

# PMS Design process: The perspective of HR managers

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## ABSTRACT,

*Performance management systems (PMSs) are used to align employee performance with organizational objectives. These systems aim to manage and aid employee performance to create a strong synergy between the human resources of the company and its objectives. How the system is designed, and its tools are developed, can decide whether it achieves this objective or leads to consequences such as unfair performance assessment or gaming behavior. HR managers play an important role in this process as they are often the ones designing and implementing the PMS, however, have only received limited attention by literature. This paper therefore explores the role of HR managers in the designing process and development of tools of a PMS. To gather insight into their perspective, interviews with HR managers using PMSs have been conducted. This research helps to understand how HR managers approach the design process of a PMS and how they navigate the various concerns and goals. Findings include the importance of stakeholder involvement when tailoring a PMS, prioritization of employee safety in the workplace, and how essential an initial alignment between the managers' personal values with the organizational values is. The research contributes to the current literature about performance management systems by providing the perspective of HR managers, which can inform future research on the consideration of PMS design and general performance management.*

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# 1. INTRODUCTION

Employees have increasingly been recognized as a source of competitive advantage leading organizations to put a greater focus on developing employees and their performance (Srivastava & Mock, 2002). Here, performance management systems (PMSs) are one of the most commonly integrated processes to help organizations align their goals and (human) resources (Becker & Huselid, 1998). Aguinis (2019) describes PMSs as “a key tool that organizations use to translate business strategy to business results” (p.9). PMSs can be used for various functions, such as feedback, monitoring, appraisal, and goal management (Memon et al., 2010). Overall, these systems are used as interconnected subsystems combining the various functions related to performance (Franco-Santos & Otley, 2018). The systems can have a lot of benefits such as helping ensure fair assessment of employees (Nutakor, 2019). For example, the system can help the employee in receiving accurate performance appraisal by documenting actual work. Other benefits include aligning operational performance with strategic objectives and increasing productivity (Martinez, 2005). The overarching purpose of these systems however is to align employee performance with the organizational vision (Franco-Santos & Otley, 2018).

On the other hand, if a PMS does not fit the reality of the organization and its context, unintended consequences can arise (Franco-Santos & Otley, 2018). Concerns regard PMSs’ potential negative effects on employees including increased stress levels and feelings of surveillance. Furthermore, ethical concerns regarding the biasness of (appraisal) managers and associated unfair treatment of employees are raised (Panda, 2011). The alignment of employees, PM strategy, and organizational objectives is crucial to mitigate these challenges (Demartini, 2014; Panda, 2011). In fact, organizational alignment is seen as one of the most important factors for effective usage of PMSs (Aguinis, 2019; Locke & Latham; Cascio, 2018). It is how much an organization’s strategy, design, and culture work together to attain the same goals (Blokland & Reniers, 2021).

When designing the PMS and developing various tools to support the system, HR managers and other stakeholders involved in the decision should therefore ensure an alignment of the PMS with the organizational context. This alignment can help to ensure that the system caters to the specific needs of the company and can reach strategic goals (Adler, 2011). The perspective and assumptions of HR managers are significant in two ways here. For one, they determine the choice of which PMS design is integrated into the company and, two, they determine how the PMS is used in the company. To illustrate, a HR managers that sees their workers as inherently lazy as opposed to them seeing employees as self driven is likely to use PMSs to monitor and tightly manage their employees. HR managers hold a key role in this as they are often the ones making the decision and having to balance between organizational objectives and employee perspectives (Kamal et al., 2023).

While research has investigated how PMSs affect employee performance, ethical concerns, and the role of HR managers in the implementation of a PMS, the field can benefit from having more research on their role in the design process. Despite their key role in ensuring the effectiveness of PMSs, their perspective has not been given sufficient attention. Research showed a greater focus needs to be placed on the perspectives of practitioners in the field to create a significant impact on PM

research (Brown et al., 2019). Taking a holistic approach to PMSs, this research aims to uncover this perspective of HR managers on the design process of a PMS and the development of tools that assist the system. It thereby explores how HR managers navigate the differing goals and values of the various stakeholders that need to be considered. Values in a business are defined as the underlying principles and individual beliefs that guide the decision making and behavior within an organization (Dorkenoo et al., 2022). Beliefs include various aspects such as views on social responsibility, ethical beliefs, personal morals and more (Gamage et al., 2021). Based on this, the paper addresses the research question: *How do HR managers approach the design process of a PMS and the development of its supporting tools to ensure alignment?* To answer the question and to explore the perspective of the managers, five semi-structured interviews with HR managers using or looking to use PMSs have been conducted. The findings allow for an insight into the HR managers’ outlook. Furthermore, they provide an understanding of how managers navigate the intricate proceedings of designing a PMS to ensure alignment based on real-life practitioner experience and knowledge.

The research contributes to theory by providing the unique perspective of HR managers on the important process of designing a PMS. It contributes to research on strategic HRM by giving insights into how HR managers are involved in and make strategic decisions regarding performance management. Additionally, it adds to organizational and goal alignment literature regarding PMSs role in practice to create alignment. Furthermore, theory can benefit from the insights gained by this focus to better understand how stakeholders navigate the challenges and potential of PMSs. The understanding of what is important to HR managers can further contribute to practice by informing vendors of PMS applications about what they should be focusing on and could apply in their design. The identified aspects are also relevant information for the organizations looking to implement or using PMSs. Here, the aspects found can inform the process of aligning organizational values with the PMS designed, as well as provide ground for discussions with the various stakeholders and HR managers around the system design, development, implementation, and usage.

This paper is structured as follows. First, the theoretical background is explained to provide the basis for the paper and interviews conducted, then the methodology is discussed. The findings are then presented and analyzed in the discussion section after which recommendations for future research and practice are provided and a conclusion is reached.

## 2. LITERATURE REVIEW

This chapter builds on literature to discuss the concept and purposes of PMSs, the associated challenges complicating the design process, and lastly the role of the HR manager in designing an appropriate and effective PMS.

### 2.1 Performance management systems

Performance management is defined as “a continuous process of identifying, measuring, and developing the performance of individuals and teams and aligning performance with the strategic goals of the organization” (Aguinis, 2023, p.3). An increasing amount of research has investigated performance management topics, as awareness of its various applications, beyond performance appraisal, rises (Aguinis et al., 2011). In fact, performance management systems, management control mechanisms used to achieve an organization’s goals through

managing employees' performance (Franco-Santos & Otley, 2018), have various applications ranging from setting performance targets and employee evaluation to employee development and outcomes management (Krishnan, 2013). The described broad focus and immediate effect on employee satisfaction and performance make PMSs an important part of human resource management. While some focus on specific dimensions or functions of PM (e.g. feedback mechanisms), others argue that instead of viewing the individual dimensions independently the system has to be viewed holistically (Harbour, 2009), this paper uses the aforementioned concept and therefore applies a system perspective of PMSs. This concept of integrated performance management builds on the linkages and relations between the different dimensions arguing for a "multidimensional context of organizational performance" (Harbour, 2009, p.11).

In general, a PMS can realize various functions based on the organizational context and intentions (Panda, 2011), however there are some core purposes it commonly serves in organizations. For one, research agrees that goal alignment, or 'strategic alignment', poses one of the most crucial purposes of a PMS (Demartini, 2014; Franco-Santos & Otley, 2018) describing the process of "aligning employees performance with the organizational goals" (Panda, 2011, p.276). As Demartini (2014) explains, matching the PM strategy with the values of the organization can help to align the individual's goals with organizational objectives, which in turn allows the organization to achieve its goals. HR managers here utilize the structures and processes of performance management systems to communicate goals down the line (i.e. goal cascading) (Panda, 2011). Next to goal alignment, some more specific purposes include identifying performance needs (Panda, 2011), measuring (employee) performance, furthering the development of the employees (and thereby their performance), and providing motivation through reward systems (Ferreira & Otley, 2009; Franco-Santos & Otley, 2018). While PMSs often aim to minimize potential negative implications that can come from e.g. delegating tasks, they can also help to ensure an efficient flow of processes and resources within an organization (Bartol, 1999). For example, in case of an asymmetry of information, a PMS can have a tool that can then be programmed to measure if everyone has the right amount of information and knows what tasks they're expected to complete through questions targeting that issue. As outlined, PMSs fulfill a variety of functions and can therefore be seen as a combination of different subsystems ideally complimenting each other to enhance performance.

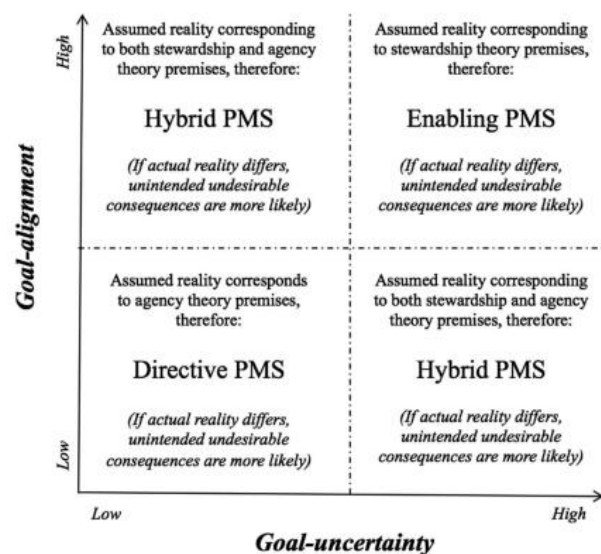
The advancements of technology further have led to the development of various potential applications to support performance management (Sahlin & Angelis, 2019). Technology does not need to be a part of PMSs, nevertheless many have argued for its various benefits to automate elements of performance management systems (Krauss & Snyder, 2009). Technology can support performance management throughout different stages through e.g. strategy mapping tools, development opportunities databases, or electronic performance monitoring (EPM) softwares (Krauss & Snyder, 2009). For example, technology has been used to offer greater benefits to organizations such as facilitating 360-degree feedback in order to get feedback from multiple sources and facilitating continuous feedback loops through real time surveys and evaluation tools which ensure that the relationships at place remain effective and responsive to changing needs (Bracken et al., 2001; Breaugh & Starke, 2000).

PMS literature commonly applies three main theoretical approaches; namely contingency theory, agency theory and stewardship theory (Franco-Santos & Otley, 2018). Demartini (2014) summarizes the contingency theory approach stating, "a range of variables influences both the design and the implementation of PMSs; hence the PMS needs to be customized to effectively match the characteristics of these variables" (p.57). This explanation highlights the need for HR managers to tailor the PMS or develop one appropriate to the specific context and desired purpose of the organization and situation. Agency theory and stewardship theory instead describe seemingly contrasting reasonings to designing a PMS. Agency theory suggests a goal alignment problem, where the personal agency of employees can position them opposite the organizational goals (Linder & Foss, 2015). To counter this problem a tightly-coupled PMS is chosen consisting of monitoring and reward systems to ensure employees are not following their own agency, but instead are focused on organizational objectives. Franco-Santos and Otley (2018) refer to this as a directive PMS, in contrast to an enabling PMS as reasoned for by the stewardship theory. Here, relationships and collaborative environments are leveraged to stimulate collective responsibility and allow employees to find their own interpretation of shared, complex goals. A chosen PMS based on this reasoning strongly emphasizes employee development and self-efficacy of employees.

When used correctly, performance management systems can help increase alignment within the company, by e.g. setting goals, monitoring performance, and providing feedback. Although not obligatory, integrating technology could assist in further increasing the efficiency and ease of usage of performance management systems.

## 2.2 Challenges of PMS design

While a PMS can provide several benefits, negative unintended consequences and challenges can occur. Indeed, "no Performance Management System is absolute and error free" (Panda, 2011, p.278). Franco-Santos and Otley (2018) argue that the unintended consequences occur the more the assumed reality differentiates from the real state of affairs. In this light, the reality assumed by the manager has a direct effect on the choice of a PMS and its consequences.



**Figure 1. Conceptual framework of unintended consequences of PMSs (Franco-Santos & Otley, 2018, p.723)**

Agency and stewardship theory can help better understand this, as they can provide insights into managers' differing perceptions of employees. To illustrate, an HR manager assuming their employees are opportunistic (as agency theory argues) would likely choose a directive PMS. If the employees in truth differ from this assumed reality however, they might respond negatively to the control mechanisms of the system and the underlying assumptions made about them with e.g. gaming behavior and distrust. Franco-Santos and Otley (2018) position assumptions about reality across the dimensions of goal uncertainty and goal alignment in their framework of unintended consequences, where goal alignment refers to how much the goals of the organization and individuals are aligned, and goal uncertainty refers to how uncertain control and measurement models are.

The authors identify five main unintended consequences of (directive) PMSs; namely gaming, information manipulation, selective attention, illusion of control, and altering of social relationships. Gaming and information manipulation are situations where PMSs are misused by employees or the employer to alter the results of the PMS by entering false information or changing their behavior to please the system. Selective attention occurs when managers only focus on the results given to aspects measured by the PMS, which has the potential of overlooking aspects outside of the PMS, the authors specifically mentioned organizational goals as one overlooked aspect. The illusion of control happens when the PMS user is not critical of the results provided by the system, leading to them overlooking potential problems. Lastly, altering of social relationships could originate from a loss of trust between employees to employer or employees to employees, aside of loss of trust PMS could lead to inequalities between employees in the company.

Especially with the rise of digitalization of PMSs, certain ethical issues complicate the situation and role of HR managers. Many tools have been developed such as feedback applications or AI based PMS tools. The increasing usage of AI has raised multiple concerns with Varma et al. (2024) stating "using AI in performance management without applying the appropriate safeguards in place can be rather dangerous" (p.4). While Electronic performance management (EPM) is commonly applied, it can lead to multiple unintended consequences and effects on employees (Tomczak et al., 2018). Concerns regard potential bias, data privacy and surveillance, which increase stress and negatively impact employees work-life quality (Alder, 1998). Surveillance refers to the process of monitoring actions and behavior to gain information that helps with managing the performance of employees and in turn the company (Costanza, 2018). Creating a sense of surveillance hinders employees autonomy and reduces their tendency to learn and improve their environment, as there is too much of a managerial spotlight on them. Since organizations need to be competitive its beneficial for them to be innovative for which they need employees that don't remain silent and passive (Kensbock, 2021). Therefore a PMS that creates this environment of surveillance can create unintended negative consequences when used by a company that can highly benefit from innovative employees. HR managers need to ensure fair treatment of employees as they play a central role in issues of fairness (Weaver & Trevino, 2001).

The process has a direct function in mitigating the unintended negative consequences outlined in this section. The HR managers' assumptions directly influence their choice and if their assumptions do not correspond with the reality of the organizational context, a disconnect between the system and context can lead to a negative effect of the PMS. Technology further adds complexity to this as ethical concerns lead to hesitance of employees and potentially distrust.

### 2.3 The role of HR managers in PMS design



**Figure 2: HR manager's role in PMS design**

Based on the outlined theory of performance management systems and associated challenges, it becomes clear that the role of the HR manager in the design of a PMS revolves around ensuring alignment on multiple levels: aligning the PMS to the company (contingency theory), aligning company objectives and employee performance (goal alignment), and aligning the PMS to the reality of employees (agency vs. stewardship theory).

As previously outlined, managers' assumptions about employees and their behavior lies at the core of the effectiveness of a PMS. HR managers therefore play a key role in the PMS design process and ensuring it delivers on its promises. Additionally, due to the trend towards strategic HRM, HR managers more and more hold a position between organizational strategy and management and their function as an employee advocacy for e.g., well-being, which complicates their role in PM (Guest & Woodrow, 2012). Furthermore, organizational objectives have become much more adaptable and less clearly articulated, which poses a new challenge for PMSs to address (Cappelli & Tavis, 2016). Based on these aspects, strategic HRM has called for "more strategic links between individual, group, and organizational outcomes" (Nankervis & Compton, 2006, p.83) with PMSs as potential means to achieve this. As HR managers have to align and link the goals and outcomes of the organization with the needs and wishes of employees, they might wish to design a PMS that supports this role. Despite their key role in designing a PMS, few studies have actually examined the perspective of HR managers.

As PMS measures and impacts multiple stakeholders, multiple stakeholders need to be considered in HR manager's process of choosing and creating a PMS. Stakeholder theory emphasizes this importance of analyzing and focusing on the interconnected relationships of stakeholders in an organization, such as employees, shareholders, suppliers, customers etc. (Goyal, 2020). Having this eco system view and an aim to try to satisfy all stakeholders is where real success lies (Freeman, 2001). However, stakeholders might contradict each other and, as Hutchison and Huo (2017) found, different impacted actors often have differing perceptions regarding PM practices. Navigating these dynamics will likely be a distinct part of the HR manager's role.

A concept connected to stakeholder theory is the separation thesis, which states that the business world needs to be analyzed with the lens of ethics and cannot be done so as if it is separate and that “our personal values are embedded in all our actions” (Freeman & Mcvea, 2001, p.28). The authors believed that theories need to take this into account as otherwise they wouldn’t be able to properly explain the world, e.g. when analyzing the evaluation process that occurs with HR managers. It shows that individuals will be influenced by their own personal values when choosing the design or system that fits their company and wouldn’t be able to base the decision purely based on the company’s values. This can also be related back to the role of HR managers’ assumptions about reality discussed earlier. Therefore to understand how PMSs are designed, its supporting tools developed and what aspects HR managers deem important in the process, it is essential to understand their perspective and underlying assumptions.

Which approach to PMSs is followed ultimately depends on the decision of the HR manager and their interpretation of the situation and needs at hand. To summarize, one can argue that HR managers are faced first and foremost with the challenge of alignment, i.e. aligning the PMS to the objectives and context of the organization (contingency theory) as well as the behavior and nature of the employees (agency and stewardship theory). This task of alignment has likely increased as HR managers more and more need to balance the organizational and employee perspective (Kamal et al., 2023). However, it is unclear how HR managers approach this in their process. This paper will address this gap.

### 3. METHODOLOGY

#### 3.1 Data collection

To explore the perspective of HR managers on the PMS designing process, a qualitative and inductive research approach has been chosen, which allows for in-depth research to gain an understanding of the complexity of the research question (Basias & Pollalis, 2018). This type of research allows the researcher to explore the phenomenon, in the case of this research the role of HR managers in the PMS design. Semi-structured interviews have been conducted, which are a great way to answer complex questions (Harvey-Jordan et al., 2001). These interviews helped gain insight into the values and experiences of the HR managers. The interview questions were formed on the basis of the information acquired through the previously conducted literature review. Themes such as PMS preferences, concerns during designing and the process itself were discussed to explore the experience and perceptions of the interviewees (see Appendix). The interviews were conducted online through Microsoft Teams and Zoom and lasted approximately an hour. Keeping the interviews less than an hour long allowed for a greater quality of research and to avoid fatigue among the interviewees.

Interviewees were chosen on the basis of the following criteria. Firstly, their job title was required to include “HR manager”. Second, they were required to have at least three years of experience to ensure a certain level of Expertise in the field. Experience allows for insightful data to be produced from the interviews, as they have encountered many decisions and issues pertaining to the process of designing and implementing a PMS, ensuring that they have a good knowledge base. Additionally, in order to prevent bias towards a certain company size, as this may influence the data, companies with different sizes were chosen (approx. 50 to 17.000 employees). Interviewees were chosen

from a diverse range of industries to provide a broad understanding of the landscape.

This study utilized non-probability sampling, more specifically purposive sampling, where the researcher decides on a set of criteria and assesses whether potential interviewees fit these (Rai & Thapa, 2015). A total of five interviews were conducted. Out of the five interviewees that were chosen, Interviewee 1 works in an educational institution and co-created a PMS system with technicians and other managers, Interviewee 2 works in a company that manufactures products in health applications and life science, and Interviewee 3 is a HR consultant for a large transportation company that works with a PMS provider. Interviewee 4 is a HR manager deciding and choosing the PMS and Interviewee 5 is a HR manager utilizing the PMS, both working for a leading semiconductor manufacturer.

In order to ensure ethical research was conducted, consent was collected before and once again during the interview. Before the consent was collected a brief introduction of the research was provided and what was required of the interviewees was discussed. This ensured that the interviewees had the appropriate amount of information before consenting. The interviews were then transcribed and analyzed.

#### 3.2 Data analysis

In order to analyze data, interviews that were previously recorded were transcribed and analyzed with the help of ATLAS.ti. This computer software is a qualitative research tool that aided in the process, as it helped to uncover relevant patterns which aided the research and to visually present the data in ways that allowed for the themes to be presented in a clearer way (Basias & Pollalis, 2018). The coding process followed the thematic analysis approach by Braun and Clarke (2016), which helped “to identify, and interpret, key, but not necessarily all, features of the data, guided by the research question” (p.297). More specifically, Braun and Clarke’s (2006) six-phase framework was used to conduct the thematic analysis. Starting with familiarizing with the data, initial codes were generated with an open coding approach. The codes were modified and developed as the coding process occurred instead of having codes that were pre-set (Maguire & Delahunt, 2017). Themes were then searched for in the data and reviewed to make sure they fit the reality expressed by the interviewees. Once reviewed, they were defined and written up. 3 aggregate dimensions were identified as well as 5 second-order codes and 7 first-order codes (see appendix for coding scheme).

To ensure reliability of the findings and coding process, the developed codes and insights were continuously reviewed in discussion with peer researchers and academic professionals. Such an iterative and collaborative process of data analysis helps mitigate subjectivity of the researcher and refine codes and categories identified (Syed & Nelson, 2015). Furthermore, as qualitative research is heavily situated in context, it is important to report on this.

### 4. FINDINGS

This section presents relevant findings from the data collected through the interviews. Patterns found are presented and analyzed in order to understand the perspective of HR managers and answer the research question: *How do HR managers approach the design process of a PMS and the development of its supporting tools to ensure alignment?*

#### 4.1 Consideration of employee perspective

When designing a PMS, HR managers strongly took into account the employee perspective regarding what they need and how the

system may impact the employees. Taking their view into account aids the process of aligning values within the company.

#### 4.1.1 Ethical considerations

Interviewees mentioned ethical values, mainly the psychological safety of their employees, as a main consideration that the system they design, as well as any supporting tools they integrate, should advocate for. HR manager 1 talks about how “social safety” is an important topic not only for them but within and outside of their company’s environment. HR manager 2 agreed with this stating the following:

*“Safety would be in the core values, physical, but also mainly psychological safety.”*  
(HR manager 2)

Based on this, the safety and experience of employees were seen as important to the process as they are core values which impacted the managers’ decisions while designing a performance management system.

HR manager 4 expressed another crucial ethical value in regard to PMS to be fairness:

*“A fairer correct assessment with the employee from the manager.”*  
(HR manager 4)

The interviewees referred to fairness as eliminating misconceptions and prejudice and striving for an objective assessment of the performance. HR manager 2 expressed how strongly they believed in conducting oneself and business in an ethical manner:

*“I’m a strongly ethical person. So ethics is running everything I do.”*  
(HR manager 2)

Here, ethics was referred to as doing what’s right not just for the company but for society as whole. Implications of the PMS beyond the initial scope of things were taken into account. Ethics was believed to be about being fair and some interviewees believed a PMS can easily be ethical.

*“It [an ethical PMS] can be achieved very easily. It is just a matter of the correct training around performance management and then also setting up the system so that it is truly based on the performance.”*  
(HR manager 5)

Suggesting that in order to have a fair system, training individuals regarding the process of the system and the outcomes would allow individuals to understand the system better, therefore creating a more transparent environment. The interviewee also mentioned that it should be a system that is set up to only take performance into account in order to eliminate any bias that could occur from other factors being included in it. Discussing specifically the role technology can play in this, HR manager 5 discusses the importance of “maintaining ethical standards while innovating technology” as there can be negative

consequences otherwise and argues that technology and ethics “need to be tied together” to avoid these potentially harmful consequences.

#### 4.1.2 Openness and transparency

Openness and transparency are aspects that most interviewees strongly valued which supported the process of trying to ensure alignment as it encouraged employees to express themselves honestly which allowed for a better and more accurate flow of information. The HR managers mentioned that their view of it involves the company creating opportunities for open dialogue between employees and their supervisors. It also involves ensuring that there is no knowledge gap of the ongoing process within the company. This allows for better communication and trust.

The interviewees mentioned openness and transparency as core values. HR manager 3 stating the following:

*“Learning and developing yourself is one of the best values along with honesty, integrity and being open.”*  
(HR manager 3)

HR manager 1 supported this statement and added the aspect of addressing potential future consequences.

*“Openness and also the future impact part is important.”*  
(HR manager 1)

Manager 3 mentioned how their company tried to keep an environment that was as open as possible and only did surveillance when it was necessary, as they wanted to foster an environment where their employees can learn and give space and an open environment to new employees to be able to adapt better to company. HR manager 1 added onto this by discussing the importance of creating an open environment to create trust within the company and promote employees’ “social safety”. In this regard the aspect of openness was related back to the ethical values and considerations previously outlined.

Interviewee 4 discussed how it may be difficult to code or integrate ethics such as respecting others into a system and how when conflicts arise its often needed to have open dialogue:

*“You have to sit down, gladly in pairs, gladly sometimes in threes, in mediation and bring the issue to the table.”*  
(HR manager 4)

Even with technological tools, the manager suggests that human touch is still required to support a PMS as to them “technology [...] is of course the opposite of humanity” and that a system that facilitates open dialogue can be beneficial due to the difficulties in programming certain aspects. Both a co-creative approach and open conversation were seen as effective tools to ensure fairness and control the future impact of the PMS and individuals.

Decisions made in the business today have to be made while keeping the future in mind, namely the impact it has on its goals and employees. Two managers specified future impact as an important focus in their PMS system. This is seen in the quote in the previous section by HR manager 1, where they mentioned

this as an important factor when creating their system as an individual's future impact signifies a lot. For example, a new employee might not be creating a big impact now but may have potential in the future to have a high positive impact with some training. HR manager 2 added to this by stating;

*“An important consideration is what structural impact are you going to make for the company in alignment with the goals that we have in the future.”*

*(HR manager 2)*

This is another consideration that interviewees mentioned they prioritize when tailoring the PMS system to their company. A system that is able to assess the impact their employee has on the company which allows them to see if they are contributing to achieving the companies long term goals.

In summary, when designing a PMS HR managers' strongly valued the perspective of employees regarding the potential PMS. Whether the PMS would treat employees fairly is a strong point considered. To accomplish this multiple interviewees went as far as suggesting being involved in the development of the PMS, to be able to ensure this fairness through a transparent environment and a system that fosters openness.

## 4.2 Aligning personal and company values

When asked about values they considered during the designing process of a PMS, interviewees brought up the importance of personal values among company values. Ideally, personal values would match company values, however in reality they stated this is not always the case. A synergy between personal values and company values is an important factor as HR manager 3 states:

*“I need to work for companies that share my values. Otherwise, you don't really believe in what you work, the company has to fit like a suit.”*

*(HR manager 3)*

Interviewees mentioned the occurrence of their personal values impacting their decisions and how occasionally this may not fully align with the organization's values. Furthermore, it was explained how important it is that the company they work in needs to match their personal values from the beginning. Their own personal values play a significant role in the process of choosing a system that matches their organization.

HR manager 2 agreed to this stating:

*“I really need to work for a company that shares my values, the most primal goal should be to really want to add something to society and not damage it in another way.”*

*(HR manager 2)*

This interviewee mentioned how the decisions regarding the PMS in place were highly linked to their personal values and how these values were “pushed” by them and others with similar mindsets. More specifically, they explained the importance of the company's goals aligning with their personal goals and values. The interviewee elaborated that the company's goals were also kept in mind when pushing for an ethical approach. Interviewees' perceptions and assumptions of the company goals and values therefore held significant value to their designing process of a PMS.

## 4.3 Aligning the PMS through co-creation

Aligning the system can be done in various ways such as through cocreation and tailoring as brought up by interviewees. The designing process of PMSs required a number of criteria. One of them involves interviewees aligning the system and its functions and capabilities to the organizational objectives, interviewees mentioned doing so for PMSs supporting tools which was achieved through collaboration with the designers creating the PMS tool. Aligning systems with company objectives involved identifying core values that play into the decision-making process after which HR managers prioritized said values and worked with the relevant people to develop the tool to reflect these values.

Interviewees brought up the value of working with other stakeholders on the PMSs describing their experience with the vendors as an important factor that made them realize this, here interviewees tended to refer to PMS applications as the system as they talked within the development process. HR manager 3 said the following about this topic:

*“if you really work together with your team, and with the company that creates the performance management system, you can definitely make some changes.”*

*(HR manager 3)*

HR manager 2 also found the involvement of the vendor helpful as they “co-created at our meetings with the necessary people”. This prompted them to choose and develop a PMS application that was tailored to the various stakeholders in their environment. This was done as they believe that a one-size-fits-all PMS application would not be able to cater to the needs and requirements of the organization. HR manager 5 added to this by mentioning the following:

*“We are the ones that know the day-to-day user. So, without our input, they are creating a system without understanding the end user.”*

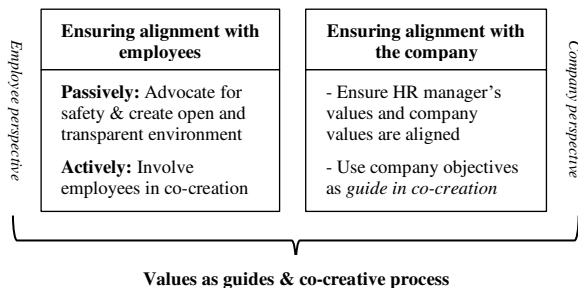
*(HR manager 5)*

The importance of tailoring the application through co-creating with the necessary people internally and externally was brought up repeatedly throughout the interviews. Some interviewees mentioned creating a team for the development process that includes a number of employees, HR managers and the developers for the performance management application in order to ensure that the right attributes are shown.

For example, HR manager 3 mentioned how in order to adjust the chosen application to the company effectively, they had a team consisting of a HR manager from their company, technicians from the PMS application provider and their own technicians working together to ensure that the PMS software tool matches and serves the needs of the company. When discussing who was involved throughout the process of designing and implementing the system, the interviewee explained the value of this stating: “Everybody has his own knowledge”. The interviewees elaborated that everyone has their own mindsets, such as technical professionals mostly thinking about what can and cannot be coded, while HR managers are more so thinking about ethical considerations. Therefore, creating a group of experts from different fields was important in

order for them to be aligned and to benefit from the different expertise and perspectives.

#### 4.4 Summary of findings



**Figure 3: HR managers approach to design of a PMS and development of its supporting tools to ensure alignment**

The findings show how HR managers approach the design process by aligning the different perspectives and involving stakeholders in the designing process of the PMS. To ensure alignment with the perspective of employees, HR managers take into account ethical considerations such as the psychological and social safety of employees, aim to ensure a fair assessment, and maintain a transparent and open environment. In an active pursuit to consider employees in the process, managers involve them in the co-creation process through meetings and asking for feedback. HR managers approach the alignment of the PMS to the company values by striving for a better alignment of their own values to the company values. Furthermore, they refer back to the organizational objectives in the process aiding them to ensure alignment of the PMS to the company. The findings are consistent with research showing that HR Managers do indeed first lead with organizational strategy. In general, co-creating the system, and especially the supporting tools, with developers and relevant stakeholders allows them to cater to the specific needs of the organization and create further alignment within the system and between the system and company. In summary, HR managers approach the process by using the values and perspectives of employees, the company, and themselves as guides, further hoping to integrate these through a transparent and co-creative design approach.

### 5. DISCUSSION

Based on the findings of this research, multiple implications and overarching themes can be derived to answer the question regarding how HR managers approach the designing process of a PMS and development of its supporting tools to ensure alignment in the organization.

Findings and literature suggest three main important aspects in order to ensure a beneficial design of PMSs and ensure its alignment to the organization and employees.

#### 5.1 Prioritization of employee safety

During the interviews an important factor to create alignment was the prioritization of employee safety. Managers said that they try to ensure that employees have a sense of psychological safety in the workplace. Franco-Santos & Otley (2018) pointed out that possible consequences of a wrong design of a PMS could be an unsafe work environment. Problems such as information manipulation and altering of social relations were mentioned by both interviewees and literature and should be considered within the design process. An approach mentioned by the interviewees is allowing open dialogue in between managers and employees

in the designing and operation of PMS to allow for a greater connection and a smoother work process as there is a certain harmony created then. This corresponds to the premises of stewardship theory as a collaborative environment is aimed for to motivate employees towards complex goals. Another concern for employees' safety originating in PMS is when technology is applied. Monitoring technologies could create a feeling where employees are not just being monitored but rather surveilled. Managers pointed out again the importance of open dialogue to ensure correct operation of the PMS. Using open dialogue HR managers are able to align their goals with the employees' goals and ensure safe work environment.

Employee safety is an important factor to keep in mind due to digitalization creating big brother technology, where employees are not just being monitored but rather surveilled causing negative implications such as hindering employees innovative capacity, ethical issues including data privacy and potential bias. Alder (1998) argues that a communicative-ethical approach would help reduce negative implications that can arise from a PMS when its used as a surveillance system. This approach includes four steps to involve stakeholders of the PMS in the system's design, keeping stakeholders informed about monitoring practices, supplementing some electronic feedback with human interactions such as dialogue and making the feedback non-coercive and punitive and rather being supportive. Integrating such strategies into the PMS to mitigate risks and unintended consequences likely poses another crucial consideration to be made during the design process.

Designers of PMSs need to keep these core value of prioritizing employee safety in mind throughout the whole design process of the system and buyers need to ensure that the factor is strongly considered when trying to design the right PMS for their company. Managing the companies interests and employees interests relates back to contingency theory. Companies can work with these conflicting issues through utilizing contingency and stakeholder theory. Prioritizing CSR practices and ensuring an environment that promotes trust and open dialogue would enable the organization to provide a certain amount of employee safety.

#### 5.2 Initial alignment between managers' personal values and company values

The interviews brought to light certain issues such as misalignment between personal values and company values. When there is a misalignment between these two factors, the manager is likely to not act in the best interest of the company causing a goal alignment problem as agency theory suggests, which could create issues in the company. One of the issues could be choosing a PMS that does not compliment the company's culture, objectives, and values well.

Freeman and Mcvea (2001) mentioned in the separation thesis how personal values of individuals are embedded in all their actions and therefore need to be taken into account. Creating an alignment between the two allows for positive future impact. Future impact is an important factor that was brought up as it defines how the company performs and allows for the goals set in the present to be more beneficial as they help the company reach its vision, it can also better match the company's resources to its future needs as discussed in strategic HRM. Agency theory discusses how there can be an asymmetry of values that people uphold in an organization, as the individual employees may hold certain things in higher value than e.g. the manager would. This



is one of the reasons why an alignment when choosing the HR manager initially is important, as it helps ensure that the right PMS is chosen as the PMS buyers values would align with the companies values. This will help the company to reach its strategic goals and objectives. The theory also mentions how there is a personnel control that can be done which is to ensure the right person to job fit, which will help produce better results in the organization in the long run.

Some strategies to overcome this issue could be to create a greater emphasis on creating an alignment of personal values and company values during the recruitment process itself. During interviews skills are often looked at first as it is easily quantifiable while personal values are harder to assess as they are subjective (Kirman, 2016). Skills should still play an important role, but it should be balanced with the potential employees' personal values. During the interview an interviewee mentioned how they tried to maintain a balance between these themselves. For example, after the interviewee was recruited for a job due to their high skill set, they then noticed that the company does not value the same things as them and decided to leave due to the misalignment. This was done as it was already evident that there will be some issues along the line as the interviewee wouldn't be able to act completely in the way the company desires. Another way to align the company values with the PMS buyers' values would be to have clear communication and set goals regarding what the company wants the PMS to achieve for them.

### **5.3 Stakeholder involvement**

Important factors were brought up during the interviews, factors such as consideration of employees and creating an open and transparent environment, which would help promote trust and an open dialogue. One of the ways to do so would be to ensure that the right amount of information is available to the stakeholders involved and to include relevant stakeholders' input throughout the designing process. Informing stakeholders about the reason the PMS was chosen and the intent of the system allows for them to support the implementation of the chosen system. This support also leads the PMS to then be used more efficiently.

Creating an environment that is open and transparent has many benefits such as promoting trust between a management and its employees, as when information is shared well and honestly employees are more likely to trust the leadership (Pfeffer, 2010). It also helps improve the communication in the company as employees are more willing to share and provide feedback which leads to better problem solving (Yue et al., 2019). Creating such an ecosystem view where the company aims to satisfy all stakeholders aids in the effort to create an alignment with the organizations. Another benefit would be to avoid unintended negative consequences, as the gap between the assumed reality and reality would be closed which can help lead to better organizational outcomes.

Transparent environments promote values such as ethical behavior and integrity. Furthermore, employees then are encouraged when they see consistency between the organizations actions and words (Kim et al., 2013). Interviewees mentioned there how some employees were hesitant to fully take part in the PMS as they were unaware of its benefits. This restricts the positive impact the PMS can make in the workplace as some employees are hesitant or have a lack of interest to take part in it.

Designers of the PMS are another stakeholder that would be beneficial to involve. Interviewees mentioned how involving

these stakeholders in the process is crucial as without them understanding the end users, the system would be able to create a positive impact. This co-creation allows for a better alignment and allows the PMS to have better chances to help manage performance.

Stakeholder involvement could also be a strategy to help with creating employee safety. Informing employees about how their data will be used and handled as well as what level of privacy will be present when using the PMS system will allow employees to have a greater trust not only in the PMS but in the management. This would further help create a safe environment where they can be open and honest which helps in the integration process and the usage of the system. The interviews brought light to how HR managers prefer a cocreation process rather than a non customizable system and therefore look for vendors that provide such applications.

### **5.4 Recommendation for future research**

The findings benefit academia as it suggests multiple relevant avenues for future research that would benefit the field. The different avenues for future research include the following: research can dive deeper into the effects and consequences that different levels of information availability have when designing a system to integrate. Transparency and openness is valued among many individuals, a study into whether that can negatively affect the company when there is too much information spread would aid organizations to be able to understand what levels of information availability is optimum for different companies. Another area that could be beneficial to dive into is what it looks like for each design stage to keep employees psychological safety as a core value. There is currently research available regarding stakeholder involvement and its role in creating alignment in organizations, but further research into the optimum amount of involvement depending on the size and type of the company would be beneficial for practice. Regarding personal values, future research can explore the benefits of prioritizing the fit of employees personal values to company values versus prioritizing the skill set they bring to the company. Based on the findings of this study, research on PMS designing should also look into how the identified aspects important to HR managers can be integrated into the design of PMSs. Exploring these avenues will provide insightful information that will allow organizations to optimize their PMS design process, and in turn their overall company performance as employees are one of the most important resources an organization has.

### **5.5 Recommendation for practice**

This paper brings light to certain aspects that can benefit practice. Organizations need to create a greater emphasis on the fit of their employees personal values to the company rather than only focusing on the potential employees skill set. This allows for a greater alignment throughout the organization which helps the overall performance. PMS buyers also need to strive to involve the relevant stakeholders throughout the process and should try to ensure that they are well informed, not only about the program or system in place but also why that system was chosen and what the buyer expects to yield from it. This creates an open and transparent environment which aids the PMS in place. Another aspect that is pertinent for PMS buyers is to make sure that the system is not chosen due to personal bias of the buyers values but ensure that there is the right balance between the company's objectives and the personal values of the buyer.

## 6. LIMITATIONS

This research faces certain limitations that impact the study such as the following; This data was collected from a small sample size which only included HR managers, due to which this study is mainly applicable to when the buyer of the PMS is the HR manager of the company. Nevertheless the small sample size interviewed produced rich qualitative data that aided the research. Although the anonymization helped to create an open environment and promote a space for genuine and honest answers, there was still a possibility that there was a social desirability bias that occurred. Another limitation was that the interviews were conducted with HR managers from one country, which could mean that the study is mainly applicable to companies with similar work environments and culture that is present in this country.

## 7. CONCLUSION

This research investigated the perspective of HR managers during the design process of performance management systems and development of its supporting tools to help understand what has to be considered in the design and choice of a PMS in order to achieve alignment in the organization. In order to do so, a literature review and five interviews were conducted. The data revealed the importance of creating a greater initial emphasis on aligning HR managers' to the company values as well as prioritizing employees needs as it leads to a more efficient PMS. Lastly, involving relevant stakeholders and ensuring the right amount of information availability to promote an open environment is recommended based on the findings. Generally, the HR manager's role revolved around ensuring an overall alignment between the employees perspective, company values and their own values, which allows the PMS to aid alignment, fit the reality of the organizational context, and perform efficiently.

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## 9. APPENDIX

**Table 1: Interview questionnaire**

Theme	Interview questions
PMS designing Process	What were your main considerations in the process of designing a PMS?
	What stakeholders were involved in the PMS designing process?
	How do you balance the different needs and goals of the various stakeholders during the process?
Challenges during the designing	What are challenges you faced during the PMS design process?
	Does personal bias play a role in the PMS design process? What potential precautions could be taken to prevent personal bias?
	What are challenges in general with PMSs? How do you address those in the design?
HR manager role during designing	What values were important to you when designing a PMS?
	How would you describe your role as a HR manager during the design process?
	In your experience does an HR manager hold the responsibility to choose the characteristics of a PMS?

**Table 2: Coding scheme**

Aggregate dimension	Second-order codes	First-order codes	Example quote
<b>Considerations of employees</b>	Ethical considerations	Psychological safety	“Safety would be in the core values, physical, but also mainly psychological safety.”
		Fairness	“Ethical values in this direction of course fairness”
	Open environment	Employee development	“It all goes back to the proper training and education of people and managers of understanding different values and seeing the diversity and opinions and how that can benefit a company or a team in the long run”
		Transparency	“Learning and developing yourself is one of the best values along with honesty, integrity and being open.”
<b>Aligning the PMS</b>	Development over selection	Co-creation and tailoring	“If you really work together with your team and with the company that creates the performance monitoring system, you can definitely make some changes”
	Long-sighted view	Future impact	“An important consideration is what structural impact are you gonna make for the company in alignment with the goals that we have in the future”
<b>Aligning values</b>	Aligning company and personal values	Choosing company representative of values	“I really need to work for a company that shares my values, the most primal goal should be to really want to add something to society and not damage it in another way.”