

Optimizing Organizational Performance Through a Conversation-Based Performance Management System Approach

Tati Ariaini^{a,*}, Aryana Satrya^a

^{ab}Master of Management, Faculty of Economics and Business, University of Indonesia, Salemba, Jakarta Pusat and 10440, Indonesia

Abstract

This study examines the need for an effective performance management system within organizations. Prior research indicates that such systems significantly enhance business outcomes (Pulakos, Mueller-Hanson & Arad, 2019). O’Kane, McCracken & Brown (2022) introduced a conversation-based performance management model grounded in social exchange theory (SET), suggesting that discussions between supervisors and subordinates foster positive reciprocal relationships. This research aims to analyze the effectiveness of the performance management system implemented by a private trading company in Indonesia. The qualitative study involved semi-structured interviews with the Board of Directors, HRD, Line Managers, and Staff, as well as focus group discussions with Senior Managers. Findings reveal gaps in the system's implementation, notably the absence of feedback processes central to this model. Identified factors contributing to these gaps include goal alignment, feedback frequency, skills development, and formality, alongside environmental factors such as design, development function, buy-in, culture, and linkage with other systems. The study underscores the importance of feedback and explores the system's effectiveness from various perspectives, offering insights that contribute to the literature on performance management systems, particularly conversation-based approaches in private companies in Indonesia.

Keywords: Qualitative, Performance Management System, Social Exchange Theory, Feedback.

Received: 2 March 2024

Revised: 31 May 2024

Accepted: 25 June 2024

1. Introduction

Increasing competition necessitates companies to enhance their performance to remain competitive. Effective performance management systems (PMS) are essential for organizational success, as highlighted by several researchers. Pulakos, Mueller-Hanson & Arad (2019) argue that implementing an effective PMS significantly contributes to extraordinary business achievements. There is a clear relationship between the quality of performance management systems and an organization's competitive performance. Research indicates that many companies suffer from internal systems that are not aligned or integrated with business goals, thus failing to support competitive capabilities through credible human resource development (Al-Jaradi et al., 2023).

Dessler (2017) highlights the importance of measuring employee performance for decisions regarding salary, promotion, and retention. Performance appraisals ensure that employee performance is relevant to achieving overall company goals and facilitate improvement plans, goal setting, and stronger supervisor-subordinate relationships. Armstrong (2018) stresses that organizations must define performance to achieve their goals; without this, performance cannot be measured or managed. Dessler (2017) suggests setting specific, measurable, challenging, and participative performance goals, which leads to better employee performance.

Performance management systems align individual performance with the strategic goals of an organization. Effective performance appraisal fosters positive employee behaviors that align with the organization's strategic goals (Aboubichr & Conway, 2023). Feedback and communication are crucial, with performance discussions between supervisors and subordinates enhancing employee engagement (Ehmann et al., 2023). Aguinis, Gottfredson, and Joo (2012) state that effective performance feedback can enhance employee engagement, motivation, and job satisfaction. O’Kane,

* Corresponding author.

E-mail address: tati.ariaini@gmail.com

McCracken, and Brown (2022) developed a conversation-based performance management model using Social Exchange Theory (SET). Social Exchange Theory (SET), as discussed by Cropanzano & Mitchell (2005) frames performance management within the context of reciprocal supervisor-subordinate relationships, predicting mutual commitment and support.

A 2015 study by the Executive Development Program at Universitas Gadjah Mada revealed significant weaknesses in Trading Co.'s HR management, particularly in invalid, unfair, and unmotivating performance appraisals. This led to low productivity, high turnover, and low job satisfaction among employees. The current study aims to continue this analysis, evaluating improvements in performance appraisal implementation at Trading Co. over the past eight years. It will address how the performance management system at Trading Co. is established, its effectiveness, communication efficacy, and the factors influencing its implementation.

2. Literature Review

Schröder-Hansen & Hansen (2023) emphasize the importance of performance discussions in performance management systems, as implemented by companies like General Electric, Deloitte, Accenture, Gap Inc., Adobe, Microsoft, and IBM. These companies conduct ongoing discussions between managers and employees about performance, with feedback sessions occurring weekly to monthly. Centralized, top-down performance goals are less effective, highlighting the need for dialogue that aligns individual goals with the organization's strategic objectives. Performance dialogue provides positive feedback and enhances employee motivation, ensuring consistency between individual and organizational goals (Schröder-Hansen & Hansen, 2023).

However, formal performance appraisals don't always positively impact organizational performance. Deloitte, for example, spends two million hours annually on performance appraisals with limited results (Pulakos, Mueller-Hanson & Arad, 2019). Formal evaluations can be rigid and disengaging, despite significant investment (Eyoun et al., 2020). Organizations should view performance appraisals as strategic tools for employee development and talent retention (Amstrong, 2018).

This study follows up on a 2015 UGM finding that Trading Co.'s performance appraisal system was invalid, unfair, incomprehensive, and unmotivating, contributing to HR management issues. O'Kane, McCracken & Brown (2022) argue that effective discussions are central to developing conversation-based performance management models, supported by Social Exchange Theory (SET). The model includes four supporting factors (goal alignment, feedback frequency, skills development, and formality) and five environmental factors (design, development function, buy-in, culture, and linkage with other systems) to enhance implementation, see the figure 1.

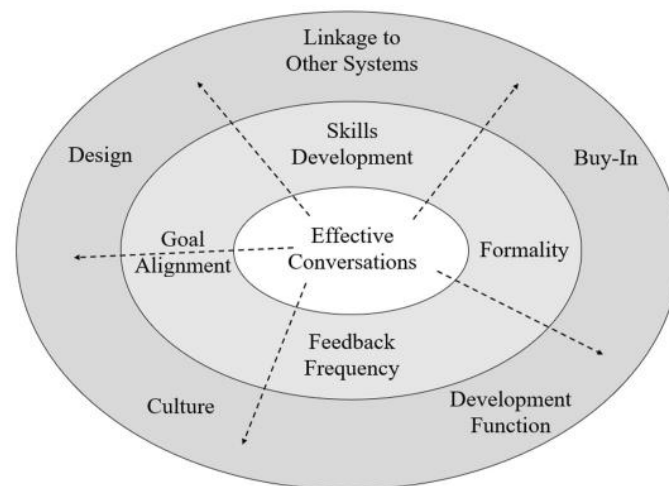


Figure 1. Conversation-based Performance Management System Model

Source: O'Kane, McCracken & Brown (2022)

SET, as described by Cropanzano & Mitchell (2005) involves reciprocal relationships where balanced interactions result in mutual benefits. In performance management, the relationship between supervisor and subordinate must be equitable to ensure effective performance and positive employee attitudes (Broadbent & Laughlin, 2009). Performance

Management Framework provides strategic direction, integrating individual and corporate goals, motivating employees, recognizing individual contributions, and supporting career planning or talent management (Aguinis, 2014).

3. Methods

The researcher adopted a qualitative research design paradigm to provide a deep understanding of the specific situation regarding the performance management system used and to evaluate its effectiveness. This research design follows the qualitative study involving steps: sampling, conducting interviews and FGD regarding the interviewees' experiences with setting goals and targets, designing, implementing, and evaluating effective performance appraisal programs, making written notes and transcriptions, coding by grouping interviewee responses, re-sorting coding results into categories forming patterns, manually analyzing data by color-coding tables, and evaluating results with references (O’Kane, McCracken & Brown, 2022; Bougie & Sekaran, 2020; Creswell & Poth, 2018; Creswell, 2023; Schindler, 2022).

Data collection included in-depth interviews, FGDs, and observations. The interviews aimed to explore and identify initial issues, guiding the researcher in determining factors for further investigation. Interviews were conducted with three different groups:

1. Policy makers (Board of Directors) to understand the strategic role of performance management, with questions based on the Performance Management Framework adapted by (Broadbent & Laughlin, 2009).
2. Performance management administrators (HRD Group) to analyze the performance management methods used at Trading Co., with questions based on the Performance Management System Conversation Model.
3. Users of the performance appraisal system (Line Managers and Staff).

Additionally, FGDs were conducted with a fourth group, Senior Managers, who also use the performance appraisal program.

To ensure validity and reliability, the researchers designed a triangulation method from the outset, selecting appropriate participants and confirming their responses during interviews to avoid misinterpretation. Triangulation included combining various methods, collecting data from diverse participant groups, and comparing findings with key reference. The triangulation strategy employed is summarized in Table 1.

Table 1. Triangulation Method

Model Reference	Data Source	Data Triangulation	Method Triangulation	Theori Triangulation
Performance Management Framework (Broadbent & Laughlin, 2009)	In-depth interview respondent group 1	In-depth interview respondent group 2	Observation, literature study	Amstrong (2018) Aguinis (2014) Dessler (2017)
Conversation-based Performance Management System Model (O’Kane, McCracken & Brown 2022)	In-depth interview respondent group 2	In-depth interview respondent group 3 and FGD respondent group 4	Observation, literature study	Pulakos, Mueller-Hanson, and Arad (2019) Aguinis, Gottfredson, and Joo (2012)

Source: Researcher (2024)

4. Result and Discussions

4.1. Results

The participants discussed performance management from two different perspectives. Group (1) primarily viewed it from an organizational performance perspective, while groups (2), (3), and (4) focused on individual performance. The researcher observed an overlap and interconnection between these perspectives since the overall performance of individuals contributes to organizational performance. Respondents profiles are available in Table 2.

Table 2. Respondents Profiles

No	Position	Gender	Age	Tenure	Education Level
01	President	Male	60	32	Bachelor’s degree
02	Director	Male	44	4	Bachelor’s degree
03	Director	Male	58	30	Bachelor’s degree
04	HRD Advisor	Male	56	5	Master’s degree
05	HRD Manager	Male	50	23	Bachelor’s degree
06	HRD Staff	Female	33	2	Bachelor’s degree
07	Sales Manager	Male	46	18	Bachelor’s degree
08	Support Manager	Female	34	10	Bachelor’s degree
09	Support Staff	Male	40	15	Senior high school
10	Sales Engineer	Male	51	26	Bachelor’s degree
11	Division Manager	Male	43	2	Bachelor’s degree
12	Division Manager	Male	52	28	Bachelor’s degree
13	Division Manager	Male	45	19	Bachelor’s degree
14	Division Manager	Male	43	4	Master’s degree

Source: Researcher (2024)

Figure 2 shows the gender distribution on Trading Co. Respondents by graphic. The gender distribution reveals a male-dominated workforce, with 12 (86%) out of 14 respondents being male and only 2 (14%) females.

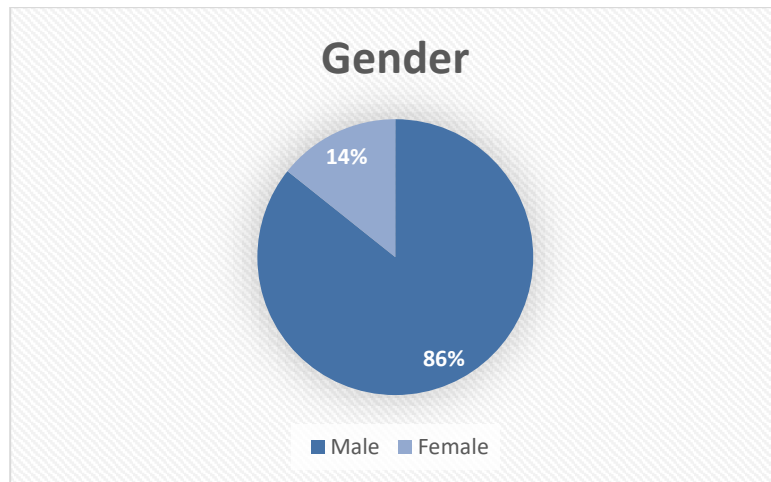


Figure 2. Gender Distribution

Source: Researcher (2024)

Table 3 provides descriptive statistic of age distribution.

Table 3. Age Distribution Statistic

Age Distribution	
Statistic	Value
Count	14
Mean	27.21
Std Dev	43.96
Min	2
First Quartile (25%)	4
Median	17
Third Quartile (75%)	28.5
Max	181

Source: Researcher (2024)

The dataset from Table 3, comprises 14 observations, with a mean value of 27.21 and a median of 17, indicating a slightly skewed distribution. The minimum value is 2, and the maximum is 181, showing a wide range. The first quartile is 4, and the third quartile is 28.5, providing insights into the lower and upper quarters of the data distribution. The standard deviation is 43.96, reflecting significant variability in the data. These statistics collectively illustrate a dataset with considerable spread and notable differences between the lower and upper bounds, indicating a diverse set of observations.

Figure 3, indicates education level of respondents.

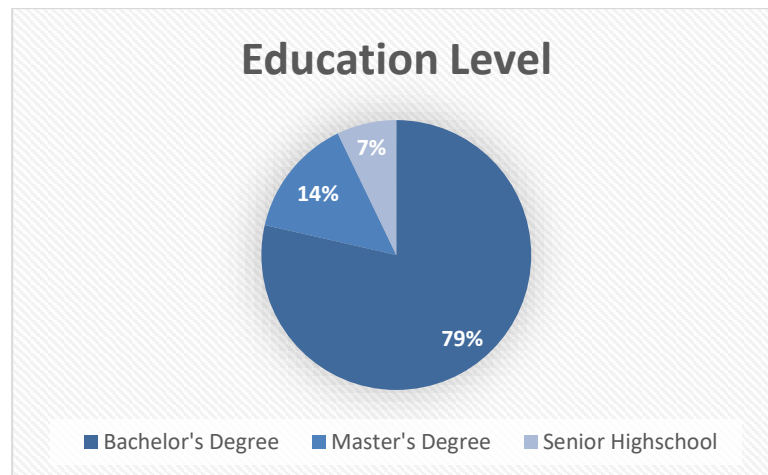


Figure 3. Gender Distribution

Source: Researcher (2024)

The majority of respondents hold a Bachelor's degree, indicating a well-educated workforce. Specifically, 11 (79%) out of 14 respondents have attained this level of education. Two respondents (14%), the HRD Advisor and a Division Manager, have obtained Master's degrees, reflecting higher educational qualifications in these roles. One respondent (7%), a Support Staff member, has a Senior High School education, suggesting diversity in educational backgrounds across different positions.

Initial coding based on the interview transcripts resulted in a thematic map (Figure 4). From the developing analysis, the researcher identified that the performance management system at Trading Co. is represented by two major themes: organizational performance evaluation and individual performance evaluation. These themes further developed into sub-themes:

- a) **Strategic Performance Evaluation** including goals of performance evaluation, performance dimensions, and performance perspectives.
- b) **Functional Performance Evaluation** including performance indicators and performance measurement methods.
- c) **Performance Evaluation Outputs** including feedback and factors influencing effective performance management (applicable only to individual performance evaluation).

These thematic structures provide a comprehensive understanding of how performance management is implemented and shown Figure 4.

4.2. Discussion

4.2.1. Organizational Performance Evaluation

a. Strategic Performance Evaluation

Trading Co. recognizes the contextual factors affecting performance goals, primarily sourced from its business environment, shareholders, principals, and competitors. The performance measurement goals at Trading Co. focus on meeting the expectations of key stakeholders, particularly shareholders, with policies aimed at achieving sales targets.

Performance dimensions are oriented towards outputs from all sub-organizations, as reflected in company performance reports at the Annual General Meeting of Shareholders. While the financial perspective, especially in the Sales Directorate, has clear measurement parameters, other sub-organizational evaluations are mostly numerical descriptions or narrative accounts of work program implementation. Although Trading Co.'s performance dimensions align with its business context, there is room for improvement in measuring other system dimensions such as human resource development. The company's priority is financial performance, directing all sub-organizations to meet sales targets. Individual performance goals are implicitly included within the work unit targets. Explicit individual performance measurement is applied only to sales personnel, whose performance directly impacts target achievement. Organizational performance is measured by Key Performance Indicators (KPI), focusing on financial perspectives, with other perspectives like customer, internal, and development using different data.

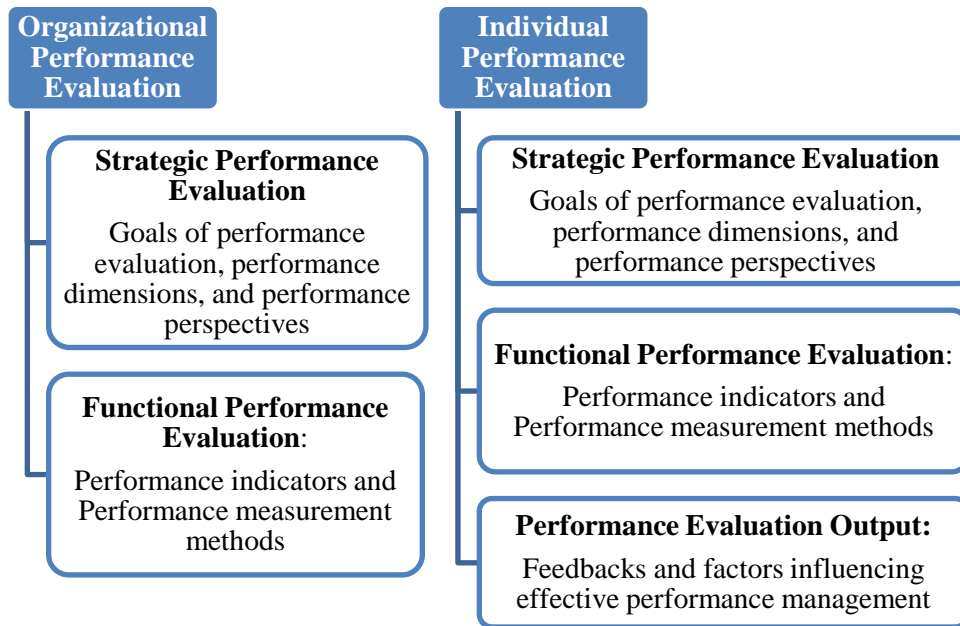


Figure 4. Thematic Map

Source: Researcher (2024)

b. Functional Performance Evaluation

Organizational performance indicators use financial perspectives set in the Annual Budget Meeting and evaluated at the Annual General Meeting Shareholders. Since 2020, Trading Co. has explicitly added administrative and operational aspects. Performance measurement methods include scorecards and dashboards for internal performance monitoring. These tools help convey key performance measures for quick action.

4.2.2. Individual Performance Evaluation

a. Strategic Performance Evaluation

Individual performance measurement at Trading Co. is not fully optimized, currently used mainly for salary and bonus decisions. Performance appraisal (PA) outputs are not integrated with employee development programs, such as promotion and succession decisions influenced by top management. The PA indicators do not adequately identify competency and behavior gaps, failing to address employee development needs. There is a lack of feedback mechanisms in the performance measurement cycle. To address this gap, Trading Co. has introduced additional tools like individual assessments and work presentations. The 270-degree performance appraisal model used is not comprehensive for individual performance indicators, particularly for non-sales employees. Trading Co.'s individual performance considers all balanced scorecard perspectives (financial, customer, internal processes, and innovation/learning), unlike the organizational performance, which emphasizes financial perspectives.

b. Functional Performance Evaluation

Since 2020, Trading Co. has formulated a behavioral competency model and aligning it with company values since 2022. PA is designed for three roles: staff, sales, and supervisors/managers, with sales positions having specific performance indicators linked to sales targets. PA indicators include work performance, maturity, discipline, and loyalty, with discipline having objective parameters. Other indicators are qualitatively assessed, potentially leading to subjectivity. Additional performance information, like customer satisfaction surveys and sales data, provides insights that can prompt feedback for improvement.

4.2.3. Individual Performance Evaluation Outputs

a. Feedback

Trading Co. lacks an orientation towards employee development, with no involvement of employees in setting individual performance goals or feedback mechanisms. PA outputs are not used for employee development programs. The company has no continuous review mechanism throughout the year, leading to performance evaluations that are merely year-end assessments without considering mid-year organizational changes. The absence of recording and documentation tools for performance evaluation undermines objectivity and transparency.

b. Factors Influencing Effective Performance Management

Most respondents recognize the importance of **goal alignment**, but cascading vision, mission, and goals across all positions is incomplete. Short-term financial goals shift focuses to profit-generating functions, with other functions focusing on work program achievement. Trading Co. does not view **feedback frequency** as integral to the performance management system, seeing performance evaluation as a formal ranking activity for management. Annual individual performance appraisal is only a formal activity (**formality**) at the end of the year that does not facilitate two-way communication. Although some managers address performance issues directly, there is no documentation or follow-up. This evaluation is potentially subjective.

User **skill development** in interpreting PA results, providing feedback, and guiding improvements is crucial. Informal activities emphasize two-way performance communication, fostering positive supervisor-subordinate relationships, and allowing ongoing feedback and early problem detection. **Design** issues, like application login difficulties and unclear questions, are common complaints. While PA design is not ideal, Trading Co. is open to improvements and innovation opportunities.

Despite implementing a digital performance appraisal (PA) system in 2021, the system has yet to be fully utilized for employee **development function**, goal alignment, and continuous feedback. The current PA system mainly serves administrative purposes and not **linkage to other systems** (human resource management). Creating **buy-in** at all levels is a significant challenge. Company does not have a organization **culture** that aligns individual behavior with organizational values such as motivating and engaging employees, recognizing individual contributions, and providing a basis for career planning.

5. Conclusions

The qualitative findings reveal several key insights. Trading Co.'s performance evaluation primarily relies on a competency model based on company values. Although the organization recognizes that performance measurement should derive from its vision, mission, values, and business strategy, it has not successfully translated these into individual performance indicators across all roles, currently aligning only with sales positions. Management remains focused on improving financial performance to meet stakeholder needs.

Performance measurement results have not significantly impacted HR management as they are not communicated to relevant parties, including supervisors and employees. Consequently, gaps in past performance cannot be evaluated, nor can future development plans be made. The organization acknowledges that performance appraisal (PA) results should inform compensation and benefit, succession planning, career development, and employee training but are currently only used for salary and bonus decisions.

Despite efforts to enhance the performance measurement system, such as transitioning to digital formats and developing a behavioural competency model, challenges remain in effectively implementing and utilizing performance measurement outcomes. Communication about performance evaluation results, especially providing feedback to employees and making policy decisions based on these results, needs improvement. Every manager should be encouraged to give feedback throughout the year, and top management must recognize feedback as a core part of the

performance evaluation process, not just an annual assessment tool.

Acknowledgements

The main challenge is developing a discussion-based performance management system. Top management has yet to recognize the importance of two-way performance communication as part of ongoing performance evaluation. This is expected to drive positive cultural changes at Trading Co. Enhancements in development functions through optimizing PA results for training, career development, talent management, and succession planning.

Top management's commitment will determine the extent of the performance management system's implementation and encourage line managers to practice transparent performance communication and empower employees. The current performance evaluation process reflects an underdeveloped organizational culture. Management needs to understand that performance evaluation not only reflects but also shapes organizational culture.

This research contributes significantly to the study and practice of performance management systems, especially for organizations still developing competence in performance management. Future research could focus on two groups of employees from different directorates to deepen the understanding of individual and sub-organizational performance perspectives in both sales and non-sales departments.

References

- Aboubichr, B., & Conway, N. (2023). The gaming of performance management systems in British universities. *Human Relations*, 76(4), 602–628. <https://doi.org/10.1177/00187267211052827>
- Aguinis, H. (2014). Performance management. In *Pearson Education Limited*.
- Aguinis, H., Gottfredson, R. K., & Joo, H. (2012). Delivering effective performance feedback: The strengths-based approach. *Business Horizons*, 55(2), 105–111. <https://doi.org/10.1016/j.bushor.2011.10.004>
- Al-Jaradi, M. H., de Waal, A., & Al-Hadramy, A. M. (2023). Increasing competitive performance through effective use of performance management systems. *International Journal of Productivity and Performance Management*, 72(7), 1924–1941. <https://doi.org/10.1108/IJPPM-08-2021-0492>
- Armstrong, M. (2018). *Armstrong's handbook of management an evidence-based guide*.
- Bougie, R., & Sekaran, U. (2020). *Research methods for Business* (Issue 8th edition).
- Broadbent, J., & Laughlin, R. (2009). Performance management systems: A conceptual model. *Management Accounting Research*, 20(4), 283–295. <https://doi.org/10.1016/j.mar.2009.07.004>
- Creswell & Poth, C. N. (2018). *Qualitative Inquiry & Research Design*. In *Sage Publications, Inc*.
- Creswell, J. W. C. & J. D. (2023). *Research Design*. In *Sage Publication*. http://repo.iain-tulungagung.ac.id/5510/5/BAB_2.pdf
- Cropanzano, R., & Mitchell, M. S. (2005). Social exchange theory: An Interdisciplinary review. In *Journal of Management* (Vol. 31, Issue 6, pp. 874–900). <https://doi.org/10.1177/0149206305279602>
- Dessler, G. (2017). Human Resource Management. In *Performance Management and Appraisal*. <https://doi.org/10.4337/9781781950104.00014>
- Ehmann, S., Kampkötter, P., Maier, P., & Yang, P. (2023). Performance management and work engagement – New evidence using longitudinal data. *Management Accounting Research*. <https://doi.org/10.1016/j.mar.2023.100867>
- Eyoun, K., Chen, H., Ayoun, B., & Khelifat, A. (2020). The relationship between purpose of performance appraisal and psychological contract: Generational differences as a moderator. *International Journal of Hospitality Management*, 86. <https://doi.org/10.1016/j.ijhm.2020.102449>
- O'Kane, P., McCracken, M., & Brown, T. (2023). Reframing the performance management system: A Conversations perspective. *Personnel Review*, 52(5), 1579–1596. <https://doi.org/10.1108/PR-07-2021-0492>
- Pulakos, E. D., Mueller-Hanson, R., & Arad, S. (2019a). The Evolution of performance management: Searching for

value. *Annu. Rev. Organ. Psychol. Organ. Behav*, 6, 249–271. <https://doi.org/10.1146/annurev-orgpsych>

Pulakos, E. D., Mueller-Hanson, R., & Arad, S. (2019b). The Evolution of performance management: Searching for value. *Annual Review of Organizational Psychology and Organizational Behavior*, 6(1), 249–271. <https://doi.org/10.1146/annurev-orgpsych-012218-015009>

Schindler, P. (2022). *Business research methods* (Fourteenth). McGraw Hill.

Schrøder-Hansen, K., & Hansen, A. (2023). Performance management trends—reflections on the redesigns big companies have been doing lately. In *International Journal of Productivity and Performance Management* (Vol. 72, Issue 5, pp. 1201–1220). Emerald Publishing. <https://doi.org/10.1108/IJPPM-07-2021-0391>

UGM, E. (2015). *Laporan Akhir Evaluasi dan Redesain Organisasi PT Fajar Mas Murni*.