

Performance Management Systems and Employee Performance in Banking: Examining the Mediating Role of Performance Management System Effectiveness

Rendy Martiandita¹, Wa Ode Zusnita Muizu²

^{1,2}Universitas Padjadjaran, Bandung, Indonesia

Email: waode.zusnita@unpad.ac.id

Abstract

Performance management systems aim to align individual contributions with organizational objectives through goal setting, monitoring, coaching, feedback, evaluation, and development. However, formal implementation does not necessarily ensure system effectiveness or improved employee performance. This study examines the relationships among performance management system implementation, performance management system effectiveness, and employee performance among Consumer Relationship Officers at a bank. A quantitative approach involved 174 Consumer Relationship Officers as respondents and 63 Business Managers as performance evaluators. The officers assessed performance management system implementation and system effectiveness, while the managers independently evaluated employee performance. The proposed relationships were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). Performance management system implementation comprised six stages: prerequisites, performance planning, performance execution, performance assessment, performance review, and performance renewal and recontracting. System effectiveness was measured through fairness, goal clarity, feedback, accuracy, and usefulness, while employee performance encompassed task, adaptive, contextual, and counterproductive work behavior. The results show that performance management system implementation positively and significantly affects both system effectiveness and employee performance. System effectiveness also positively and significantly influences employee performance and provides complementary partial mediation between system implementation and employee performance. These findings highlight the importance of moving beyond procedural compliance by ensuring that performance management practices promote fairness, clarity, credible feedback, accurate information, and practical value, supported by managerial evaluation for a more comprehensive assessment of employee performance.

Keywords: *Performance Management System, Performance Management Effectiveness, Employee Performance, Performance Feedback, Banking Sector.*

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A. INTRODUCTION

In an increasingly dynamic business environment, organizations need to ensure that employee contributions remain aligned with strategic priorities. Performance management has consequently become an important organizational mechanism for directing, monitoring, evaluating, and developing individual contributions toward organizational objectives (Aguinis, 2013; Tsauri, 2014). Unlike traditional performance appraisal, which primarily emphasizes evaluation at a particular point in time, performance management represents a broader and continuous process involving individual performance, leadership, strategic

planning, and organizational objectives (Fletcher, 2001). Aguinis (2013) further conceptualizes performance management as an ongoing cycle through which individual and team performance is identified, measured, developed, and aligned with organizational goals.

Organizations commonly support this process through structured performance measurement mechanisms such as Key Performance Indicators (KPIs) and the Balanced Scorecard (BSC), which facilitate the translation and cascading of organizational strategy into unit- and individual-level performance measures (Kaplan & Norton, 1996). However, the existence of sophisticated performance indicators does not automatically ensure an effective performance management system. Organizational conditions, including employee participation and performance communication, can determine whether multidimensional performance measures function effectively within the broader performance management environment (Pham Van et al., 2020).

This distinction highlights the conceptual difference between Performance Management System (PMS) implementation and Performance Management System Effectiveness (PMSE). PMS implementation concerns whether the stages and practices of performance management are actually carried out, whereas PMSE reflects whether these processes effectively deliver their intended value to employees and the organization. A system may establish targets, conduct assessments, document performance results, and undertake periodic reviews without necessarily being perceived as fair, accurate, useful, or developmentally meaningful. DeNisi and Smith (2014) similarly distinguish performance appraisal from the broader concept of performance management and emphasize its role in connecting individual activities with organizational outcomes. From a systemic perspective, performance management should therefore be viewed as an interconnected set of practices, employee reactions, psychological mechanisms, behavioral responses, and outcomes (Schleicher et al., 2019). Its effectiveness also depends on organizational conditions such as culture, training, recognition, and strategic human resource integration rather than technical practices alone (Haines & St-Onge, 2012).

Accordingly, PMS effectiveness should be evaluated beyond procedural completion. Employee reactions to performance management involve perceptions of accuracy, fairness, usefulness, and satisfaction (Keeping & Levy, 2000). Sharma et al. (2016) particularly emphasize accuracy and fairness, while Makhubela et al. (2016) highlight employee participation, managerial commitment, goal setting, appraisal follow-up, and performance discussions as important elements shaping perceived system effectiveness. Based on these perspectives, this study conceptualizes PMSE through five dimensions: fairness, goal clarity, feedback, accuracy, and usefulness. Fairness concerns equitable procedures, interpersonal treatment, and performance outcomes (Colquitt, 2001) and influences employees' acceptance of appraisal practices (Getnet et al., 2014; Sharma et al., 2016). Goal clarity reflects employees' understanding of expected targets and performance standards and helps direct

attention, effort, persistence, and work strategies toward desired outcomes (Locke & Latham, 2002). Feedback provides information regarding progress and improvement needs, with its effectiveness influenced by source credibility and perceived accuracy (Kinicki et al., 2004). Accuracy reflects the extent to which performance information represents employees' actual contributions (Keeping & Levy, 2000; Sharma et al., 2016), while usefulness concerns whether appraisal information supports employee development and subsequent performance improvement (Boswell & Boudreau, 2000). Collectively, these dimensions represent whether PMS practices provide meaningful managerial and developmental value rather than merely procedural compliance.

Employee performance is likewise broader than quantitative target achievement. Campbell (1990) conceptualizes job performance as a multidimensional behavioral construct, while Borman and Motowidlo (1993) and Campbell et al. (1993) distinguish core task behaviors from contributions to the wider organizational environment. Drawing primarily on Koopmans et al. (2013, 2014), the present study conceptualizes Employee Performance through task performance, adaptive performance, contextual performance, and counterproductive work behavior. Task performance reflects the effective execution of core responsibilities; contextual performance concerns behaviors that support the organizational and interpersonal work environment; adaptive performance captures employees' capacity to respond to changing responsibilities, procedures, technologies, and workplace conditions, consistent with Pulakos et al. (2000); and counterproductive work behavior represents actions that may undermine individual or organizational effectiveness. Rotundo and Sackett (2002) similarly demonstrate the importance of task, citizenship, and counterproductive behaviors in evaluating overall employee performance. This multidimensional approach is particularly appropriate for jobs requiring not only target achievement but also adaptability, cooperation, customer orientation, and behavioral compliance. The multidimensional employee-performance foundations and their original citations are explicitly established in the existing manuscript.

These issues are particularly relevant in banking, where employee performance is simultaneously associated with commercial targets, customer relationships, operational discipline, regulatory requirements, and funding sustainability. This study focuses on Consumer Relationship Officers, internally referred to as Relationship Officer Konsumer (ROK), whose responsibilities include consumer funding activities and maintaining retail customer relationships. The bank implements a Personal Scorecard (PSC)-based performance management system through an internal performance management application that incorporates KPIs, competency assessments, and other performance components, with organizational objectives cascaded into individual targets.

Despite this formal architecture, organizational evidence indicates several issues that may create a gap between PMS implementation and its effective functioning. First, internal documents show differences between individual funding

targets established by the relevant business division and those recorded in the performance management application. While divisional targets include current accounts, savings, and deposits at the individual level, the application places greater individual emphasis on savings, with some other funding components incorporated into consolidated branch targets. Such differences may create uncertainty concerning employee performance priorities, whereas clear and aligned objectives are fundamental to effective performance planning (Aguinis, 2013). Second, monitoring data indicate that coaching activities have tended to occur near the end of quarterly appraisal periods rather than consistently throughout the performance cycle, raising concerns about whether coaching functions as an ongoing developmental mechanism or primarily as an administrative requirement. Previous research emphasizes the importance of guidance and appraisal feedback in helping employees identify performance improvements (Dangol, 2021) and of regular, constructive feedback for effective performance appraisal (Xalxo et al., 2024).

A further concern relates to the integration and consistency of performance information. Internal evidence indicates limitations in integrating ROK performance records from the core banking environment with the performance management application, along with inconsistencies in data entry. These conditions may affect perceptions of the accuracy and objectivity of performance assessments. Preliminary organizational findings also indicate concerns regarding appraisal fairness and objectivity, coaching quality, internal coordination, and clarity of assessment parameters. Such issues are consistent with previous evidence indicating that employee acceptance of performance management practices is influenced by fairness, transparency, accuracy, and feedback quality (Getnet et al., 2014; Sharma et al., 2016; Makhubela et al., 2016).

Previous studies have examined performance appraisal fairness, employee reactions, PMS effectiveness, and the relationships between performance management practices and employee outcomes (Keeping & Levy, 2000; Getnet et al., 2014; Sharma et al., 2016; Makhubela et al., 2016; Awan et al., 2020; Pandey, 2024). Nevertheless, distinguishing PMS implementation from PMS effectiveness remains important for explaining how formal performance management practices are translated into employee performance. A performance management process may be comprehensively implemented without necessarily generating the employee perceptions and behavioral responses required to improve performance. Conversely, when planning, coaching, assessment, and review produce fair processes, clear goals, meaningful feedback, accurate information, and developmental usefulness, employees may be better able to translate performance information into improved work behavior. This reasoning is consistent with Schleicher et al. (2019), who propose that performance management outcomes emerge through interconnected system processes, employee reactions, psychological mechanisms, and behavioral responses.

Accordingly, this study positions PMSE as a mediating mechanism between PMS implementation and Employee Performance. PMS implementation provides

the structural foundation through which employee performance is planned, monitored, assessed, reviewed, and renewed, whereas PMSE reflects how successfully those formal processes provide employees with clarity, fairness, credible feedback, accurate information, and practical value. Conceptually, PMS implementation therefore represents what the organization does, while PMSE reflects how effectively those practices perform their intended functions. This positioning integrates Aguinis's (2013) performance management cycle with an employee-centered understanding of PMS effectiveness and a multidimensional conceptualization of employee performance. It also enables organizations to distinguish whether performance problems originate from weaknesses in implementing the PMS cycle or from weaknesses in how employees experience its functioning.

Against this background, the study examines the relationships among PMS implementation, PMSE, and Employee Performance among Consumer Relationship Officers in the banking sector. Specifically, it investigates the effects of PMS implementation on PMSE and Employee Performance, the effect of PMSE on Employee Performance, and the mediating role of PMSE in the relationship between PMS implementation and Employee Performance. By distinguishing between the implementation and effectiveness of performance management, the study seeks to provide a more comprehensive explanation of how formal performance management practices are translated into employee-level outcomes.

B. METHOD

1. Research Design and Participants

This research adopted a quantitative cross-sectional approach to investigate the associations among the Performance Management System (PMS), Performance Management System Effectiveness (PMSE), and Employee Performance. The proposed framework examined the direct effects among these constructs as well as the mediating effect of PMSE on the relationship between PMS and Employee Performance. Data analysis was conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 4, allowing the measurement and structural models to be examined within an integrated analytical framework.

Data were obtained from two participant groups: Consumer Relationship Officers (Relationship Officer Konsumer/ROK) and Business Managers at the bank. As of June 2026, the population comprised 174 Consumer Relationship Officers, all of whom were included in the study through a census approach. This group was considered relevant because the officers are directly involved in the bank's performance management practices through its internal performance management application and are responsible for consumer banking activities, particularly those associated with third-party fund acquisition. The Consumer Relationship Officers provided information regarding PMS implementation and its effectiveness, while employee performance was independently assessed by their direct supervisors.

Employee performance, however, was not measured through self-assessment. Instead, performance evaluations were obtained from 63 Business Managers who had direct supervisory responsibilities for the participating Consumer Relationship Officers. Each manager assessed the performance of the officers under their supervision based on the employee performance indicators used in this study. This arrangement enabled the research to draw information from different sources for the predictor and outcome constructs, thereby reducing dependence on a single respondent source and strengthening the objectivity of employee performance measurement. Overall, the dataset comprised responses from 174 Consumer Relationship Officers and corresponding performance evaluations provided by 63 Business Managers.

2. Data Collection and Measurement

Primary data were obtained through a structured questionnaire distributed to Consumer Relationship Officers. All constructs were assessed using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). Employee Performance was measured based on respondents' self-reported assessments rather than evaluations provided by their immediate supervisors or objective organizational performance indicators, such as formal KPI achievement, Personal Scorecard results, funding realization, or official performance ratings. Although supervisor-based assessments could provide a more independent evaluation of employee performance and reduce potential self-report bias, such data were not available for the present study. Accordingly, the use of self-assessed performance should be recognized as a methodological limitation and considered when interpreting the findings. Secondary sources, including internal documents, performance management guidelines, performance monitoring records, internal surveys, and corporate reports, were used solely to describe and support the organizational context and were excluded from the empirical hypothesis testing.

Three higher-order constructs formed the research framework. Following the performance management framework developed by Aguinis (2013), PMS captures the implementation of a continuous management cycle that begins with prerequisites and planning, continues through execution, assessment, and review, and concludes with performance renewal and recontracting. These dimensions captured the extent to which performance expectations were established, monitored, evaluated, discussed, and renewed throughout the performance cycle.

PMSE was operationalized through five dimensions: fairness, goal clarity, feedback, accuracy, and usefulness, drawing primarily on Sharma et al. (2016) and Modipane (2019). Fairness represented employees' perceptions of equitable performance management processes and outcomes; goal clarity reflected their understanding of targets, standards, and appraisal criteria; feedback captured the timeliness and developmental quality of performance information; accuracy represented the extent to which appraisal outcomes reflected actual performance

and relevant evidence; and usefulness assessed whether the system contributed to performance improvement, employee development, and clearer work priorities.

Employee Performance was measured through task performance, adaptive performance, contextual performance, and counterproductive work behavior, based on Koopmans et al. (2014), Pradhan and Jena (2017), Rotundo and Sackett (2002), and Pulakos et al. (2000). Task performance captured employees' execution of core responsibilities and customer-related activities. Adaptive performance represented their ability to respond to changes in targets, policies, procedures, and digital systems. Contextual performance reflected cooperation, initiative, and positive workplace relationships. Items representing counterproductive work behavior were positively worded to reduce defensive responses; therefore, higher scores indicated productive use of working time, disciplined data entry, and compliance with work procedures.

3. Data Analysis

Data analysis comprised descriptive statistics and Partial Least Squares Structural Equation Modeling (PLS-SEM) using SmartPLS 4. Descriptive analysis summarized respondent characteristics and responses to the study variables using frequencies, percentages, mean scores, and achievement scores, while PLS-SEM was employed to assess the measurement models and test the hypothesized relationships.

The study applied different hierarchical component specifications. PMS and PMSE were modeled as reflective–formative higher-order constructs, with indicators reflecting their first-order dimensions and these dimensions collectively forming the higher-order constructs. Employee Performance was specified as a reflective–reflective higher-order construct, in which both indicators and first-order dimensions reflect their respective constructs.

Following Hair et al. (2022), reflective measurement models were assessed using indicator reliability, convergent validity ($AVE \geq 0.50$), internal consistency reliability, and discriminant validity. Reliability coefficients above 0.70 were considered satisfactory, while discriminant validity was evaluated primarily using HTMT values below 0.90 (Henseler et al., 2015). These criteria were applied to both levels of the reflective–reflective Employee Performance construct. For the formative higher-order components of PMS and PMSE, collinearity was assessed using VIF, followed by evaluation of the significance and relevance of outer weights and, where necessary, outer loadings and theoretical relevance (Hair et al., 2022; Sarstedt et al., 2019).

After establishing measurement quality, the structural model was evaluated using inner VIF, path coefficients, R^2 , f^2 , and Q^2 . Hypotheses were tested through non-parametric bootstrapping in SmartPLS 4 using path coefficients, t-statistics, p-values, and confidence intervals, with statistical significance determined at the 5% level. The analysis examined the direct effects of PMS on PMSE, PMSE on Employee Performance, and PMS on Employee Performance. The mediating role of PMSE was

assessed through the specific indirect effect and considered significant when $p < 0.05$ and the bootstrapped confidence interval excluded zero.

C. RESULTS AND DISCUSSION

1. Respondent Characteristics

The study involved 174 Consumer Relationship Officers (ROKs) from 63 branches of bank. Female employees represented the majority of respondents (74.14%), while 25.86% were male. More than half of the respondents (54.02%) were over 35 years old, followed by those aged 31–35 years (26.44%), 25–30 years (16.67%), and below 25 years (2.87%). In terms of organizational tenure, 53.45% had worked for bank for more than ten years, 29.31% had between five and ten years of service, and 17.24% had worked for less than five years. Most respondents held a bachelor's degree (85.06%), while diploma and master's degree holders each accounted for 7.47%.

Employee Performance was assessed by 63 direct supervisors, namely Consumer and Retail Business Managers from the participating branches. Most supervisors were male (69.84%), held bachelor's degrees (79.37%), had more than ten years of organizational tenure (93.65%), and were all over 35 years old. This assessment structure provided a source of employee performance information distinct from employees' perceptions of PMS implementation and effectiveness.

Table 1. Respondent Profile

Characteristic	Category	n	%
Gender	Male	45	25.86
	Female	129	74.14
Age	<25 years	5	2.87
	25–30 years	29	16.67
	31–35 years	46	26.44
	>35 years	94	54.02
Organizational tenure	<5 years	30	17.24
	5–10 years	51	29.31
	>10 years	93	53.45
Education	Diploma	13	7.47
	Bachelor's degree	148	85.06
	Master's degree	13	7.47

Source: Survey Data, 2026

Descriptive analysis showed favorable results across all three constructs. PMS was categorized as good (77.33%), PMSE as effective (77.49%), and Employee Performance recorded the highest overall index (82.75%), also categorized as good. Within PMS, Performance Execution achieved the highest score (79.27%), followed by Prerequisites (78.51%), Performance Assessment (78.33%), Performance Renewal and Recontracting (77.78%), Performance Planning (76.28%), and Performance Review (74.43%), which represented the relatively weakest dimension. For PMSE,

Goal Clarity recorded the highest score (80.73%), followed by Feedback and Usefulness (78.54%), Accuracy (77.05%), and Fairness (72.61%), indicating that fairness was the main area requiring improvement.

Employee Performance showed comparatively stronger results, with Counterproductive Work Behavior—measured through positively worded indicators reflecting avoidance of undesirable behavior—achieving the highest score (85.40%), followed by Task Performance (82.61%), Contextual Performance (82.49%), and Adaptive Performance (80.50%).

2. Measurement Model Assessment

The first-order reflective measurement model demonstrated satisfactory psychometric properties. All indicator loadings exceeded the minimum threshold, ranging from 0.747 to 0.907. The lowest loading was observed for an Adaptive Performance indicator (0.747), whereas the highest loading occurred within Performance Renewal and Recontracting (0.907). Consequently, no indicator was removed from the measurement model.

The results provided adequate evidence of convergent validity, as the AVE scores for the first-order constructs ranged between 0.680 and 0.790, all surpassing the minimum criterion of 0.50. The measures also demonstrated acceptable internal consistency. Cronbach's alpha values ranged from 0.812 to 0.868, while rho_A and rho_C ranged from 0.821 to 0.899 and from 0.885 to 0.919, respectively. Thus, all reliability estimates were above the required 0.70 threshold and did not exceed 0.95, suggesting that indicator redundancy was not a concern.

Evidence of discriminant validity was further obtained from the Heterotrait-Monotrait Ratio (HTMT). The HTMT coefficients for the first-order constructs varied between 0.111 and 0.785, with all values falling within the recommended limit. The highest HTMT value (0.785) occurred between Adaptive Performance and Task Performance, indicating that these dimensions were related but remained empirically distinguishable.

Table 2. Summary of Measurement Model Assessment

Assessment	Observed Results	Criterion	Decision
Indicator loadings	0.747–0.907	>0.70	Satisfactory
AVE	0.680–0.790	>0.50	Satisfactory
Cronbach's alpha	0.812–0.868	>0.70	Reliable
rho_A	0.821–0.899	>0.70	Reliable
rho_C	0.885–0.919	0.70–0.95	Reliable
HTMT	0.111–0.785	<0.90	Established

The second-order model further supported the adequacy of the hierarchical constructs. For the formative PMS and PMSE constructs, VIF values ranged between 1.536 and 1.948, indicating no critical collinearity among their dimensions. Among the PMS dimensions, Performance Planning showed the strongest significant relative contribution (weight = 0.490, $t = 2.859$, $p = .004$). For PMSE, significant formative contributions were identified for Fairness (weight = 0.344, $p = .008$), Feedback (weight = 0.281, $p = .030$), and Accuracy (weight = 0.306, $p = .037$). Dimensions with

non-significant outer weights were retained because of their theoretical relevance, acceptable collinearity, and absolute contribution to the higher-order constructs.

Employee Performance, modelled as a reflective-reflective higher-order construct, also demonstrated adequate measurement quality. Its dimensions produced loadings ranging from 0.798 to 0.848, with Cronbach's alpha of 0.841, rho_A of 0.845, rho_C of 0.893, and AVE of 0.677.

3. Structural Model Assessment

The structural model demonstrated moderate explanatory power. PMS explained 41.3% of the variance in PMSE ($R^2 = 0.413$). PMS and PMSE jointly explained 34.6% of the variance in Employee Performance ($R^2 = 0.346$). These values indicate that the model captured a meaningful proportion of variation in the two endogenous constructs while leaving additional variance to factors outside the proposed framework.

Effect-size analysis provided additional evidence regarding the relative contribution of each structural relationship. PMS had a large effect on PMSE ($f^2 = 0.702$). PMSE demonstrated a medium effect on Employee Performance ($f^2 = 0.164$), whereas the direct contribution of PMS to Employee Performance was comparatively small ($f^2 = 0.041$).

Predictive relevance was positive for both endogenous constructs. The Q^2 value was 0.345 for PMSE and 0.200 for Employee Performance, indicating that the model retained predictive relevance for both outcomes. Model-fit indices were also acceptable, with SRMR = 0.049 and NFI = 0.917.

Table 3. Structural Model Assessment

Endogenous Construct/Relationship	R^2	Q^2	f^2	Interpretation
PMS Effectiveness	0.413	0.345	-	Moderate explanatory/predictive capacity
Employee Performance	0.346	0.200	-	Moderate explanatory/predictive capacity
PMS → PMSE	-	-	0.702	Large effect
PMSE → Employee Performance	-	-	0.164	Medium effect
PMS → Employee Performance	-	-	0.041	Small effect

Model fit: SRMR = 0.049; NFI = 0.917

4. Hypothesis Testing and Mediation Analysis

The bootstrapping analysis confirmed the significance of all direct paths specified in the model. The effect of PMS on PMSE was positive and statistically significant ($\beta = 0.502$, $t = 8.941$, $p < .001$), providing support for H1. This finding indicates that more comprehensive implementation of the performance management cycle contributes to greater Performance Management System Effectiveness.

A significant positive effect was also found for PMSE on Employee Performance ($\beta = 0.431$, $t = 6.390$, $p < .001$), confirming H2. Similarly, PMS exerted a positive direct effect on Employee Performance ($\beta = 0.172$, $t = 2.404$, $p = .016$), thereby supporting H3. Comparison of the direct paths shows that the PMS–PMSE relationship produced the largest coefficient, followed by the effect of PMSE on Employee Performance.

The indirect pathway was subsequently examined to determine the mediating role of PMSE. The results showed that PMS significantly influenced Employee Performance through PMSE ($\beta = 0.216$, $t = 4.741$, $p < .001$). Because both the direct effect ($\beta = 0.172$) and the indirect effect ($\beta = 0.216$) were positive and significant, the mediation pattern can be classified as complementary partial mediation.

Overall, PMS produced a total effect of 0.388 on Employee Performance, consisting of a direct contribution of 0.172 and an indirect contribution of 0.216 through PMSE. The indirect pathway represented approximately 55.67% of the total effect. This result indicates that PMSE constitutes an important mechanism through which PMS contributes to Employee Performance, accounting for more than half of the overall effect.

Table 4. Hypothesis Testing Results

Hypothesis	Structural Relationship	β	t-statistic	p-value	Decision
H1	PMS $\rightarrow$ PMSE	0.502	8.941	< 0.001	Supported
H2	PMSE $\rightarrow$ Employee Performance	0.431	6.390	< 0.001	Supported
H3	PMS $\rightarrow$ Employee Performance	0.172	2.404	0.016	Supported
H4	PMS $\rightarrow$ PMSE $\rightarrow$ Employee Performance	0.216	4.741	< 0.001	Supported

Mediation type: Complementary partial mediation

Direct effect: 0.172

Indirect effect: 0.216

Total effect: 0.388

Indirect effect proportion: 55.67%

The empirical model indicates that PMS influences Employee Performance through both direct and indirect pathways, with PMSE serving as a significant mediator. PMS positively influences PMSE ($\beta = 0.502$, $p < .001$), which subsequently affects Employee Performance ($\beta = 0.431$, $p < .001$). PMS also has a significant direct effect on Employee Performance ($\beta = 0.172$, $p = .016$), while its indirect effect through PMSE is larger ($\beta = 0.216$, $p < .001$), indicating complementary partial mediation.

The mediated pathway accounts for 55.67% of the total effect of PMS on Employee Performance, emphasizing PMSE as an important mechanism through which performance management contributes to employee outcomes. The model explains 41.3% of the variance in PMSE and 34.6% in Employee Performance and demonstrates acceptable model fit (SRMR = 0.049; NFI = 0.917). These structural relationships are presented in Figure 1.

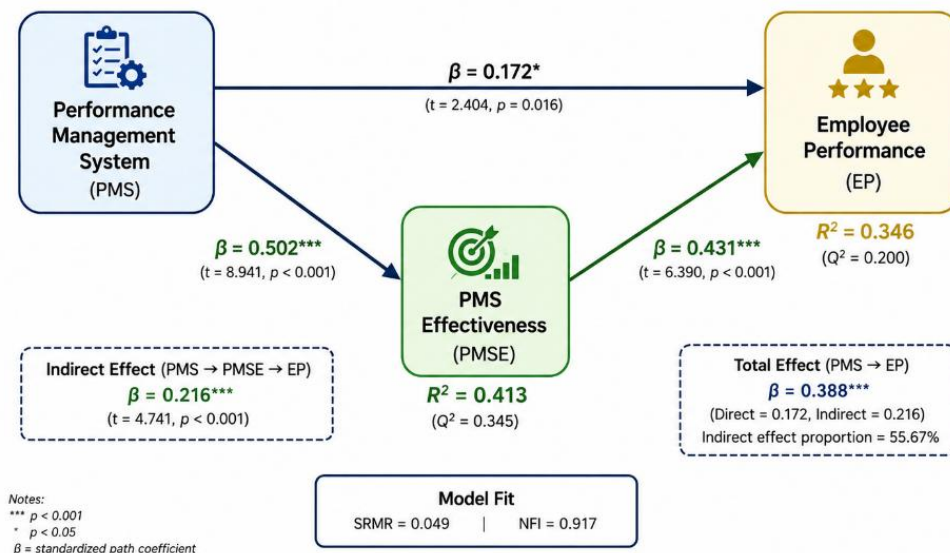


Figure 1. Final Structural Model

The empirical findings confirm the hypothesized relationships among the Performance Management System (PMS), Performance Management System Effectiveness (PMSE), and Employee Performance. All direct relationships were positive and significant, while PMSE significantly mediated the relationship between PMS and Employee Performance. Notably, the indirect effect through PMSE exceeded the direct effect, indicating that the effectiveness of the system represents an important mechanism through which formal performance management practices are translated into improved employee outcomes. Descriptively, PMS and PMSE were positively evaluated, although Performance Review and Fairness received the lowest scores within their respective constructs, indicating areas requiring managerial attention.

PMS had a positive and significant effect on PMSE ($\beta = 0.502, p < .001$), indicating that stronger implementation of performance management practices contributes substantially to system effectiveness. This finding supports Aguinis (2013), who conceptualizes performance management as a continuous cycle encompassing prerequisites, planning, execution, assessment, review, and performance renewal. It is also consistent with the systemic perspective of Schleicher et al. (2019), which emphasizes that PMS effectiveness emerges from interactions among system processes, employee reactions, psychological mechanisms, and behavioral responses. Thus, formal PMS procedures are most effective when their implementation generates positive employee perceptions and supports behaviors consistent with organizational expectations.

The descriptive results reinforce this interpretation. Performance Execution achieved the highest PMS score (79.27%), while Performance Review received the lowest (74.43%), suggesting that execution and monitoring are relatively well established but that greater attention is needed to transform performance reviews into meaningful feedback and developmental dialogue. Within PMSE, Goal Clarity received the highest score (80.73%), consistent with goal-setting theory, which emphasizes that clear goals direct attention, effort, persistence, and appropriate

work strategies (Locke & Latham, 2002). Conversely, Fairness received the lowest PMSE score (72.61%). Because fairness encompasses evaluation procedures, interpersonal treatment, and the information underlying performance decisions (Colquitt, 2001), organizations should ensure that performance standards and appraisal processes are transparent and consistently applied. This is consistent with previous findings linking fairness perceptions with employee acceptance and satisfaction with performance appraisal (Getnet et al., 2014; Sharma et al., 2016)

PMSE had a positive and significant effect on Employee Performance ($\beta = 0.431$, $p < .001$), demonstrating that system effectiveness has meaningful implications for employee behavior. Fairness, goal clarity, feedback, accuracy, and usefulness collectively create conditions that enable employees to understand expectations, evaluate their progress, identify performance gaps, and translate performance information into appropriate work-related actions.

This finding is consistent with Sharma et al. (2016), who emphasize employees' evaluations of PMS effectiveness, and Keeping and Levy (2000), who identify fairness, accuracy, usefulness, and satisfaction as important influences on employee responses to performance appraisal. Feedback is particularly relevant because its credibility and perceived accuracy influence how employees respond to performance information (Kinicki et al., 2004). Accordingly, performance information is more likely to stimulate behavioral improvement when employees perceive it as reliable, constructive, and relevant to their development.

The favorable overall Employee Performance result (82.75%) also supports a multidimensional understanding of individual work performance encompassing task, adaptive, contextual, and counterproductive work behavior (Koopmans et al., 2013, 2014). For Consumer Relationship Officers, effective performance therefore extends beyond achieving customer and funding targets to include adaptability to changing policies and digital systems, collaboration, initiative, and avoidance of behaviors that may interfere with organizational objectives.

PMS also had a positive direct effect on Employee Performance ($\beta = 0.172$, $p = .016$), although the relatively small effect size indicates that formal PMS implementation alone may have limited influence on employee behavior. A structured PMS can contribute to performance by clarifying responsibilities, establishing targets, monitoring progress, and evaluating outcomes, consistent with previous evidence linking performance management practices with employee outcomes (Awan et al., 2020; Pandey, 2024).

However, completing performance planning, coaching, appraisal, and review does not automatically generate substantial performance improvements. These activities are more likely to influence employee behavior when they provide clarity, fairness, reliable information, constructive feedback, and developmental value. This distinction reinforces the conceptual separation between PMS implementation as what the organization does and PMS effectiveness as how well those practices fulfill their intended functions.

The principal contribution of this study lies in demonstrating the mediating role of PMSE between PMS and Employee Performance. The indirect effect was positive and significant ($\beta = 0.216$, $p < .001$) and exceeded the direct effect ($\beta = 0.172$, $p = .016$), indicating complementary partial mediation. PMSE accounted for approximately 55.67% of the total PMS effect on Employee Performance, demonstrating that a substantial proportion of the influence of performance management is transmitted through system effectiveness.

This finding supports Schleicher et al. (2019), who propose that performance management practices influence outcomes through intermediate employee reactions and behavioral mechanisms. PMS establishes the formal architecture for planning, execution, assessment, review, and renewal, but these processes are more likely to generate stronger employee performance when they produce clear goals, fair processes, credible feedback, accurate information, and useful developmental guidance. PMSE can therefore be understood not merely as an outcome of PMS implementation but as a transmission mechanism linking formal performance management practices to individual performance.

This mechanism is particularly relevant for Consumer Relationship Officers, who operate under measurable commercial targets while simultaneously managing customer relationships, responding to changing market conditions, complying with procedures, and adapting to digital work systems. Performance management in such settings should therefore function not merely as a periodic scoring process but as a mechanism that provides direction, credible performance information, and continuous developmental support

D. CONCLUSIONS

This study examined the relationships among the Performance Management System (PMS), Performance Management System Effectiveness (PMSE), and Employee Performance among Consumer Relationship Officers at bank bjb. The findings demonstrate that PMS is positively associated with both PMSE and Employee Performance, while PMSE also positively influences Employee Performance. Importantly, PMSE plays a mediating role in this relationship: the indirect effect of PMS on Employee Performance through PMSE ($\beta = 0.216$, $p < .001$) was greater than the direct effect ($\beta = 0.172$, $p = .016$), representing approximately 55.67% of the total effect. This complementary partial mediation indicates that performance management contributes to employee performance not only through its formal implementation but, more importantly, through how effectively the system provides fairness, goal clarity, credible feedback, accurate information, and practical value.

The findings reinforce the conceptual distinction between implementing a PMS and ensuring its effectiveness. Although PMS and PMSE were generally evaluated positively, Performance Review and Fairness emerged as the lowest-rated dimensions, indicating opportunities for improvement. Managerially, organizations should therefore move beyond procedural completion by strengthening

developmental performance reviews, ensuring transparent and consistent appraisal practices, aligning individual and organizational targets, and improving the reliability of performance information. Theoretically, the study contributes to performance management research by positioning PMSE as an explanatory mechanism through which formal PMS practices are translated into individual work performance.

The study is limited to Consumer Relationship Officers within a single banking organization and employs a cross-sectional design. Future research should examine other employee groups, organizations, and industries, adopt longitudinal designs, and consider additional determinants such as leadership, competence, motivation, organizational support, workload, and market conditions to provide a broader understanding of sustainable employee performance.

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