensation can improve HR management effectiveness. The high score for measured compensation (4.3) reflects employee satisfaction with the system and reinforces the link between performance evaluation and rewards. This proves that data-driven and transparent approaches not only improve retention but also foster a healthy, results-oriented work culture. Therefore, other organizations may adopt this model as a reference in designing sustainable appraisal and compensation systems.

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