



Literature Review of Performance Management Systems and Their Impact on Employee Performance

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ABSTRACT

This journal presents a comprehensive literature review on Performance Management Systems (PMS) and their influence on employee performance, focusing on studies published from 2020 onwards. PMS is a crucial organizational tool designed to align individual goals with broader organizational objectives, promoting employee engagement, productivity, and overall success. Through analyzing ten scholarly articles, the review highlights several key themes: the role of PMS in enhancing employee engagement, the adaptability of PMS across various industries, and the impact of PMS on productivity. Studies suggest that well-designed PMS can lead to higher employee engagement and job satisfaction by providing clear goals and regular feedback. However, the review also discusses challenges related to PMS implementation, particularly in industries with high uncertainty, where a one-size-fits-all approach may not be effective. Additionally, the literature emphasizes the importance of flexibility within PMS, as it allows organizations to adapt to changing market conditions and employee needs. Despite its benefits, PMS can face resistance during implementation, which requires careful management of change processes. The review concludes that a successful PMS is one that is adaptable, inclusive, and integrated with organizational culture, offering valuable insights for organizations seeking to improve employee performance. Future research could explore the long-term impact of PMS on employee behavior and organizational sustainability.

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1. INTRODUCTION

Performance Management Systems (PMS) have emerged as an essential framework for organizations to align individual employee performance with broader organizational objectives. The focus of PMS is not merely to evaluate past performance but to facilitate ongoing development, foster engagement, and ensure continuous improvement. Through structured goal-setting, feedback, and assessment processes, PMS aims to enhance productivity, motivation, and the overall performance of employees. In an increasingly competitive and fast-evolving global market, organizations are seeking effective strategies to optimize their workforce's output, and PMS plays a pivotal role in this effort [1].

The evolution of PMS has been influenced by the changing dynamics of the workplace. Traditionally, performance management was often seen as a tool for evaluating past performance, typically linked to salary increases or promotions. However, over the years, organizations have shifted toward a more holistic approach, recognizing that performance management is about continuous learning, employee engagement, and development. As organizations increasingly focus on nurturing talent and achieving sustainable growth, the role of PMS in shaping employee behavior and contributing to organizational success has become more significant [2].

One of the critical aspects of a successful PMS is its ability to foster employee engagement. Engaged employees are more committed, motivated, and productive, making them integral to organizational success. [1] assert that an effective PMS directly influences employee engagement by providing regular feedback, setting clear expectations, and recognizing achievements. In return, employees who feel engaged and valued are more likely to perform at their best and align their individual goals with the organization's strategic vision. This alignment is crucial for organizations aiming to achieve long-term success.

The adaptability of PMS to different organizational contexts and industries is vital. As noted by [4], PMS frameworks must be flexible enough to accommodate various work environments, whether in healthcare, e-commerce, or manufacturing. Different industries require tailored performance management approaches that account for unique challenges such as environmental uncertainty, task complexity, or seasonal demands. This adaptability ensures that PMS remains effective in achieving its objectives, regardless of the specific operational context in which it is applied [10].

Despite its benefits, implementing a performance management system is not without challenges. Resistance to change, inadequate training, and lack of resources are common obstacles that organizations face when adopting PMS. [2] highlight that employees' experiences with PMS can vary significantly, especially during transitions. It is essential for organizations to address these challenges by involving employees in the design and implementation of PMS and ensuring that the system is aligned with the organizational culture and strategic goals. By overcoming these challenges, PMS can contribute significantly to both employee satisfaction and organizational performance.

2. METHOD

This study employs a literature review methodology, analyzing 10 recent academic journals published between 2020 and 2023. The selected articles focus on the effectiveness and implementation of Performance Management Systems (PMS) across various industries. To ensure comprehensive coverage, these journals were sourced from reputable publications such as SAGE Open, Heliyon, and the International Journal of Scientific and Research Publications, all of which discuss the impact of PMS on productivity, engagement, adaptability, and application across sectors.

A thematic analysis approach was applied to identify and categorize key recurring themes in the literature, including employee engagement, flexibility, productivity, and cross-industry applications of PMS. [2] and [6] support these categories, noting that employee engagement and adaptability within PMS are essential for modern organizational dynamics. This approach allows the literature review to explore connections between PMS and factors influencing employee performance.

The selected studies utilized both quantitative and qualitative approaches to examine the effects of PMS, providing a comprehensive perspective on the challenges and benefits of its implementation. By comparing these varied approaches, the review offers a holistic view of PMS impacts within different operational contexts, highlighting the role of PMS in fostering productivity and employee engagement.

3. DISCUSSION

Tabel 1. Discussion

Author	Methodology	Research Findings	Research Implications
Awan et al.	Quantitative survey examining PMS impact on employee engagement and performance	PMS has a positive impact on employee engagement and performance, particularly through regular feedback and goal alignment.	Highlights the need for consistent feedback mechanisms in PMS to improve employee engagement and performance.
Mabasa & Flotman	Qualitative study on employee experiences during PMS implementation	PMS implementation can create resistance among employees, but clear communication and support aid in successful change management.	Emphasizes that communication and change management strategies are vital when introducing PMS to minimize resistance and facilitate adoption.
Muhammad et al.	Quantitative analysis on the effect of PMS on employee performance	A well-structured PMS leads to improvements in employee productivity, morale, and alignment with organizational goals.	Suggests the importance of structured PMS elements, like goal-setting and evaluations, to enhance employee productivity and morale.
Nguyen et al.	Quantitative study on the moderating effect of uncertainty on PMS practices and organizational performance	Environmental and task uncertainty influence the effectiveness of PMS in organizations, particularly in unpredictable industries.	Highlights the need for adaptable PMS frameworks that can respond to varying levels of uncertainty in specific industries.
Qureshi	Quantitative evaluation of sustainable PMS practices within supply chain management	Sustainable PMS can enhance performance and resilience in supply chains by integrating environmental and social considerations.	Recommends adopting sustainable PMS practices to improve resilience and sustainability in supply chains.
Santi & Rahim	Mixed-methods study assessing PMS impact on employee productivity	PMS positively impacts employee productivity and satisfaction, particularly when PMS objectives are clear and aligned with employees' personal goals.	Highlights the importance of aligning PMS objectives with individual employee goals to foster productivity and satisfaction.
Siraj & Hågen	Qualitative study examining PMS impact on employee performance in SMEs	PMS enhances performance by providing structure and regular evaluations, which reduce performance anxiety and clarify expectations.	Suggests the need for structured and frequent evaluations in PMS to support employee performance and well-being.
Steen et al.	Case study on PMS adaptability in high-risk environments, specifically within prisons	Implementing PMS in challenging environments like prisons enhances organizational resilience and adaptability to changing conditions.	Demonstrates that PMS can improve resilience in restrictive or high-risk settings, suggesting potential for broader applications in similar environments.
Vainieri et al.	Mixed-methods approach analyzing PMS in healthcare settings	PMS in healthcare must be adaptable to seasonal demands, with performance metrics that reflect fluctuating patient care needs.	Recommends developing adaptable PMS models that consider seasonality and demand fluctuations specific to healthcare settings.
Yan Fang & Taien Layraman	Quantitative analysis of PMS on employee productivity in cross-border e-commerce	PMS aids in setting productivity benchmarks in e-commerce, enhancing performance by establishing clear expectations and consistent feedback.	Suggests that in fast-paced industries like e-commerce, PMS should focus on setting clear benchmarks to ensure sustained employee productivity and alignment with goals.

3.1 The Role of Performance Management Systems in Employee Engagement

Employee engagement has emerged as a crucial metric in assessing the success of Performance Management Systems (PMS). Engaged employees are more likely to align their efforts with organizational goals, contributing to improved productivity and overall organizational success [1]. A well-structured PMS fosters engagement by ensuring that employees are actively involved in setting goals, receiving regular feedback, and having clear expectations regarding their performance. [1] highlight that frequent performance appraisals and feedback are key drivers of engagement, as they create an environment of continuous improvement where employees are encouraged to develop professionally.

Expand on this by discussing how engagement through PMS plays a critical role in helping employees navigate periods of change [2]. Organizational change, whether due to restructuring or strategic shifts, can cause uncertainty among employees. PMS, however, can provide the necessary clarity and stability during such transitions. By setting clear expectations and providing ongoing feedback, employees feel supported and motivated to maintain or improve their performance. This is particularly important in organizations undergoing significant changes, as engaged employees are more likely to remain resilient and adaptable to the evolving organizational landscape [2].

3.2 Adaptability and Flexibility in PMS

In the modern business landscape, organizations are confronted with a high degree of uncertainty due to rapidly changing market conditions, technological advancements, and shifting consumer demands. As such, the adaptability of Performance Management Systems is becoming increasingly important. [4] argue that a flexible PMS is essential for organizations to remain agile and responsive to changes in their environment. Adaptability within a PMS allows it to accommodate shifts in business priorities and respond to the varying needs of employees, thereby ensuring that performance metrics remain relevant in a dynamic environment.

[4] suggest that task uncertainties are a significant factor influencing the effectiveness of PMS. In industries where employees face fluctuating workloads, changing project scopes, or unpredictable demands, a rigid PMS model may prove ineffective. Instead, PMS must be designed to accommodate these uncertainties by adopting flexible performance indicators that can be adjusted as needed. This adaptability is particularly important in industries like technology and consulting, where project requirements may evolve rapidly and performance expectations must be aligned with the shifting demands of the business.

3.3 Employee Productivity and PMS Implementation

One of the primary objectives of any Performance Management System is to enhance employee productivity. Several studies have explored the link between PMS and productivity, highlighting that a well-executed PMS can lead to measurable improvements in employee performance. [7] emphasize the importance of clear goal-setting and structured evaluations in boosting productivity. When employees understand what is expected of them and receive regular feedback on their performance, they are more likely to focus their efforts on tasks that align with organizational objectives, thereby increasing their output and efficiency.

Structured performance evaluations provide employees with a clear understanding of their strengths and areas for improvement. By identifying specific performance gaps, PMS enables employees to develop targeted strategies for enhancing their productivity. [7] also argue that well-defined performance metrics help reduce ambiguity in the workplace, providing employees with a clear roadmap

for success. This clarity empowers employees to take ownership of their work and contribute more effectively to the organization's goals.

3.4 Performance Management Systems in Cross-Industry Contexts

The versatility of Performance Management Systems becomes particularly evident when examining their application across different industries. PMS is not a one-size-fits-all solution, and its effectiveness can vary significantly depending on the industry context. [9] provide insights into the implementation of PMS in healthcare, where performance metrics need to be flexible due to seasonal fluctuations in patient demand and the need for responsiveness to changing health conditions. In healthcare, for example, PMS must account for both clinical performance and patient satisfaction, with flexibility built in to accommodate the unpredictable nature of healthcare service provision.

[10] highlight the importance of PMS in the context of cross-border e-commerce enterprises, where performance metrics are vital for managing international teams and monitoring productivity across various markets. In such global contexts, PMS must be adaptable to different cultural expectations, operational standards, and business practices. For instance, performance expectations for e-commerce employees in China may differ from those in Western markets, necessitating the development of region-specific performance criteria. [10] emphasize that PMS must align with local conditions while also ensuring that global productivity benchmarks are met.

A common finding across the literature is that a well-designed PMS enhances employee engagement, which in turn improves overall performance. For example, [1] demonstrate how PMS positively impacts employee engagement when systems are structured to provide clear goals and frequent feedback. This relationship between engagement and performance indicates that when employees feel supported and engaged, they are more likely to align their performance with organizational objectives. [6] similarly found that employee productivity is bolstered when PMS goals are transparent and aligned with employees' personal aspirations. This alignment, as noted by [2], is not only essential for performance but also mitigates resistance during the implementation phase.

These findings suggest that organizations aiming to improve employee performance should prioritize creating engagement-centric PMS frameworks. Ensuring frequent, constructive feedback and alignment between personal and organizational goals is crucial. Engaging employees through a PMS that acknowledges their individual goals and achievements fosters a motivated workforce and reinforces organizational loyalty.

Adaptability emerges as a critical factor in PMS effectiveness, particularly in dynamic or unpredictable environments. [4] highlight how environmental and task uncertainties can moderate PMS's impact on organizational performance, suggesting that adaptability in PMS design is crucial for industries facing frequent shifts or unpredictable challenges. This adaptability can be achieved by developing flexible performance metrics that accommodate changes in task complexity or environmental factors.

Goal setting is the foundation of any performance management system. It serves as a roadmap for employees, providing clear expectations and targets to guide their work. By setting specific, measurable, achievable, relevant, and time-bound (SMART) goals, organizations can ensure that employees know exactly what is expected of them. This clarity not only increases productivity but also motivates employees to perform better, as they can track their progress and see the direct impact of their contributions on the company's success. Goals are typically aligned with the overall strategic objectives of the organization, ensuring that individual performance is directed toward achieving broader business goals.

Performance Management Systems (PMS) are critical tools that organizations use to manage and improve employee performance. These systems are designed to align individual goals with organizational objectives, ensuring that employees contribute effectively to the overall success of the

business. There are several key components that form the backbone of PMS, each of which plays an essential role in driving performance and enhancing the productivity of both individuals and teams. These components include goal setting, performance measurement, feedback, evaluation, and development. Each element interacts with the others, creating a comprehensive framework that supports continuous improvement.

One of the primary components of PMS is goal setting. Setting clear, measurable, and achievable goals is vital in ensuring that employees understand what is expected of them. Goals should align with both the individual's career objectives and the organization's strategic direction. SMART (Specific, Measurable, Achievable, Relevant, Time-bound) criteria are commonly used to define these goals, as they ensure clarity and focus. When employees have well-defined goals, they are more likely to stay motivated, focused, and engaged in their work, as they have a clear sense of purpose and a target to aim for. Goal setting also facilitates performance tracking and provides a benchmark for measuring progress and success.

Closely related to goal setting is performance measurement, which is essential for evaluating how well employees are achieving their goals. This component involves the use of specific performance indicators or metrics to assess individual and team performance. These metrics could range from quantitative measures, such as sales figures or production output, to qualitative assessments, such as customer satisfaction or teamwork. Performance measurement tools help organizations identify areas where employees excel and areas that require improvement. Accurate and consistent measurement allows for a fair comparison of performance over time and across different employees. Furthermore, performance measurement is integral to providing feedback, as it offers the data necessary to guide constructive discussions.

Feedback is another crucial component of PMS. Regular, timely, and constructive feedback helps employees understand their strengths and weaknesses. Effective feedback is specific, actionable, and delivered in a way that encourages improvement rather than discouragement. It can be provided through various means, such as one-on-one meetings, performance reviews, or informal check-ins. Feedback allows employees to adjust their behavior, improve their performance, and stay aligned with their goals. Moreover, it fosters a sense of open communication between employees and their managers, which is essential for maintaining a positive and productive work environment. When feedback is delivered appropriately, it can significantly enhance employee motivation, satisfaction, and overall performance.

Performance evaluation is an integral part of PMS that typically occurs at regular intervals, such as quarterly or annually. During performance evaluations, managers assess how well employees have met their goals and performance expectations. This process involves reviewing the performance data collected through performance measurement tools and feedback sessions. Evaluations are often structured, using rating scales or competency frameworks, to ensure consistency and fairness in the assessment. Performance evaluations are not only an opportunity for managers to give feedback, but also for employees to reflect on their progress, seek clarification on their role, and discuss opportunities for growth. Evaluations play a significant role in decisions related to promotions, salary adjustments, and other career development opportunities, making them a critical aspect of the performance management process.

Employee development is a component that focuses on continuous improvement and long-term career growth. Effective PMS includes mechanisms for identifying skill gaps and offering development opportunities to help employees grow. Development can take many forms, including training programs, mentorship, and career coaching. By investing in employee development, organizations can ensure that their workforce is not only performing well in the present but is also prepared for future challenges and roles within the company. Employee development helps retain top talent and promotes a culture of lifelong learning, which is beneficial to both the employee and the organization.

Studied PMS within a high-risk, restrictive environment like prisons, finding that adaptable PMS practices can bolster organizational resilience [8]. The study shows that even in challenging settings, PMS can be a powerful tool for instilling structure and enhancing responsiveness to situational demands. In sectors like healthcare, as [9] suggest, PMS models should consider seasonality and demand fluctuations to avoid overburdening employees and compromising service quality. These findings imply that organizations in volatile environments should incorporate flexibility within their PMS to respond promptly to changing conditions. Regularly updating performance metrics and goals to align with current circumstances can enhance an organization's agility and resilience.

The alignment between employee goals and organizational objectives is a recurring theme. Studies by [3] and [7] emphasize that when PMS goals align with both organizational and individual aspirations, employee productivity and morale improve significantly. [6] underscore the importance of personalized performance objectives, showing that PMS structures supporting individual growth alongside organizational success result in higher productivity and satisfaction.

One of the most effective elements of PMS is the continuous feedback loop. Regular, constructive feedback helps employees gauge their performance and identify areas of improvement. This process can increase motivation, as employees feel valued and supported in their growth and development. Positive feedback reinforces desirable behaviors and accomplishments, making employees feel recognized for their efforts. On the other hand, constructive criticism helps employees understand where they can improve, creating opportunities for skill development and professional growth. This ongoing feedback loop fosters a growth mindset, wherein employees are motivated to keep improving, knowing that their organization is invested in their success.

Personalization within PMS allows employees to see how their individual roles contribute to the larger organizational picture, fostering a sense of purpose. [1] point out that personalized feedback enhances engagement by helping employees understand their unique contributions and areas for improvement. Organizations should strive for a PMS that respects and integrates individual goals, promoting a culture of mutual benefit where both the employee and organization thrive. This approach can encourage employee loyalty and long-term commitment, as employees feel more valued and aligned with the organization's mission.

Implementing PMS often poses challenges related to change management, especially in organizations with established routines or skeptical employees. [2] discuss the resistance that can arise during PMS implementation and stress the importance of change management strategies, such as clear communication and structured support. By providing clear information on how PMS benefits both employees and the organization, resistance can be minimized, creating a smoother transition.

[8] add that in restrictive environments, PMS requires not just support but also a cultural shift to ensure acceptance. Their findings demonstrate that effective change management can transform PMS from a mere evaluative tool into a mechanism for fostering resilience and adaptability. For practitioners, the implication is clear: robust change management practices are critical for the successful implementation of PMS. By engaging employees in the process, explaining the benefits, and offering training, organizations can overcome resistance and promote a positive view of PMS.

Sustainability in PMS is gaining attention, particularly within supply chain management, as discussed by [5]. Integrating sustainability goals into PMS not only enhances supply chain resilience but also aligns organizational practices with broader societal goals, such as environmental responsibility. Sustainable PMS models, as suggested by the study, lead to long-term organizational resilience, especially in industries sensitive to ecological impacts. The implication here is that organizations, particularly those in supply chain-dependent industries, should consider embedding sustainability metrics into their PMS. By doing so, they contribute to global sustainability efforts and build a more resilient and adaptable workforce capable of responding to emerging challenges.

Performance management is not a one-size-fits-all model; different sectors require unique adaptations to PMS frameworks. For instance, [9] examine PMS in healthcare, where performance metrics must account for varying patient care demands across seasons. Similarly, [10] highlight how e-commerce environments benefit from a PMS that sets productivity benchmarks, as this fast-paced industry requires clear expectations to sustain high employee productivity. These findings indicate that organizations should tailor their PMS to their specific industry requirements, considering factors such as customer demand cycles, employee roles, and productivity metrics. Healthcare organizations, for instance, might benefit from seasonal adjustments to PMS metrics, while e-commerce businesses could focus on efficiency and speed as primary metrics.

Feedback plays a pivotal role in the success of PMS, as it directly influences employee engagement and performance. Studies such as those by [1] and [7] underscore the value of regular, constructive feedback in keeping employees motivated and aligned with organizational goals. When employees receive timely feedback, they are better equipped to adjust their performance to meet set objectives. Implementing a robust feedback mechanism within PMS is crucial for organizations aiming to maintain high levels of employee engagement and continuous improvement. By ensuring that feedback is a core component of PMS, organizations foster an environment where employees feel supported and are more likely to stay committed to organizational success.

4. CONCLUSION

The Performance Management System (PMS) plays a crucial role in enhancing employee productivity and aligning individual goals with organizational objectives. When PMS is tailored to address specific industry requirements and integrated with employee engagement strategies, it positively impacts productivity, satisfaction, and organizational performance [4]. Key elements such as regular feedback, adaptability, and clear performance metrics are instrumental in achieving a successful PMS that promotes a performance-driven culture.

This review faces limitations in terms of scope and methodology. The reliance on secondary data from previously published journals restricts the analysis to interpretations made by other researchers, possibly missing industry-specific nuances. Additionally, the literature review focuses predominantly on general PMS factors, which may limit its applicability to highly specialized sectors like healthcare or e-commerce, as highlighted in studies by [9] and [10]. These limitations underscore the need for a broader sample base that includes diverse industries and geographic locations for more comprehensive insights.

For future research, it is suggested to expand the scope of PMS studies to include longitudinal data to better assess long-term impacts on employee and organizational performance. Research could also examine the adaptability of PMS in diverse cultural settings and its effect on employee engagement. Moreover, an empirical approach that directly involves employee perspectives across various organizational levels could provide deeper insights into the challenges and opportunities within PMS frameworks, guiding the development of more flexible and inclusive performance management models.

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