

# The Impact of Performance Management on Employee Performance

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## Abstract

In order to discuss the most significant findings of those studies in four main axes—the impact of PMS on employee performance, the components of the PMS, and the literature review—this paper reviews the literature on the impact of performance management practices on employee performance during the period (2015–2020). Additionally, the traits of a successful PMS and the challenges faced when implementing the system. The article came to the conclusion that the performance system has a significant moral impact on how well workers perform in firms. These studies provided conclusive evidence that, in addition to the PMS, working conditions, compensation, and promotion are organizational elements that influence employees' performance. Performance monitoring is carried out with performance assessment by management since, according to the research; performance planning has a limited impact on workers' performance while performance appraisal has been the most precise of employee performance.

**Keywords:** Performance management system (PMS), employee performance, effective system.

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## 1. INTRODUCTION

The performance of employees is one of the most important factors that lead to the success of any business. Therefore, many managers seek to find innovative ways within the company's performance management system (PMS) to motivate employees and evaluate their performance efficiently and effectively. The primary goal of employee motivation is to improve their productivity and increase their connection to the organization in which they work. Many modern firms give their PMS more importance as a way to produce higher levels of work performance. As the performance increase can be accomplished by directing the PMS to enhance employee participation through employee participation and managing the participation process according to a specific method that ensures the promotion and management of employee participation to attain high levels of career performance (Gruman and Saks, 2011). One of the sophisticated techniques in human resource management is performance management. If done properly, performance assessment gives employers the chance to let workers know how quickly they are developing their skills, abilities, and potential. In order to organize and coordinate the

strengths of each person inside the business in order to support them in achieving their strategic goals, companies have the influential instrument of performance assessment (Pelluri and Padmavathy, 2016). PMS are essential to enhance organizational effectiveness and performance. However, 70% of the implemented performance management systems have failed, therefore, companies need to understand these systems' properties in order to produce positive organizational results. The assessment and monitoring of individual and organizational performance with the ultimate purpose of enhancing effectiveness of the organization is known as performance management, which is a subset of talent management. In order to set performance objectives, evaluate performance outcomes, and reward performance, managers collaborate with their staff (Kaur & Singla, 2019). Economic decision-makers in Saudi Arabia have acknowledged the value of forming the Human Resources Development Fund and its role in organizing, recruiting, and educating Saudis. In addition, they are in charge of business continuity, reviewing direct job applications, and following up with new recruits when they are appointed. In addition to raising workers'

expectations and contentment with material advantages, the Human Resources Development Fund places a strong emphasis on financial incentives, which serves to raise the level of national incomes (Doghan and Albar, 2015). Saudi Arabia's decision-makers also started concentrating on the private sector in order to ease pressure on the public sector and boost economic growth by creating new employment possibilities for Saudis with a goal of hiring Saudis at a rate of 50% of the entire workforce in any firm. This ruling had a significant influence on encouraging the private sector to have access to government assistance intended to boost private businesses and assist them in meeting new economic needs. By reviewing the subject in theories that explain their relationship to one another as well as contemporary literature that discussed this topic in various locations and with various evaluation methods, we examine the impact of the PMS on employee performance and their effectiveness in completing the tasks assigned to them in this article. In order to build a proposed view regarding the influence of performance management on employee performance, the paper takes a deductive method in explaining the link between performance management and employee performance in light of prior research.

## 2. Literature Related to Performance Management and Employee Performance

The link between performance management and employee performance in firms has been examined in several studies utilizing a variety of research techniques. Here, we analyse the most crucial research that addressed the issue and the most crucial conclusions they came to Kaur and Singla (2019). The goal of the study was to carefully evaluate the features of performance management which significantly influence staff engagement and thereby improve organizational effectiveness. The concept of employee engagement is relatively new in the literature, yet it has become hugely popular in business. Staff engagement and organizational performance are strongly correlated, according to proponents of the concept, both in the workplace and among employees. Strong organizational performance can only be attained when all employees are actively participating. According to the study, employee engagement is most positively impacted by empowerment-contributing recognition and participative decision-making. Because of this, firms will be more able to build PMS that increase employee engagement. The goal of the Adam Study (2020) was to ascertain how UN-Somalia Habitat's program's staff members performed in relation to PMS. Additionally, the research attempts to investigate the impact of performance standards, performance measurements, quality improvement processes, and progress reporting on UN-Somalia Habitat's Program. The study demonstrated that there is no association between employee performance and performance criteria, performance assessment, or quality improvement techniques. The study did show a strong favourable

association between progress reports and employee performance, though. Additionally, regression analysis demonstrated that progress reporting had a very beneficial impact on staff performance. Using a survey of 924 workers of tech service organizations in India, Mangipudi *et al.*, (2019) performed pilot research on how a PMS influences employee performance. The system of performance management was assessed on 13 different parameters. Using multiple regression analysis, it was discovered that 5 factors had an impact on performance management and that 9 components were responsible for enhancing performance. The findings revealed that the performance management system greatly raises worker productivity. Gerrish (2016) used 2,188 impacts from 49 researches in an effort to provide a thorough analysis of the impact of performance management on performance in public institutions in three methods. The effects of a "medium" performance management system are first looked at. The second part looks at management's impact and determines if good performance management procedures lessen the overall effect. Thirdly, it looks at how "time" affects performance management. An average minor influence of performance management was discovered through investigation. When best practice indicators are incorporated into high-quality research, the impact is significantly stronger. The effectiveness of PMS is significantly influenced by management practices. Mixed evidence exists on the impact of time. The primary performance management system components—the PMS, the performance reward system, and the performance contract system—were the focus of Subbaiah and Mathew's (2019) investigation into the relationship between PMS and employee performance. The study used a descriptive methodology to gather information from 100 workers in Bangalore's IT industries. According to the study's findings, PMSs and employee performance are positively correlated. The PMSs and employee performance at the United Nations Regional Centre for Services were the subjects of a research by Busingye (2018). The goals were to (I) investigate the correlation between staff performance in the United Nations Regional Centre for Services and performance planning; (ii) determine the correlation between staff performance and performance monitoring; and (iii) look into the connection between employee's performance and performance evaluation. Regional Services of the United Nations. 103 workers and 2 key informants' quantitative data were gathered quantitatively utilizing survey questionnaire and interview guide, respectively. Performance planning and employee performance have a positive, statistically significant association, according to the Pearson Correlation Coefficient values, but it is a weak one. The variable, which is regarded as the second predictor of the employee's performance, had a small influence on the employee's performance but had a strong association with performance monitoring. The employee's performance was significantly impacted by the performance assessment and had a considerable positive

association with it. In order to ensure staff productivity, Nikeshbhai (2019) looked at the approach to putting in place a PMS. The study's goal was to assess how satisfied organization employees were with their current PMS. Questionnaires were used to gather the data for this investigation. The study found that organizational elements including pay, benefits, and advancement had an impact on worker productivity. The findings also demonstrate that a large portion of respondents believed that improving efficiency is currently a crucial element of corporate strategy. In order to increase employee performance and competitiveness, the research suggests performing a frequent evaluation of performance. Understanding the PMS and its link to employee performance determinants is the goal of the Deogaonkar *et al.*, (2020) study. The research data used in this study came from 416 experts who work for Indian telecom businesses. Three phases were included in the study's recommended model: design, execution, and employee motivation. The findings indicated that individuals are intellectual resources and are more motivated to put a performance management system in place, indicating that the design of the performance management system seems reasonable. Because the design of the PMS is to offer a tool for measuring and recording performance in relation to goals, this is the case. The PMS's implementation has an impact on an employee's performance since it involves manual engagement with supervisors and discussions with them regarding the employee's performance. The study by Almohtaseb *et al.*, (2017) looks at how employing a scorecard affects how well employees perform while using a PMS. The industrial businesses registered on the Jordanian Amman Stock Exchange were the subject of this investigation. 192 senior managers from 63 manufacturing businesses were surveyed as part of the research project. The findings shown that implementing a Balance Scorecard lessens the effect of the PMS on employee performance. Accordingly, integrating the Balanced Scorecard into strategic decision-making enhances and complements the connection between the PMS and employee performance. The goal of Nwachukwu's (2016) study was to use controlled questionnaires to investigate the link between performance management, employee engagement, and the organizational culture of a few chosen banks in Nigeria. The findings demonstrated the significance of performance management and its beneficial relationships with company culture. Organizational culture was inversely correlated with employee empowerment. According to the study, banks should be careful of the amount of empowerment since it might erode organizational culture and the company should establish a robust PMS in order to have a more transparent and dynamic organizational culture. The conceptual underpinnings of both classic and current performance measuring methodologies, as well as their traits, benefits, and drawbacks, are outlined in Pelluri and Padmavathy's (2016) work. The study came to the conclusion that one of the trickiest and most

complicated methods in human resource management is performance management. If done properly, performance assessment gives employers the chance to let workers know how quickly they are developing their skills, abilities, and potential. The report stressed the importance of performance evaluation as a powerful instrument for firms to organize and integrate each employee's capabilities in order to achieve their strategic goals. Erdem *et al.*, (2017) study used 605 distributed questionnaires to investigate the association between performance management (PM) conduct and the performance of laborers working in 6 different organizations in Khartoum. The findings showed a strong correlation between the actions of PM supervisors and labour performance. In general, task performance and organizational citizenship behaviour are positively correlated with all PM behaviours, with the exception of monitoring performance objectives (OCB). However, negative relationships exist between PM practices (such as feedback, coaching, and monitoring performance objectives) and unproductive work behaviour. Building on these findings, business managers have the chance to boost worker performance by putting more of a focus on encouraging supervisors to participate in positive behaviours and by emphasizing coaching and performance awards. In their 2015 study, Al Doghan and Albar sought to determine the elements that influence employee performance in Saudi Arabian private schools as well as the impact of stimulating work on employees' performance. Finding the driving elements that boost employee performance is crucial for corporate revenues and productivity, according to current research. The study focused on a particular subset of Dammam's private schools that are found in Saudi Arabia's Eastern Province. We took a sample of 150 individuals from three separate schools. A survey was used to collect information about four different factors, including leadership style, the regulatory environment, income, and the probability of a secure future. The article's findings demonstrated that a leader's style has a positive, significant impact on how well their team members perform. The organizational environment has a minimally positive effect on employee performance. Salary has a morally beneficial effect on how well staff members perform at private schools in the KSA. According to 2017 research by Van Waeyenberg, effective PMSs improve employee performance and well-being. Physical well-being of employees and their performance were more or less independent outcomes, but psychological well-being moderated the link between PMS and performance. This study advances knowledge of what efficient PMSs are, how they may be put into practice, and how they can improve employee performance and well-being. According to Mulwa's (2017) research, a PMS improves employee performance by giving employees a trustworthy performance metric, boosting their productivity, and helping them reach their goals. The study came to the conclusion that implementing a PMS improves employee performance by helping them

set personal goals that are linked to the larger organizational objectives, identifying skills gaps that need to be filled through training, and generally raising employee productivity levels. The study made several recommendations for management, including raising employee awareness of the importance of the PMS filling training gaps, rewarding top performers, conducting evaluations in a professional manner, and providing detailed notes on employee performance following the assessment process. In accordance with research by Gruman and Saks (2011), performance improvements may be better attained if a PMS was used to raise employee engagement. By exploring the essential variables for employee engagement, it offered a fresh way of thinking about how to improve and manage staff engagement to attain high levels of work performance. The purpose of Shrivastava's (2018) study was to assess the PMS's efficacy and investigate the connection between that effectiveness and employee commitment and satisfaction. The findings indicated that the PMS and satisfaction, as well as the typical link between employee work satisfaction and commitment, are statistically correlated. According to the report, an efficient PMS is just a tool for creating an employee loyalty index, which will keep employees' content and boost their productivity.

### 3. DISCUSSION

These studies all agreed on the significance of performance management as a component of contemporary public administration when examining the literature that addressed the problem of the PMS and its influence on the performance of employees. Recognizing the traits of the most efficient systems is important since PMS are thought to be vital to improve corporate performance. In order to increase the institutional effectiveness of the performance management, performance measurement was defined as the process of monitoring and managing employee and organizational performance (Kaur and Singla, 2019). We discuss the most significant research results in the following axes:

#### 3.1 Performance Management and Employee Performance

The impact of performance management on employee performance was a topic of discussion in earlier research since it was universally acknowledged in those studies that this impact is both significant and positive. The PMS is a tool for assessing and recording performance in relation to objectives, according to those researches. Different methods for creating a PMS were offered in the literature, some of which used the balanced scorecard and others which used managing by objectives. However, they both concur that three phases are necessary for an effective PMS: employee motivation, design, and execution. This research demonstrated that workplace environments, pay, and promotion—in addition to the PMS—are organizational elements that influence employees' performance. The

research indicates that performance planning has limited impact on employees' performance; hence management combines performance monitoring and assessment. The management ought to devote more funds to assessing the productivity of its workers. This is so because, according to the research, performance reviews were the most accurate indicators of an employee's performance.

#### 3.2 Elements of a Performance Management System

Performance management is a collection of interconnected and integrated activities designed to make sure that people obtain their desired performance outcomes while also advancing the objectives of the business as a whole. Performance planning, performance guiding, performance diagnosis, performance development, and performance improvement are all included in the process of performance management. Managing the efficiency of human resources leads to controlling all other resources employed in the activity. This is how performance management works. In order to ensure the best utilization of these auxiliary resources, the employee doing a specific task where he needs material, technical, financial, informational, and other resources should follow the procedures and guidelines outlined in the performance plan.

#### 3.3 Characteristics of an Effective Performance Management System

A set of requirements must be present for the system to fulfil its objectives, and they may be summed up as follows: clarity in the standards used to determine the desired performance. Take care to convey the intended performance criteria to staff. Make sure that staff members engage in the discussion of an agreement on the desired performance levels. Clarity of procedures for determining the reasons for low performance and how to improve it. Clarity of the processes used by the management system to carry out and justify the time spent on procedures. Establishing the organizational foundations of the system, emphasizing its dependence on efficient information systems, and providing a flexible framework for process re-engineering and performance development. The existence of a strategic planning framework that serves as the foundation for performance goals across numerous industries. An effective incentive system that is related to performance results is the cornerstone of good strategic human resources management.

#### 3.4 Difficulties Implementing the Performance System

The most significant challenges to the implementation of PMS are: The challenge for the administration is to find a clear solution that is acceptable to employees and management because the first challenge in implementing a performance management system is related to the human factor and the potential for disagreement in attitudes, desires, and

perception between superiors and subordinates. The second challenge is the need for coordination and balancing among the system's fundamental elements, including its standards, processes, and objectives. This problem arises when the administration focuses only on one aim while ignoring the others. Additionally, maintaining consistency between objectives and performance outcomes evaluation criteria is necessary for the proper application of the principle of performance management. The third problem with PMS is the inherent conflict between what is required for a job and what is required of the employee doing the job. The quantity, speed, needed quality level, and competence of the execution in terms of the applied technology are often the main considerations when it comes to commercial requirements. Regarding the needs of the worker, the emphasis is typically on the quest of pleasant performance with enough time, the need for more breaks and less pressure from supervisors, for instance, and overcoming mistakes.

#### 4. CONCLUSION

This article aimed to find out how does PMS affect employee performance through reviewing literature of this topic and theories that explain performance and discussing them in four main axes, they are the effect of PMS on employee performance, the elements of the PMS, the characteristics of the effective performance system, and the difficulties encountered in implementing the PMS. This report concluded that there is a positive significant effect of the PMS on the employee's performance in the companies. The literature agreed that a PMS is a means for measuring and verifying performance against goals, and that any successful PMS must include three steps: design, implementation, and employee motivation. These studies confirmed that the organizational factors that influence the performance of staffs in addition to the PMS are working conditions, wages and promotion. According to the literature, performance planning has a weak effect on employees' performance, so performance monitoring is performed alongside performance evaluation by management. The management must invest more resources in assessing the performance of its staffs. This is because performance appraisal remained the most specific to an employee's performance according to the literature.

#### 5. SUGGESTIONS

In light of the literature discussion in this report, we can suggest the following:

- HRM policy makers must apply all aspects of a PMS from performance, planning, implementation and measurement to quality improvement processes, in order to enhance employee performance.
- Use progress reports as a decision-making tool to improve employee performance. Which

should include detailed explanations to the employees about what they have done.

- The management must invest more efforts in evaluating the performance of its staffs. This is because performance appraisal was the most specific to an employee's performance according to the literature.
- This report suggests using the Balance Scorecard as a multifaceted approach to measure performance and as a strategic management system (SMS) to improve staffs performance.

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