

Performance management Systems: Impact on Employee, Motivation, and Organizational Effectiveness: A Literature Review

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ABSTRACT

This study analyzes the impact of performance management systems, performance appraisals, reward systems, and KPI measurements on employee motivation, performance, and organizational effectiveness. Various studies indicate that regular, constructive, and fair appraisals enhance employee motivation, engagement, and productivity. A well-designed performance management system, encompassing clear goal setting, feedback, transparent appraisals, and career development, is positively correlated with improved employee performance. In the public sector, effective PMSs contribute to improved service delivery and accountability, though they still face challenges regarding communication, fairness, and consistency. A holistic reward system—combining financial and non-financial rewards—enhances motivation and commitment while reducing turnover. Additionally, measuring KPIs and employee performance has been shown to significantly contribute to organizational effectiveness, accounting for approximately 62.3% of the variation in effectiveness. Overall, the integration of a PMS, performance appraisals, rewards, and KPIs that are fair, transparent, and aligned with organizational strategy is key to improving performance and effectiveness.

Keywords: *Performance Management System, Reward System, Employee Performance, Organizational Effectiveness*

1. INTRODUCTION

In an era of increasingly fierce competition, organizations are required to manage employee performance more systematically and measurably to achieve strategic goals and maintain a competitive advantage. A performance management system—which includes performance appraisals, Key Performance Indicators (KPI)-based measurements, and a reward system—is a key instrument for aligning individual goals with organizational objectives, while simultaneously boosting employee motivation and productivity (Pandey, 2024).

Various studies have shown that components such as clear goal setting, constructive feedback, a fair and transparent assessment process, and career development opportunities contribute significantly to improving organizational performance and effectiveness (Pandey, 2024). Studies on performance appraisal systems have found that regular, constructive, and perceived fair evaluations can increase employee motivation, engagement, and productivity, while reducing issues such as low morale caused by bias and a lack of transparency (Keerthivasan, 2025).

Conversely, a well-structured reward system, combining intrinsic and extrinsic reward, has been shown to significantly impact employee motivation, job satisfaction, commitment, and performance. Performance-based rewards not only serve as a motivator but also as a signal of fairness and value alignment between employees and the organization. However, its effectiveness depends heavily on its alignment with employee needs, organizational culture, and long-term strategic goals, necessitating a holistic and contextual approach (Adams, 2025).

Furthermore, the implementation of a performance management system integrated with KPI measurement has been shown to have a strong positive correlation with organizational effectiveness. Simultaneous measurement of KPIs and employee performance can explain a substantial portion of the variation in organizational effectiveness, indicating that the design and implementation of a performance management system plays a direct role in improving overall organizational performance (Kushariyadi, 2025). In the public sector context, for example, at a road infrastructure fund management agency, a performance management system has been shown to impact work quality, collaboration, accountability, and the achievement of strategic goals, although it still faces challenges such as limited feedback, suboptimal policy communication, and perceptions of unfairness (Chishimba & Kazembe, 2026a).

Therefore, the study of performance management systems, including appraisals, rewards, and KPIs, is crucial to understanding how appropriate design and implementation can improve employee performance, motivate them, and ultimately strengthen organizational effectiveness. Recent research confirms that the success of these systems is determined not only by their tools and procedures, but also by perceptions of fairness, communication, employee engagement, and their alignment with the organization's strategy and culture (Pandey, 2024).

This study aims to analyze how a performance management system that includes goal setting, feedback mechanisms, appraisals, and employee development affects employee performance. Specifically, this study aims to examine the effectiveness of performance appraisals conducted regularly, constructively, and fairly in increasing employee motivation, engagement, and productivity and assess the influence of financial and non-financial reward systems on employee performance and commitment (Pandey, 2024). In addition, this study aims to examine the relationship between Key Performance Indicators (KPI) measurements and employee performance with organizational effectiveness, and how much they contribute to explaining variations in organizational performance (Adams, 2025; Kushariyadi, 2025). Finally, this study also aims to identify the main challenges in implementing a performance management system, especially in the public sector context, and formulate recommendations for improvements to increase effectiveness, accountability, and achievement of organizational strategic goals (Chishimba & Kazembe, 2026; Keerthivasan, 2025).

1.1 Performance Appraisal and Motivation

Performance appraisals conducted fairly and transparently can increase employee motivation by recognizing work contributions and clarifying organizational expectations. When employees perceive the performance appraisal process as objective, they tend to demonstrate higher levels of engagement and motivation in achieving work targets. Furthermore, the feedback provided through performance appraisals helps employees understand their strengths and areas for development, thus encouraging increased intrinsic and extrinsic motivation (Hill & Plimmer, 2024; Lyu et al., 2023).

1.2 Performance Management System (PMS) and Performance

A Performance Management System (PMS) plays a role in improving employee performance by aligning individual goals with organizational objectives, providing continuous feedback, and systematically monitoring work achievements. A well-designed PMS helps employees understand the targets to be achieved and increases productivity through structured evaluations. Therefore, effective PMS implementation contributes to improved individual and overall organizational performance (Rahmita et al., 2025; Harefa et al., 2024).

1.3 Reward System and Performance

A reward system is a crucial factor influencing employee performance because it can increase motivation and commitment to work. Providing rewards commensurate with employee contributions can encourage more productive work behavior, increase job satisfaction, and strengthen employees' desire to achieve organizational goals. Therefore, fair and competitive rewards can be a strategic tool in improving employee performance (Hill & Plimmer, 2024; Prasetyo et al., 2023).

1.4 KPIs and Organizational Effectiveness

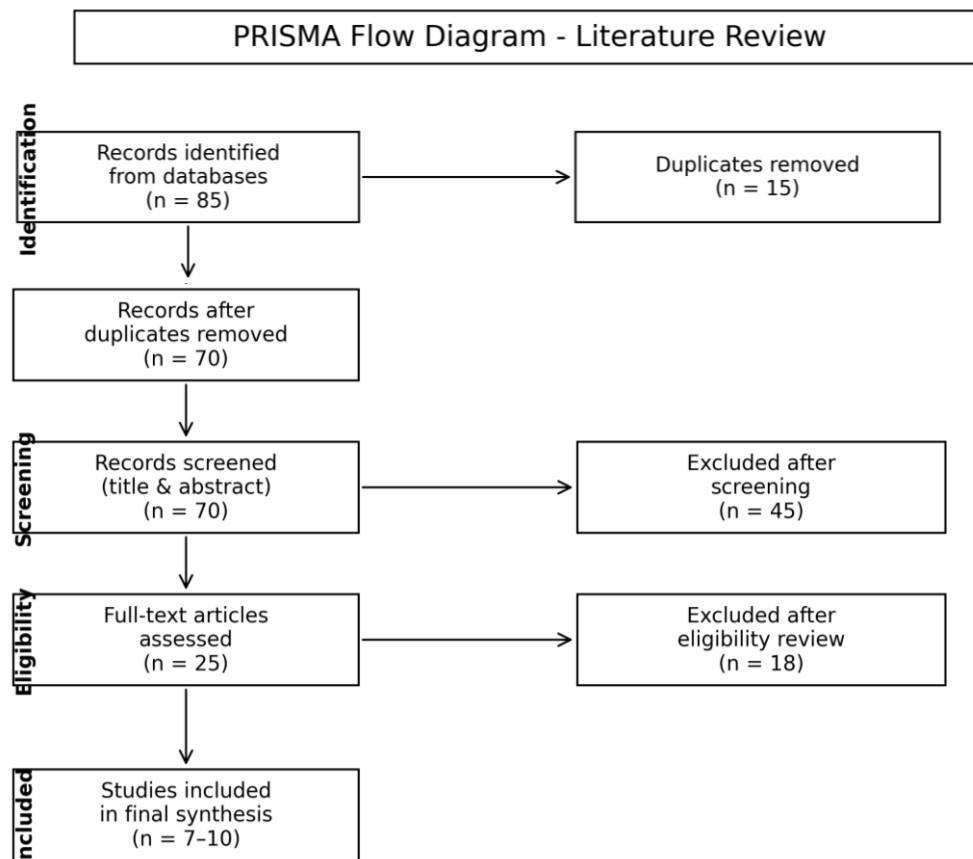
Key Performance Indicators (KPIs) serve as measuring tools that help organizations evaluate the achievement of strategic and operational goals. Proper use of KPIs allows organizations to objectively monitor performance, identify areas for improvement, and improve decision-making effectiveness. By having KPIs aligned with organizational strategy, organizational effectiveness can be increased through more measurable and controlled target achievement (de Araújo et al., 2024).

2. RESEARCH METHODS

This study used the Literature Review method to identify, examine, and synthesize research findings addressing the relationship between Performance Appraisal, Performance Management System (PMS), Reward System, Key Performance Indicators (KPI), Employee Motivation, Employee Performance, and Organizational Effectiveness. The SLR method was chosen because it allows researchers to gain a comprehensive understanding of research developments, relationships between variables, and empirical findings reported in various previous studies.

The literature search was conducted through several scientific databases, such as Google Scholar, DOAJ, ScienceDirect, Emerald Insight, and SpringerLink. Keywords used in the search process included performance appraisal, employee motivation, performance management system, reward system, key performance indicators, employee performance, and organizational effectiveness. To maintain the relevance and novelty of the research, selected articles were limited to publications published between 2022 and 2026.

The article selection process followed the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) approach, which included identification, screening, eligibility assessment, and inclusion. The identification phase identified 85 articles from various database sources. After eliminating duplicates and filtering based on titles and abstracts, 25 articles met the criteria for full-text review. Subsequently, an evaluation of the appropriateness of the topic, research methods, and empirical findings was conducted, resulting in 7–10 articles for use in the final synthesis.



3. RESULT AND DISCUSSION

This research collectively illustrates a pathway: from performance management system design (PMS, KPIs, appraisals, rewards), to employee behavior and motivation, and ultimately to organizational effectiveness.

The first insight comes from a PMS study that explores the relationship between system design and employee performance. A PMS incorporating clear goal setting, regular feedback, fair appraisals, and competency development has been shown to be positively correlated with improved employee performance. Here, performance is viewed not merely as an output, but as a result of the process of goal communication, engagement, and organizational support (Pandey, 2024).

In the public sector context, the NRFA case study demonstrates that most employees are familiar with the PMS and perceive its impact on work quality, time management, collaboration, and accountability, although consistency of implementation and integration with other HR practices still varies (Chishimba & Kazembe, 2026a).

On the measurement side, the KPI study found that KPI and employee performance measurements together explain 62.3% of the variation in organizational effectiveness, with a strong and significant positive correlation. This confirms that organizational effectiveness is inextricably linked to how individual performance is defined, measured, and managed (Kushariyadi, 2025).

At the psychological mechanism level, two components emerge as particularly prominent: rewards and performance appraisals. A well-structured reward system, combining financial incentives, recognition, promotions, and career development opportunities, is associated with higher motivation, better job satisfaction, and increased productivity. Organizations that implement rewards fairly and strategically tend to experience stronger commitment and lower turnover rates (Adams, 2025).

Similarly, a regular, constructive, and fair appraisal system has been shown to contribute significantly to workforce satisfaction and productivity. Appraisals not only influence motivation and engagement but also open access to promotions, training, and career development opportunities (Keertivasan, 2025).

However, behind these positive outcomes, a “dark side” of the system also emerges: lack of transparency, rater bias, weak communication, and employee resistance. Appraisal studies note that a lack of transparency and rater bias are key challenges (Keerthivasan, 2025). The NRFA study adds a long list of obstacles: limited feedback, inadequate training, manager inconsistency, and resource constraints (Chishimba & Kazembe, 2026a).

Table 1. PMS-Process-Outcome Relationship Diagram

Process System	Components	Components for Employees Individual & Organizational	Outcomes Source
PMS design (goals, feedback, appraisal, development)	Understanding of goals, engagement, perception of fairness	Employee performance increases	(Pandey, 2024)
KPI & performance measurement	Clarify expectations, focus on key indicators	organizational effectiveness (62.3% of variation explained)	(Kushariyadi, 2025)
Systemic rewards (financial & non-financial)	Motivation, sense of appreciation, perception of fairness	Productivity, commitment, low turnover	(Adams, 2025)
Appraisal (regular, fair, constructive)	Appraisal (regular, fair, constructive) Feedback, behavior correction, career expectations	Satisfaction and productivity increase	(Keerthivasan, 2025)

This diagram depicts a causal chain: well-designed PMS → positive psychological processes (motivation, fairness, engagement) → improved employee performance → increased organizational effectiveness, with KPIs as measurement instruments, appraisals as feedback mechanisms, and rewards as behavioral reinforcers.

3.1. Discussion

First, there is consistency in findings across studies: a good PMS, KPIs, rewards, and appraisals are almost always associated with positive outcomes (Kushariyadi, 2025; Pandey, 2024). This reinforces the idea that performance management is not merely administrative, but a strategic instrument.

However, methodologically, most studies are correlational and rely heavily on perception surveys (Adams, 2025; Pandey, 2024). This limits the strength of causal claims: it is uncertain whether a good PMS improves performance, or whether high-performing organizations tend to build better PMSs.

Second, NRFA and appraisal studies reveal a gap between design and implementation. Although the PMS framework appears complete (goal setting, appraisal, KPIs), implementation in the field is hampered by a lack of feedback, unfairness, bias, and employee resistance (Chishimba & Kazembe, 2026). This indicates that technical design alone is not enough; aspects of organizational culture, appraiser training, and communication determine whether a PMS is perceived as fair or demotivating (Keerthivasan, 2025)

Third, reward studies emphasize that the effectiveness of rewards depends on alignment with employee needs and organizational goals. Financial rewards may boost short-term performance, but long-term engagement is more driven by recognition and career opportunities (Adams, 2025).

Practically, the implications are clear: organizations seeking to improve effectiveness need more than just KPIs and appraisal forms. They must also:

- a. ensure fairness, transparency, and quality of feedback,
- b. train managers as “coaches” rather than simply appraisers,
- c. and integrate the PMS with rewards and career development (Chishimba & Kazembe, 2026; Pandey, 2024).

Thus, the underlying results and discussion suggest that the quality of implementation (not simply the existence of the system) is the key factor distinguishing a PMS that becomes a source of organizational excellence from one that becomes merely an administrative burden.

4. CONCLUSION

These studies collectively demonstrate that an integrated performance management system—including a PMS, KPI measurement, appraisals, and reward systems, plays a central role in improving employee performance and organizational effectiveness (Pandey, 2024).

First, a Performance Management System (PMS) designed with clear objectives, regular feedback mechanisms, fair appraisals, and development opportunities has been shown to be positively correlated with improved employee performance and foster productive work behaviors. However, the effectiveness of a PMS is highly dependent on alignment with strategic objectives and the support of management and employees (Chishimba & Kazembe, 2026a; Pandey, 2024).

Second, KPI measurement and employee performance contribute significantly to organizational effectiveness; 62.3% of the variation in effectiveness is explained by these two variables, underscoring the importance of valid and structured performance measurement (Kushariyadi, 2025).

Third, regular, constructive, and fair performance appraisals increase motivation, satisfaction, and productivity, while also influencing promotions, training, and morale (Keerthivasan, 2025).

Fourth, a holistic reward system—combining financial and non-financial rewards—is a key determinant of employee motivation, commitment, and loyalty, with organizations that implement rewards equitably tending to have high commitment and low turnover (Adams, 2025).

Finally, all findings confirm that the existence of a system alone is not enough; the quality of implementation (fairness, transparency, communication, training, and integration with other HR functions) is a key factor in ensuring that PMS, KPIs, appraisals, and rewards truly lead to improved organizational performance and effectiveness (Chishimba & Kazembe, 2026).

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