Factors of Performance Management System and Work Motivation on Employee Engagement through Employee Performance as a Mediation Variable

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ABSTRACT

This study aimed to identify Performance Management System (PMS), work motivation, and employee performance factors through employee engagement as mediation. Measuring the value of each performance achievement using the PLS SEM method. The research was conducted from March to April 2023. The data collected in this study were primary data obtained from an Indonesian-language questionnaire survey which was distributed via the Google form link using a Likert scale. The sampling method (respondents) used was quota sampling. Data is processed and analyzed using SEM-PLS. The results of the study obtained 240 respondents and showed that all variables had an effect. The managerial implication of this research is that state-owned banking companies in Indonesia are advised to increase their current employee engagement and pay attention to factors that can inhibit or reduce employee engagement to maintain company performance in the future. One of the factors that has an impact on the performance of employees and the company at this time is the occurrence of the Covid-19 pandemic and changes in the company's internal environment. Thus, communication between companies and employees must be maintained to minimize misunderstandings regarding their work. The ability of employees to manage emotions, control themselves and establish good relations with fellow co-workers will have an impact on improving performance both at work and in social life.

Purpose: Therefore, it is necessary to evaluate the company's performance measurement system with a more in-depth Performance management system approach, so that by providing suggestions for improvements to several aspects of PMS, it is expected to form a company to improve the performance of its employees. Because, performance improvement is very influential for the company, especially in terms of creating profit value for the company.

Patients and methods: Measuring the value of each performance achievement using the PLS SEM method. The research was conducted from March to April 2023. The data collected in this study were primary data questionnaire survey which was distributed via the Google form link using a Likert scale. The sampling method (respondents) used was quota sampling. Data is processed and analyzed using SEM-PLS.

Results: The results of the study obtained 240 respondents and showed that all variables had an effect. The managerial implication of this research is that state-owned banking companies in Indonesia are advised to increase the engagement of their current employees and pay attention again to the factors that can hinder or reduce their employee engagement to maintain the company's future performance. One of the factors that has an impact on the current performance of employees and companies is the occurrence of the Covid-19 pandemic and the changing internal environment of the company.

Conclusion: The employee engagement variable mediates the influence between the performance management system, work motivation, and employee performance. Employee Engagement is able to partially mediate the effect of work motivation on employee performance. Work motivation in BUMN companies in the banking sector is good and balanced with employees who have high engagement, it will improve the performance of the employees concerned. When employees feel comfortable with their work environment they will be more easily engaged with their work.

KEYWORDS: Employee Engagement; Employee Performance; Performance Management System; Work Motivation

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1. INTRODUCTION

Employees, regardless of the nature of the business, are one of the company's main resources. At a time when competition for the best specialist is often stronger than efforts to win clients or service recipients, the ability to successfully manage employee relations can determine a company’s long-term profitability. (Motyka, 2018) Employee engagement has become a global concern for many executives and organizations. In a competitive enterprise industry, business leaders recognize that having high-performing employees is essential for growth and existence. This shows that employees are highly engaged in increasing productivity and performance while reducing costs associated with recruitment and retention and increasing their competitive advantage. (Bale, 2021).

By creating a comfortable environment and enabling development that leads to employee engagement, companies can increase their chances of hiring and retaining potential employees. The performance management system is believed to be a strategic tool for companies to build the desired work climate, with two main requirements. The first condition is that the system is properly designed and suitable for the company. The second condition, in its implementation, the system is run properly. Developing an effective and efficient performance management system is very important for every organization, especially those working in today's dynamic and technological environment. Developing a performance management system, according to Schneier, Beatty and Baird (2007), is classified into the stages of developing, planning, managing, reviewing and rewarding. In 2000, Macky and Johnson suggested that, a typical performance management system would include the organization communicating its mission/strategy to its employees; setting individual performance targets to meet the individual team of employees and ultimately the mission/strategy of the organization; periodic assessment of these individuals against agreed targets; use of the results for development identification and/or for administrative decisions; and continual review of the performance management system to ensure it continues to contribute to organizational performance, ideally in consultation with employees.

One variable that has received increasing attention as the main determinant of performance is employee engagement (Young et al, 2009). Mone and London (2010) state that designing performance management processes to encourage employee engagement will result in higher levels of performance. Therefore, the performance management process will be improved by focusing on employee engagement as a proximal outcome and a fundamental determinant of job performance. Employee engagement is a relatively new concept (Macey & Schneider, 2008) and the factors that generate relationships differ from those that produce more traditional employee outcomes such as job satisfaction and organizational commitment (Macey et al, 2009). The consideration of how to promote engagement as a desired outcome of the performance management process thus represents a significant, but untested, development in the performance management literature (Sparrow, 2008). Moreover, building on the positive psychology movement (Seligman & Csikszentmihalyi, 2000; Lopez & Snyder, 2009), much of the contemporary organizational research is adopting a positive approach to understanding the corporate phenomenon.

National banking continues to experience growth and is maintained amidst the tough challenges that continue to come from the weakening economy due to trade wars, geopolitical turmoil and the Covid-19 pandemic. Intermediation performance continued to improve and key financial ratio indicators were maintained at a controlled level. The policy synergy between OJK, the government, Bank Indonesia and other authorities has been able to guard the resilience of the national banking industry to continue to support the national economy. The positive performance of national banking over the past few years is reflected in various key indicators. Total national banking assets continue to move up accompanied by growth in credit and third party funds. The national banking risk profile is at a controlled level with a low non-performing loans ratio and a fairly high liquidity ratio. National banking capital is also still at a high ratio level supported by maintained profitability. Meanwhile, the number of conventional banks and their office networks continues to decline in line with the process of consolidation and digital transformation, while the number of Islamic banks and their networks has increased in line with the strengthening of Islamic banking.

Every company must always try to improve the performance of its employees in order to achieve the goals of the company. To achieve company goals, of course the performance of employees must have good performance to work effectively and efficiently. Good employee performance is coveted by the entire company. The more disciplined employees in a company, the performance or productivity of the company as a whole will increase. Employee performance can be seen from how much employees give energy, thoughts or contribute to the organization.

Human Capital (HC) is the main key enabler of the Company's operations and a factor of competitive advantage. The banking industry, which is closely related to trust and
service, requires competence, integrity and professionalism in all elements of the business. The Company has been supported by a digital portal application, namely the Performance Management System (PMS) which can be accessed through the BTN Employee Service Intelligence platform (IBES), BRICORE, Mandiri Easy, BNI Balanced Scorecard, BSI Key performance indicators (KPIs), by all employees. Table 1 is the number of employees of BUMN Banks in Indonesia.

Table 1. Number of BUMN Employees in the Banking Sector

<table>
<thead>
<tr>
<th>No</th>
<th>BUMN</th>
<th>Number of Employees 2021</th>
<th>Number of Employees 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>PT Bank Negara Indonesia (Persero) Tbk.</td>
<td>27.177</td>
<td>27.105</td>
</tr>
<tr>
<td>2</td>
<td>PT Bank Rakyat Indonesia (Persero) Tbk.</td>
<td>82.178</td>
<td>79.115</td>
</tr>
<tr>
<td>3</td>
<td>PT Bank Tabungan Negara Indonesia (Persero) Tbk.</td>
<td>11.192</td>
<td>11.381</td>
</tr>
<tr>
<td>4</td>
<td>PT Bank Mandiri (Persero) Tbk.</td>
<td>37.840</td>
<td>37.750</td>
</tr>
<tr>
<td>5</td>
<td>PT Bank Syariah Indonesia</td>
<td>19.510</td>
<td>19.449</td>
</tr>
</tbody>
</table>

Based on Table 1, we can see that the number of employees at state-owned banks has decreased. This could be caused by a high workload so that employee motivation decreases and causes the performance provided by employees to be not optimal.

Research conducted by Kakkar et al., (2020) found a relationship between employee engagement and PMS effectiveness, this is indicated by reduced employee turnover ratios and increased job satisfaction and work engagement. This has an impact on employee intentions to change jobs will be restrained, the implementation of PMS with a focus on measurement can increase their motivation, behavior and commitment, organizations are usually surrounded by complex structures that affect the success of PMS effectiveness, its nature is overcome if the organization tends towards maturity and learning from experience as a reference before making decisions in the context of problem solving related to PMS. The results (Kakkar et al., 2020) show a positive impact on the effectiveness of PMS to increase job involvement and job satisfaction which is mediated through increased motivation, behavior and commitment. PMS practices have influenced to reduce employee turnover with perceived feedback, goal setting, commitment to development is more likely. The positive image of the organization in the minds of employees influences and leads to large investments and drives positive energy into job performance and engagement.

Business performance management includes all the necessary processes, information and systems used by a PMS, but unfortunately, the complexity and time-consuming nature of some systems results in several dilemmas and challenges that need to be overcome before the system can bear fruit. final and can be implemented (Collins & Bradford, 2013). PMS needs to consider long-term goals with the company's vision and goals. A good performance measurement system is an interrelated system and not a stand-alone system (Clardy, 2013). A good PMS must be more than just a mechanism to control employee behavior, but must lead to better organizational performance (Clardy, 2013). To evaluate whether a PMS will be positively effective, PMS processes and structures and employee engagement require more research and testing. This research will show the entire management team the value that lies in PMS if properly implemented. This study will also help identify PMS that can be implemented across the company and increase employee engagement levels.

II. LITERATURE REVIEW

Performance Management System

Cokins (2009) said that from its history performance management was directed at measuring the performance of individual employees used by the personnel or HR functions in companies and the development of information technology that supports integrated and structured performance measurement.

Employee performance

According to Hewitt (2021), engaged employees consistently demonstrate three behaviors that improve organizational performance, namely they are expected to speak confidently and positively about the company to all stakeholders, they are also expected to persist by having a sense of belonging and a strong desire to be part of the organization, and finally, striving by giving their best efforts to support the organization's quest to succeed. (Sun, 2019) states that employee engagement includes not only cognition, but also the application of emotions and flexible behavior.

Employee Engagement

Employee engagement is the emotional feelings employees have for the organization and the actions they take to ensure the organization is successful; employees who are already attached to the company show concern, dedication, enthusiasm, accountability, and focus on results according to Sihombing (2018).

Work motivation

According to Zameer, Ali, Nisar and Amir (2014) stated that motivation is the desire of employees to do something that is given and to foster a sense of responsibility. Meanwhile, according to Hasibuan & Handayani, (2017) in his research
stated that motivation arises from a sense of need for oneself and encouragement of individual desires directed at the goal of obtaining satisfaction, therefore motivation is often interpreted as a driving factor for one's behavior. If someone has high motivation, they will do the job to the fullest and vice versa, if someone does not have motivation to work, there will be no new things that can be done to achieve the company's targets.

**Hypothesis**

A hypothesis is a statement whose position is not as strong as a preposition (Umar 2000), but is useful for obtaining clarity for further data analysis, as well as for empirically proving the truth. Based on the variables studied, the hypothesis proposed in this study is as follows:

H1: Performance Management System has a significant positive effect on Employee engagement.

H2: Work motivation has a significant positive effect on employee engagement.

H3: Employee performance mediates the influence between the Performance Management System and Work Motivation on Employee engagement

### III. Method

This research was conducted at BUMN Banking Sector Companies that were listed on the IDX in 2022. The research was conducted in March 2023-April 2023 by distributing online questionnaires, namely the Google form to BUMN banking employees in Bandar Lampung. The population in this study are all BUMN employees in the banking sector registered on the IDX as many as 220,991 employees. Hair (2016) argues that taking the number of samples depends on the number of indicators and then multiplying by 5-10, thus if there are 21 indicators, the minimum number of samples is 105, but in this study taking a maximum sample of 24x10 = 240 samples (Hair et al. 2016). Data collection was carried out in this study using closed questions. The data that has been collected is then analyzed using a data collection instrument test in the form of a Validity and Reliability Test. Then the data is processed using a descriptive analysis method and Structural Equation Modeling (SEM) analysis using the Partial Least Square (PLS) approach.

### IV. Results and Discussion

The latent variables in this study consist of four variables, namely, performance management system, work motivation, employee engagement and employee performance. Each latent variable has its own manifest (indicator) according to what was described in the previous operational variables. To find out the influence between these variables, a PLS SEM analysis was carried out which will be tested by assessing the outer model (evaluation of the measurement model) and the inner model (evaluation of the structural model).

Parameter evaluation of the measurement model (outer model) by testing the validity of the convergent. The convergent validity test is seen from the value of the loading factor and Average Variance Extracted (AVE). Based on data processing with the help of Smart PLS software, the results are summarized in some of the outer model pictures below. The results of the analysis of the initial outer model are presented in Figure 1.
The analysis used to see the relationship between obvious variables or indicators that represent the latent variables to be measured is called external model analysis. In this analysis, there are empathy tests that need to be carried out, namely: discriminant validity, composite reliability, average variance extracted (AVE) and cronbach's alpha. The reliability of the indicator is indicated by the value of the loading factor which reflects the strength of the interrelationship of the variables with each indicator. The final reflective outer model is presented in Figure 1. After the process of removing indicators with a value < 0.7, the best model is obtained with a loading factor value for each indicator > 0.7. In the reflective outer model there are six indicators that must be removed. After the process of removing indicators that do not meet the requirements, a model is obtained that has a very good indicator reliability value.

The test is said to be valid if the validity shows consistent and valid testing. Validity is a standard measure that shows accuracy. This measurement is described by the Average Variance Extracted (AVE) value. The AVE values for the four variables are presented in Table 8. The standard AVE value is > 0.5. All variables in this study have an AVE value of >0.5. Based on the standard AVE value, it shows that this research is very consistent and precise in measuring the instrument.

### Table 2. Construct reliability and validity

<table>
<thead>
<tr>
<th>Variabel</th>
<th>Cronbach's Alpha</th>
<th>Composite Reliability (pc)</th>
<th>Average Variance Extract (AVE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance Management System</td>
<td>0.875</td>
<td>0.909</td>
<td>0.668</td>
</tr>
<tr>
<td>Work Motivation</td>
<td>0.811</td>
<td>0.902</td>
<td>0.639</td>
</tr>
<tr>
<td>Employee engagement</td>
<td>0.869</td>
<td>0.876</td>
<td>0.606</td>
</tr>
</tbody>
</table>

Assessment Evaluation on Structural Model Test (Inner Model)

Testing of the structural model is carried out by looking at the R-Square value. This stage aims to analyze the level of estimation between performance management system variables, work motivation, employee engagement, employee performance. According to Ghozali (2015), structural models in PLS are evaluated by using R2 for endogenous constructs for path coefficient values or t-values for each path for significance tests between constructs in structural models. The R2 value is used to measure the level of variation in changes in exogenous variables to endogenous variables. Inner model assessment is used to see the relationship between latent variables in the model, in the inner model there are four latent variables. The bootstrapping method on Smart PLS used to obtain path coefficients and T-statistic values. Model variables that have a significant positive influence are indicated by the condition that the T count > T table = 1.96 and P-value > 0.05. Table 3 presents the bootstrap results using Smart PLS.

### Table 3. Bootstrapping result

<table>
<thead>
<tr>
<th>Hipotesis</th>
<th>T-Statistic</th>
<th>P-values</th>
<th>T-Table</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1: The Performance Management System has a significant and positive effect on Employee Engagement.</td>
<td>5.144</td>
<td>0.000</td>
<td>1.96</td>
</tr>
<tr>
<td>H2:</td>
<td>3.782</td>
<td>0.000</td>
<td>1.96</td>
</tr>
<tr>
<td>H3:</td>
<td>4.491</td>
<td>0.000</td>
<td>1.96</td>
</tr>
</tbody>
</table>

Bootstrap results show that H1 is accepted (p-value < 0.05). In Standard Chartered Bank's Corporate Leadership Council in 2004 (Maheshwari, 2008) employee engagement is defined as a form of statement of loyalty to someone or something in their organization, regarding how hard they work, and how persistent they stay with the organization as a result of their commitment.

If viewed from performance objectives, the existence of a performance management system can align the performance expectations of each individual (employee) with the performance expectations of the organization or company. This will create a good impact in accordance with the performance management system, especially if work...
productivity factors are implemented effectively. The main objective of a performance management system is to ensure that: 1) the work carried out by employees completes the company's work; 2) employees have a clear understanding of the quality of work expected of them; 3) employees receive continuous information about how effectively they are performing relative to expectations; 4) rewards and salary increases based on employee performance which are distributed accordingly; 5) opportunities for employee development are identified; 6) employee performance that does not meet expectations is aimed at developing an important performance management system for an organization.

Management regulates employee attitudes or behavior by training first so that they do not make mistakes and if they make mistakes they will be given an evaluation to avoid repetition. To improve relations between employees better, companies must create an effective performance management system so that company interests and employee needs can be realized easily. For example, by providing fair rewards to employees, perhaps this can motivate and provide enthusiasm for work. In managing employee performance, there are several companies both at home and abroad that implement a reward system for employees who excel. Indeed, this will have a good impact on employees because it can build enthusiasm for work. However, there is a negative impact, namely competition that can be unhealthy between employees, which can worsen the work environment.

H2: Work motivation has a significant and positive effect on employee engagement

The results of the hypothesis test state that H2 is accepted (p-value > 0.05). Motivational attention to employees for a company is very important because it is useful in encouraging and spurring employee enthusiasm in carrying out their respective duties. Employees will be motivated to exert their abilities to do their work as well as possible. Referring to needs theory, an employee will be motivated to work optimally when the employee's needs are met (Siagian, 2015). Needs can be physiological, safety and social as well as needs that are no less important, the need for esteem and self-actualization.

These results show that motivation means providing a motive to move someone or which can give rise to encouragement or circumstances. So it can also be said that motivation is a factor that encourages people to act simply. Thus, motivation means a condition that encourages or causes someone to carry out an action/activity, which occurs consciously. From this understanding, it also means that all motivation theories start from the main principle that: "humans (someone) only carry out activities that are enjoyable to do." This principle does not rule out the condition that under circumstances of necessity a person may do something that he does not like. In reality, activities that are driven by something that is not liked, in the form of activities that are forced to be carried out, tend to be ineffective and inefficient. This also means that the main principle from a psychological perspective, for management on earth, is to create conditions that are able to encourage every worker to carry out their duties. -tasks with a sense of joy and satisfaction. In other words, management as a process of utilizing other people to achieve a goal, will only be effective and efficient if workers are able to motivate workers in carrying out their duties and responsibilities. To provide encouragement and move people to be willing to work as hard as possible, it is necessary to ensure communication and participation from all parties concerned. Motivation shows that leaders know how to provide the right information to their subordinates so that they provide the time to make the necessary efforts to obtain suggestions and recommendations regarding the problems they face. For this reason, leadership expertise is needed to provide motivation to subordinates so that they can work according to the directions given.

H3: Employee Performance mediates the influence between the Performance Management System and Work Motivation on Employee Engagement.

The results of the hypothesis test show that H3 is accepted (p-value < 0.05). These results provide information that the higher the employee engagement, the higher the performance of BUMN employees in the banking sector, and conversely, the lower the employee engagement, the lower the performance of BUMN employees in the banking sector in Indonesia.

The results of this study are consistent with the results of research conducted by Yongxing et al. (2017) on customer service employees of state telecommunications companies in southern China which found positive and significant results. Then, this research is also consistent with research by Metin et al. (2018) on office employees in the Netherlands, with positive and significant results. Furthermore, other consistent research is research by Gutermann et al. (2017) on employees of a service company in Germany, with positive and significant results. Meanwhile, on the other hand, there is research that shows different results, namely research conducted by Kuvaas et al. (2018) on health professionals in several companies which found results that partially the absorption dimension was not significantly related to employee performance.

An employee whose needs are met will make the employee feel encouraged to do the best job possible. This is done by state-owned banking companies, including meeting the need for work facilities, such as adequate work equipment, canteens, parking attendants, mosques, table tennis and sufficient leave. The need for a sense of security, namely a guarantee of work safety for employees who work in network divisions which are quite risky. And there is security in the office whose job is to maintain the safety of its employees. Social needs for opportunities to socialize with co-workers or
superiors, opportunities to exchange stories and experiences to create a good working atmosphere. The need for awards for work performance given by the company to outstanding employees which encourages company development as well as opportunities for promotion within a certain period. In accordance with the theory above, it can be concluded that the higher the motivation provided, the more optimal employee performance will be.

V. CONCLUSION

The performance management system variable has a positive effect on Employee Engagement. In a performance management system, HR's capabilities as individual contributors and part of a group are developed through a joint process between managers and individuals that is based more on agreement than instruction. This agreement includes objectives, knowledge requirements, skills and abilities, as well as performance development and personal development planning.

1. Work motivation variables have a positive influence on Employee Engagement. Therefore, it can be ascertained that increasing work motivation will have a positive impact on relations between employees of state-owned banking employees in Indonesia, and vice versa. The research results show that motivation fully influences employee engagement. In this case, motivation acts as an incentive for employees to work harder. If employees are given positive motivation by the leadership, then employees will definitely feel appreciated so that employees will be happy at work.

Employee performance variables mediate the influence between performance management system, work motivation, and Employee Engagement. Employee Engagement is able to partially mediate the influence of work motivation on employee performance. Work motivation in BUMN companies in the banking sector is good and balanced with employees who have high engagement, which will improve the performance of the employees concerned. When employees feel comfortable with their work environment, they will be more easily engaged with their work.

Performance management system for increasing the motivation of BUMN Banking employees in Indonesia. Currently, the performance management system is a system that must be related to strategic or integrated planning and company direction, financial budget processes, employee development planning, and programs to increase motivation or enthusiasm such as input in form of product, service or information. To improve employee performance better, agencies must create an effective performance management system so that agency interests and employee needs can be realized easily. For example, by providing fair rewards to employees, this can motivate and provide enthusiasm for work.

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