



## Exploring the Relationship Between Performance Management and Employee Motivation: Case Study of Serbian Railways

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### ABSTRACT

**Purpose** - It aims to emphasize the importance of effective performance management practices in today's competitive business landscape, highlighting how they contribute to organizational success through enhanced employee motivation, engagement, and productivity.

**Aims(s)** -The aim of this paper is to investigate various aspects of performance management, focusing on goal setting, feedback mechanisms, performance appraisals, recognition, and coaching. By examining the relationship between performance management and employee motivation, the paper aims to provide insights for organizations to design strategies that foster a motivated workforce and drive performance.

**Design/methodology/approach** - it examines real-world examples and best practices to illustrate how organizations can implement these strategies to enhance employee motivation and ultimately achieve organizational success.

**Findings** - The findings underscore the significance of goal setting within performance management, highlighting that specific and challenging goals increase employee motivation and performance levels. Moreover, performance management systems that emphasize goal alignment and regular feedback are found to further enhance motivation.

**Limitations of the study** - Despite the comprehensive review of literature and empirical evidence, this paper acknowledges several limitations. Firstly, the findings are primarily based on existing research and may not encompass all possible perspectives or developments in the field of performance management and employee motivation.

**Originality/value** - This paper contributes to the existing body of knowledge by synthesizing various theories and empirical evidence on performance management and employee motivation. It provides a comprehensive overview of key components of effective performance management practices and their impact on employee motivation and organizational success.

### KEY WORDS

performance management, motivation, employees, case study, railways

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## 1 INTRODUCTION

Performance management stands as a pivotal organizational process aimed at harmonizing employee performance with strategic goals and objectives. It encompasses an array of activities including goal setting, performance appraisal, feedback mechanisms, recognition programs, and employee development initiatives. In today's dynamic and fiercely competitive business landscape, effective performance management practices have become imperative for organizational success. Businesses strive to optimize employee performance to ensure it significantly contributes to overarching organizational achievements. Motivated employees form the cornerstone of organizational triumph, showcasing heightened levels of engagement, productivity, and commitment. Motivated individuals tend to surpass their job descriptions, exhibiting initiative, and a propensity for learning and advancement.

Consequently, organizations witness elevated performance levels, foster innovation, and ensure enhanced customer satisfaction. Recognizing the paramount importance of employee motivation, organizations delve into understanding the underlying factors driving motivation and how performance management practices can catalyze and perpetuate it.

This literature review undertakes an exploration of the nexus between performance management and employee motivation, dissecting pivotal findings and discernible trends spanning from 2015 to 2023. Over this period, researchers have meticulously scrutinized the ramifications of performance management practices on employee motivation, unveiling cogent patterns and insights that underscore the seminal role of performance management in shaping employee motivation. Studies such as Meyer, Stanley, and Parfyonova (2020) have provided critical reviews, theoretical frameworks, and research agendas on employee commitment and well-being, shedding light on the multifaceted nature of motivation in the workplace.

Goal setting is a fundamental aspect of performance management that influences employee motivation. Research by Deery, Jago, and Rasmussen (2021) has shown that specific and challenging goals increase motivation and performance levels. When employees have clear goals aligned with organizational objectives, they are more likely to feel motivated and engaged. Performance management systems that emphasize goal alignment and provide regular feedback further enhance employee motivation (Mone & London, 2018).

Performance appraisals serve as a formal mechanism for evaluating employees' work performance and identifying areas for improvement. Fair and transparent appraisals are crucial for maintaining employees' motivation levels (Denisi & Smith, 2014). Studies by Zhao et al. (2022) have highlighted the impact of high-performance work systems, ethical leadership, and psychological safety on employee engagement, emphasizing the importance of creating a supportive work environment for motivating employees. Employees value feedback on their performance, as it helps them understand their strengths and areas for development. Additionally, recognition and rewards for high performance have been found to enhance motivation and job satisfaction (Gomez-Mejia et al., 2016). Monetary incentives, promotions, and public acknowledgment are common forms of recognition that reinforce employees' motivation and commitment.

Regular feedback and coaching are integral components of performance management that contribute to employees' motivation and development. Constructive feedback helps employees understand expectations, improve performance, and fosters a sense of competence. Coaching, on the other hand, provides guidance and support for professional growth and skill enhancement (Grant et al., 2019). Both feedback and coaching facilitate a continuous learning environment, promoting employees' motivation and engagement.

Employee participation and involvement in the performance management process are also crucial for enhancing motivation. Studies by Kooij, Tims, and Akkermans (2020) have emphasized the influence of future time perspective on work engagement and job performance, highlighting the importance of job crafting in enhancing motivation. When employees have the opportunity to participate in goal setting, self-assessment, and decision-making, they experience a sense of ownership and empowerment (Pulakos et al., 2015). This involvement fosters a positive work environment and strengthens employees' commitment and motivation to achieve organizational goals. When employees perceive their voices are heard and their contributions valued, they exhibit higher levels of motivation and engagement (Kim et al., 2018).

In conclusion, performance management is a critical organizational process that aligns employee performance with strategic goals and objectives. Effective performance management practices, informed by research and empirical evidence, significantly impact employee motivation. Understanding the relationship between performance management and motivation allows organizations to design and implement strategies that nurture employee engagement and drive performance, leading to organizational success.

The relationship between performance management practices and job satisfaction has also been widely examined. Studies indicate that when performance management systems are perceived as fair, transparent, and aligned with employee capabilities, job satisfaction increases (Cerasoli et al., 2017). Clear performance standards, growth opportunities, and adequate recognition contribute to higher job satisfaction levels (Pulakos et al., 2015). Job satisfaction, in turn, positively influences employee motivation and performance.

In conclusion, performance management is a critical organizational process that aligns employee performance with strategic goals and objectives. It encompasses various activities such as goal setting, performance appraisal, feedback, recognition, and development. Motivated employees are vital for organizational success as they exhibit higher levels of engagement, productivity, and commitment.

This literature review has explored the relationship between performance management and employees' motivation, focusing on key findings and trends from 2015 to 2023. The research conducted during this period has shed light on the significant role of performance management in shaping employee motivation.

Effective goal setting has been identified as a fundamental aspect of performance management that influences employee motivation. Specific and challenging goals have been found to increase motivation and performance levels (Locke & Latham, 2019). When employees have clear goals aligned with organizational objectives, they are more likely to feel motivated and engaged. Performance management systems that emphasize goal alignment and provide regular feedback further enhance employee motivation (Mone & London, 2018).

Performance appraisals play a crucial role in evaluating employees' work performance and identifying areas for improvement. Fair and transparent appraisals are essential for maintaining employees' motivation levels (Denisi & Smith, 2014). Feedback provided during performance appraisals helps employees understand their strengths and areas for development, contributing to their motivation. Moreover, recognition and rewards for high performance have been found to enhance motivation and job satisfaction (Gomez-Mejia et al., 2016). Recognizing and appreciating employees' achievements through monetary incentives, promotions, or public acknowledgment reinforces their motivation and commitment.

Regular feedback and coaching are integral components of performance management that contribute to employees' motivation and development. Constructive feedback helps employees understand expectations, improve performance, and fosters a sense of competence (Kluger & DeNisi, 2019). Coaching provides guidance and support for professional growth and skill enhancement, further promoting employee motivation (Grant et al., 2019). Creating a culture of continuous learning through feedback and coaching enhances employees' motivation and engagement.

Employee participation and involvement in the performance management process also have a significant impact on motivation. When employees are given opportunities to participate in goal setting, self-assessment, and decision-making, they experience a sense of ownership and empowerment (Pulakos et al., 2015). This involvement fosters a positive work environment and strengthens employees' commitment and motivation to achieve organizational goals. When employees perceive their voices are heard and their contributions valued, they exhibit higher levels of motivation and engagement (Kim et al., 2018).

The relationship between performance management practices and job satisfaction has been extensively studied. Research indicates that when performance management systems are perceived as fair, transparent, and aligned with employee capabilities, job satisfaction increases (Cerasoli et al., 2017). Clear performance standards, growth opportunities, and adequate recognition contribute to higher job satisfaction levels (Pulakos et al., 2015). Job satisfaction, in turn, positively influences employee motivation and performance.

In conclusion, performance management is a critical organizational process that aligns employee performance with strategic goals and objectives. Effective performance management practices, including goal setting, performance appraisal, feedback, recognition, and employee involvement, significantly impact employee motivation. Understanding the relationship between performance management and motivation allows organizations to design and implement strategies that nurture employee engagement and drive performance, leading to organizational success.

## 2 METHODOLOGY

The paper methodology is based on the European Skills, Competences, Qualifications and Occupations approach on how to measure Human Resource competences (ESCO, n.a.) For the purpose of the study, the online survey was conducted for 3 months during the period 2019-2021 among employees from Serbian railways. There are numerous key performance indicators that can be used for measurement of HR management process efficiency, or HR approach suitability. The goal is to choose such combination of indicators that will adequately present as-is situation and enable employer to determine reasons for

potential discrepancy. The most important presumptions are that representative indicators are used and that the proper set of HR data is analysed.

Comprehensive analysis should be performed in the initial phase and it should encompass the following groups of indicators:

- Motivation indicators
- Recruitment and selection indicators
- Basic salary ratios
- Effectiveness of work
- Employee development

All of the above should be in details analysed within HR department. Findings, together with all observed risks and proposed mitigation measures are to be presented to the management team. The initial data is periodically used to demonstrate difference between periods and increase/decline of the indicator values.

## 2.1 MOTIVATION OF EMPLOYEES AND MOTIVATION INDICATORS

Motivation measures applied to employees should be financially considered through total amount invested in someone's salary, incentive, training, improvement, development of communication and loyalty. This should be monitored by individuals, and it is necessary to separately monitor how much was invested in individuals who asked for termination of employment. Every unwanted leave of an employee represents cost for the employer and this is obviously due to the money and time which will be dedicated to finding adequate person for the job and training which this person will need. It is estimated that the cost of replacement of an employee who left the company ranges between 3 and 6 monthly gross salaries, and in some cases (where, due to the nature of the job, great investments are required for training and qualification of the employee) cost can be significantly higher. Employers who invest more in the employees and in their development reduce the possibility that employee will leave, and, on the other hand, increase the potential loss in case that someone who was invested in leaves the company. Period which employee spends working with the employer is one of the indicators, thereafter churn rate is also used, as well as structure of employees who "left" the company, dedication and satisfaction of employees. All these indicators are to be observed, analyzed and presented to the company management by the organizational segment in charge of human resources management.

## 3 RESULTS AND DISCUSSION

If employee turnover indicators have high values and if the average employee tenure (on certain positions or in certain organizational segments) is short, this is a signal to the employer that there are causes of dissatisfaction. Simple indicators cannot identify the causes, nor can they be used to design quality measures to retain the employees, hence employee motivation and satisfaction indicators are considered as well. These are indicators which require complex calculation and large number of activities in case that their values indicate the need for corrective action. Here below is the overview of indicators whereof analysis leads to identification of causes of dissatisfaction and from which proposed measures the employer should apply may ensue.

Table 1. Key performance indicators

1. Lifetime of the employment	Lifetime of the employment (average)
2. Employee churn	Employee churn is the overall turnover in an organization's staff as existing employees leave and new ones are hired.
3. Employee Satisfaction Index	The Employee Satisfaction Index is an indicator of how satisfied the employees are with their workplace (and/or work if the questions are rephrased or added). Depending on the strategic goals, in more complex surveys it may include measures such as career advancement satisfaction, training satisfaction, company culture, remuneration, specific working conditions...

4. Employee Engagement Index	The Employee Engagement Index is an indicator of how dedicated employees are to their daily work.
5. Effectives of the media	Effectives of the media(s) used to publish vacancy notice
6. Time to Hire	Time to Hire is a recruitment indicator that shows how long it takes to fill vacant posts.
7. Indicator of fair pay	Indicator of fair pay.
8. A measure of how competitive the current salary the company offers for specific jobs.	A measure of how competitive the current salary the company offers for specific jobs.
9. Human Capital Value Added	10. Financial value (profit) an average employee brings to the organization.
11. Revenue per Employee	Ratio of productivity
12. Time loss due to accidents or injuries	Indicator of safety in the operational environment and indicates the risks of accidents.
13. Performance review completion rate	Goal value of this indicator should be 100% and the idea is that all employees should receive feedback for their work. Indirectly it reflects part of organizational culture valuing feedback and appraisal.
14. Training Return on Investment	Training Return on Investment is a measure of training effectiveness. It measures the return a company gets from providing training.
15. Absenteeism Bradford Factor	Absenteeism Bradford Factor is a measure of the level of unplanned employee absence from work.
16. Diversity Index	Non-discrimination policy and approach. Values of the organization and respecting Law.

*Source: own elaboration based on ESCO (European skills, competences, qualifications and occupations)*

The survey questionnaire is usually sent and filled electronically. Since it is not recommendable to ask similar type of questions frequently (it won't be popular among the employees) employers usually conduct more complex surveys on 3 years basis, and answers provided to 3 particular questions are used to calculate Employee Satisfaction Index. Basic index calculation won't provide any answers on reasons of dissatisfaction since this index indicates possible issues, but it doesn't clarify reasons.

Other forms of surveys, combining closed and open format questions, can also be distributed in written format and left in special boxes (to keep it anonymous), but if the data is collected in written form additional statistical analysis of the questionnaire is required.

It is important to note that survey questionnaires require serious analysis, feedback and action. If employer receives the information from the employees, this should be addressed. Also, employees should receive clear feedback if something is improved or resolved, or a feedback that it is not possible to react. All of this is equally important, and if there is no willingness to take any measures, it is better not to conduct satisfaction surveys. Lack of reaction on survey results can negatively influence the overall motivation, and future response rates.

Recruitment and selection are the initial step of all processes indirectly or directly related to human resources management. The text here below addresses several indicators through which the employer may notice regularities and develop proper measures if reaction is needed. Note that recruitment of staff is highly influenced by market and demographic situation, and that the employer can only work on increasing the level of organizational culture and promotion among the members of population he regards as prospective employees. This work requires strong efforts and dedication, and results are visible only on the long run.

Although the market situation is currently favourable for employers, when selecting the key engineering staff, there is a problem of competition with foreign companies which offer financially more attractive packages for experienced employees.

Cooperation with schools and universities, provision of large number of certifications and professional trainings because of which the candidates for whom this is the first employment could be most interested in this system. On the long-run, it is possible to provide various development programs etc.

Recruitment success indicators will be clearly and numerically presented through the evaluation of performance of new employees. This indicator can be considered only when we will have grades for the period of at least 3 years (because individual's potential for learning and advancement will be expressed

during such period). Some measures of satisfaction of new employees with the company and the specific job they perform should be taken into account.

Indicators whereby salary is analyzed are usually considered as basic indicators. They are easy to calculate, data are available and comparable with market data. It is common for the employer to consider these indicators at least once a year (before budgeting).

Effectiveness of work is a combination of ratios gained from the available HR and financial data. Since this metric is precise, the data is known and available it is useful to consider it together with periodical financial reports.

One of the indicators in this group is Time lost to accidents and injuries and it can be easily converted in financial value. It is necessary to point out that HSE processes are key support processes and that the goal is gaining absolute level of HSE dedication and protection.

Problems the employer is facing are common for our market currently. In fact, there is a tendency that a number of young and highly educated employees wish to leave the employer, mostly with the intention to leave the country or start working for an international employer. This increases the employee turnover and makes talent retention difficult. On the other hand, there is a large number of qualified beginners on the market, so the employer can choose the best. Absolute solution to this problem does not exist and the best strategies applied include major work with talents, dedication to this aim and accepting that some turnover/churn is healthy for all organizations.

We separately refer to the KPI which are typical and can be used to measure success in talent management.

Training efficiency and performance management require special analysis. Performance management and training efficiency are cornerstones of the Talent Management approach. All of this significantly influences employee satisfaction rates. Additionally, one of the absenteeism indicators and simplest indicator of organizational culture (diversity) are presented for further application.

First of all, it is necessary to emphasize that, on the global market, companies are striving to shift from the annual evaluation system to permanent monitoring, more frequent interviews with employees and provision of feedback on the work as soon as possible (not only periodically). These postulates are based on the fact that feedback on work should be timely, specific and realistic. By this we only wish to emphasize once again the general importance of evaluation of performance for individuals and the company. In the systems where periodical evaluation is used, it is necessary to monitor the number of completed templates and to strive that it reaches 100%. In order to ensure that everyone is evaluated, it is necessary to link the performance evaluation with awarding, advancement and professional development, and, in addition, it is preferred to set to the assessors one managerial goal which includes provision of feedback on work and employee career leading.

Besides the training return of investment effectiveness and quality of training should be regularly measured and included in training methodology (Vassilev & Velinov, 2017).

As training of employees is long-lasting and cost-intensive category, this requires analytical and dedicated approach and monitoring of all steps of professional training cycle.

In general, effects of return of this type of assets are measured through advancement of employees whereof development is invested in, thereafter through successful retaining of such employees within the company and through increase in the overall level of knowledge and skills which facilitate the working process or increase efficiency.

**Average Employee Tenure:** This KPI measures the average length of time employees stay with the organization. In 2020, there was a slight increase in employee tenure compared to 2019, indicating a higher level of employee retention. However, in 2021, there was a decrease, suggesting a potential need for strategies to improve employee retention.

**Employee Churn Rate:** This indicator represents the percentage of employees who leave the organization within a specific period. In 2020, there was a significant increase in the churn rate, indicating a higher turnover of employees compared to the previous year. The further increase in 2021 suggests a continued challenge in retaining talent (Hom, P. W., Mitchell, T. R., Lee, T. W., & Griffeth, 2012).

**Employee Satisfaction Index:** This KPI measures employee satisfaction levels within the organization. Unfortunately, specific data for 2019, 2020, and 2021 is not provided. However, tracking employee satisfaction is crucial as it can impact productivity, morale, and overall organizational performance.

**Employee Engagement Index:** Similar to the Employee Satisfaction Index, no specific data is provided for this indicator. However, measuring and improving employee engagement is important as it correlates with higher levels of productivity, innovation, and employee well-being.

**Average Application to Open Posts:** This KPI evaluates the number of applications received per open position. Without specific data, it is challenging to assess the organization’s recruitment efficiency. However, tracking this indicator helps to understand the attractiveness of the organization to potential candidates (Hausknecht, J. P., Day, D. V., & Thomas, 2004).

**Time to Hire:** This indicator measures the number of days it takes to fill open positions. Unfortunately, no data is provided, making it difficult to evaluate the organization’s efficiency in recruitment and selection processes. A shorter time to hire generally indicates a more streamlined recruitment process.

**Manager to Employee Pay Ratio:** This KPI compares the average pay of managers to that of employees. While no data is provided, monitoring this ratio is important to ensure fairness and equity in compensation structures.

**Salary Competitiveness:** This indicator assesses the organization’s salary competitiveness in relation to the market. An 85% value indicates that the organization’s salaries are at 85% of the market average. Monitoring salary competitiveness helps attract and retain top talent.

**Human Capital Value Added (HCVA):** HCVA measures the value created by the organization through its employees. The increasing trend in HCVA from 2019 to 2021 suggests improved effectiveness in utilizing human capital to generate value for the organization.

**Revenue per Employee (RPE):** This KPI calculates the organization’s revenue generated per employee. The increasing trend in RPE indicates improved productivity or revenue generation capacity per employee over the years.

**Time Lost to Accidents or Injuries:** Unfortunately, no data is provided for this indicator. Monitoring and reducing the time lost to accidents or injuries is crucial for maintaining a safe and healthy work environment.

**Performance Review Completion Ratio:** This KPI assesses the percentage of employees who have completed their performance reviews. Without specific data, it is challenging to determine the completion rate. However, ensuring high completion rates can facilitate ongoing feedback and development.

**Training Return on Investment:** This indicator measures the return on investment from training programs. The increasing trend in training ROI suggests that the organization has achieved higher returns from its training initiatives over time (Phillips & Phillips, 2002).

**Absenteeism Bradford Factor:** No specific data is provided for this indicator. However, tracking absenteeism rates using the Bradford Factor can help identify patterns and address potential issues related to employee attendance.

**Diversity Index:** This KPI measures the level of diversity within the organization. The increasing trend in the Diversity Index indicates a growing diversity in the workforce. Embracing diversity is crucial for fostering innovation, creativity, and a positive work environment (Tsui, Egan, & O'Reilly, 1992).

Table 2: KPI Calculations

	Employee motivation and motivation indicators		2019	2020	2021
KPI 1	Average Employee Tenure	%	0.00%	0.28%	0.05%
KPI 2	Employee Chun Rate	%	-	22.14%	27.17%
KPI 3	Employee satisfaction Index				
KPI 4	Employee engagement index				
KPI 5	Recruitment and selection efficiency indicators				
<b>Average application to open posts</b>					
KPI 6	Time to hire	N of days			
	Basic salary ratio				
KPI 7	Manager to employee pay ratio				
KPI 8	Salary competitiveness	Relation	-	-	85%
<b>Effectiveness of work</b>					
KPI 9	Human Capital Value Added (HCVA)	RSD	461	1,147	1,348

KPI 10	Revenue per employee (RPE)	RSD	938	1,693	2,252
KPI 11	Time lost to accidents or injuries				
<b>Other HR process efficiency Indicators</b>					
KPI 12	Performance review completion ration				
KPI 13	Training return on investment	RSD	-	5,098,500	8,992,000
KPI 14	Absenteeism Bradford factor				
KPI 15	Diversity Index	%	14.63 %	15.36%	16.06%

RSD- Serbian currency  
Source: own elaboration

## 4 CONCLUSION

Performance management and employee motivation are integral components of organizational success, particularly evident within the context of the Serbian Railways. Through the analysis of various key performance indicators (KPIs) spanning from 2019 to 2021, this case study has provided valuable insights into the dynamics of performance management practices and their impact on employee motivation within the organization.

The findings reveal a nuanced picture of employee engagement and satisfaction levels within the Serbian Railways. Despite facing challenges such as increased employee turnover and competition for talent, there are notable areas of strength and improvement. Notably, the organization has witnessed a slight increase in employee tenure in 2020, indicating improved retention efforts. However, the subsequent decrease in 2021 underscores the need for continuous strategies to enhance employee retention and satisfaction.

The analysis of KPIs related to recruitment and selection processes highlights the importance of attracting and retaining top talent. While specific data on application rates and time to hire are not provided, monitoring these indicators is crucial for evaluating the efficiency of recruitment efforts. Moreover, ensuring fairness and equity in compensation structures, as indicated by the manager to employee pay ratio and salary competitiveness, is essential for maintaining employee morale and engagement.

Human capital metrics, such as Human Capital Value Added (HCVA) and Revenue per Employee (RPE), demonstrate the organization's effectiveness in leveraging its workforce to generate value and productivity. The increasing trend in HCVA suggests improved utilization of human capital resources, while the rising RPE indicates enhanced revenue generation capacity per employee over time.

Furthermore, the analysis of performance review completion ratio and training return on investment underscores the importance of ongoing feedback, development, and learning opportunities for employees. High completion rates in performance reviews facilitate continuous improvement and goal alignment, while increasing training ROI signifies the organization's commitment to enhancing employee skills and capabilities.

Despite the lack of specific data on absenteeism rates and diversity index, it is imperative for the Serbian Railways to monitor these indicators closely. Addressing absenteeism issues and fostering diversity and inclusion are essential for creating a positive work environment conducive to employee engagement and satisfaction.

In conclusion, this case study underscores the intricate relationship between performance management practices and employee motivation within the Serbian Railways. By leveraging insights from key performance indicators, the organization can formulate targeted strategies to enhance performance management effectiveness, foster employee motivation, and ultimately drive organizational success in the dynamic railway industry landscape.

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