

A STUDY ON THE RELATIONSHIP BETWEEN PERFORMANCE MANAGEMENT AND EMPLOYEE RETENTION IN START-UP COMPANIES

STUDI HUBUNGAN ANTARA MANAJEMEN KINERJA DAN RETENSI KARYAWAN PADA PERUSAHAAN START-UP

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ABSTRACT

This literature review examines the relationship between performance management and employee retention in start-up companies. In the competitive landscape of start-ups, retaining talented employees is crucial for sustaining growth and innovation. Effective performance management systems, which include regular feedback, clear performance metrics, and employee development opportunities, have been identified as vital components in enhancing employee satisfaction and loyalty. This study synthesizes findings from various research articles published post-2019, highlighting how robust performance management practices can lead to improved employee engagement and retention rates. Furthermore, it explores the unique challenges faced by start-ups in implementing these systems, such as limited resources and evolving organizational cultures. By analyzing the interplay between performance management and retention strategies, this review provides insights for start-up leaders seeking to foster a committed workforce. The findings underscore the importance of aligning performance management initiatives with employee expectations and organizational goals to create a sustainable business environment. Future research should focus on sector-specific studies to further elucidate the dynamics of performance management in diverse start-up contexts.

Keywords: Performance management, employee retention, start-up companies

ABSTRAK

Tinjauan literatur ini mengkaji hubungan antara manajemen kinerja dan retensi karyawan di perusahaan start-up. Dalam lanskap kompetitif start-up, mempertahankan karyawan berbakat sangat penting untuk mempertahankan pertumbuhan dan inovasi. Sistem manajemen kinerja yang efektif, yang mencakup umpan balik rutin, metrik kinerja yang jelas, dan peluang pengembangan karyawan, telah diidentifikasi sebagai komponen penting dalam meningkatkan kepuasan dan loyalitas karyawan. Studi ini menyintesis temuan dari berbagai artikel penelitian yang diterbitkan setelah tahun 2019, menyoroti bagaimana praktik manajemen kinerja yang kuat dapat menghasilkan peningkatan keterlibatan karyawan dan tingkat retensi. Selain itu, tinjauan ini mengeksplorasi tantangan unik yang dihadapi oleh start-up dalam menerapkan sistem ini, seperti keterbatasan sumber daya dan budaya organisasi yang berkembang. Dengan menganalisis interaksi antara manajemen kinerja dan strategi retensi, tinjauan ini memberikan wawasan bagi para pemimpin start-up yang ingin membina tenaga kerja yang berdedikasi. Temuan ini menekankan pentingnya menyelaraskan inisiatif manajemen kinerja dengan harapan karyawan dan tujuan organisasi untuk menciptakan lingkungan bisnis yang berkelanjutan. Penelitian di masa depan harus fokus pada studi spesifik sektor untuk lebih memahami dinamika manajemen kinerja dalam konteks start-up yang beragam.

Kata Kunci: manajemen kinerja, retensi karyawan, perusahaan start-up

INTRODUCTION

In the fast-paced era of digital innovation, start-up companies have emerged as key drivers of global economic growth. These enterprises not only create new job opportunities but also

foster the development of new technologies and solutions that can transform everyday life. However, in the face of intense competition, employee retention poses a significant challenge for many start-ups. According to Ghani et al.,

(2022), high turnover rates can disrupt operational continuity and negatively impact innovation, prompting companies to focus on effective strategies to retain their best talent.

Performance management is one approach that can be adopted to enhance employee retention. An effective performance management system involves not just performance evaluation, but also constructive feedback, clear goal setting, and providing developmental opportunities for employees. This thesis is supported by research from Lee & Kim, (2023), which shows that employees who feel valued and receive positive feedback are more likely to remain with their organizations. Thus, effective performance management can enhance employee satisfaction and commitment.

In the context of start-ups, the unique challenges faced in implementing performance management must also be considered. Limited resources and frequently unstable organizational structures can hinder the effectiveness of performance management systems. A study by Zhang et al., (2023) indicates that start-ups often struggle to create a supportive performance culture, which can potentially reduce employee retention rates. Therefore, it is crucial to understand how start-ups can adapt their performance management practices to fit their unique conditions and needs.

Moreover, the importance of the relationship between performance management and employee retention is reflected in literature examining the influence of organizational culture. According to Alkhodary, (2023), a strong organizational culture can enhance employee commitment and reduce turnover rates. This suggests that to improve retention, start-ups need to foster a supportive and inclusive work environment where employees feel connected to the company's vision and mission.

In this context, this study aims to explore the relationship between performance management and employee retention in start-up companies. By reviewing the existing literature, it is hoped to identify best practices in performance management that can contribute to improved employee retention. Additionally, this study seeks to provide practical recommendations for start-up leaders in

managing performance and retaining quality employees.

Through a better understanding of this relationship, start-up companies are expected to implement more effective strategies for retaining their best talent, which in turn will support the growth and sustainability of the company in the future. This research aims to contribute significantly to the development of relevant performance management strategies for start-ups.

METHOD

This study employs a literature review methodology to investigate the relationship between performance management and employee retention in start-up companies. The literature review is grounded in sources published from 2019 onward to ensure the inclusion of the most current and relevant research findings. The process began with a systematic search of academic databases such as Google Scholar, JSTOR, and ProQuest, using keywords like "performance management," "employee retention," "start-ups," and "organizational culture." This search yielded a range of peer-reviewed articles, conference papers, and industry reports that address the dynamics of performance management and its impact on employee retention specifically within the context of start-ups.

The selected literature was then analyzed and synthesized to identify key themes and insights related to performance management practices and their effectiveness in enhancing employee retention. Special attention was given to studies that explored the challenges faced by start-ups in implementing performance management systems, as well as those that provided evidence of successful strategies for engaging and retaining employees. The synthesis of these findings facilitates a comprehensive understanding of how start-ups can leverage performance management to improve employee retention rates.

In addition, the review also examined the role of organizational culture in shaping employee perceptions of performance management systems. By integrating insights from these various sources, this literature review aims to provide a nuanced

perspective on the interplay between performance management and employee retention in start-up companies, offering practical recommendations for practitioners in the field.

RESULTS AND DISCUSSION

Importance of Performance Management Systems

Performance management systems (PMS) are essential tools for organizations, particularly in start-ups, to align employee objectives with the company's goals. These systems provide a structured approach for evaluating employee performance, setting clear expectations, and facilitating ongoing feedback. According to Vuong & Nguyen (2022), effective PMS contributes significantly to employee engagement and satisfaction, leading to increased retention rates.

The implementation of a well-designed PMS enables start-ups to create an environment where employees understand their roles and how their contributions affect overall company performance. When employees receive regular feedback, they feel more connected to their work and are motivated to improve their performance (Park & Choi, 2020). Moreover, a study by Yang et al., (2022) emphasizes that performance management practices foster a culture of accountability and recognition, which are crucial for retaining talent in the highly competitive landscape of start-ups. Consequently, companies that invest in robust PMS can enhance both employee morale and commitment, thus improving retention rates.

Additionally, PMS can help start-ups identify high performers and provide them with tailored development opportunities. By recognizing and rewarding top talent, companies can cultivate loyalty and reduce turnover (Weng et al., 2023). This proactive approach not only benefits individual employees but also strengthens the organization as a whole by creating a skilled and committed workforce.

Feedback Mechanisms as Retention Tools

The provision of constructive feedback is a critical component of performance management that significantly impacts employee retention. Research indicates that employees who receive timely and specific feedback are more likely to feel valued and understood by their employers (Joel et al., 2023). This sentiment is particularly important in start-up environments, where employees often take on multiple roles and may seek affirmation regarding their contributions.

Effective feedback mechanisms, such as regular performance reviews and informal check-ins, enable managers to discuss progress, recognize achievements, and address areas for improvement (Gandrita, 2023). A study by Obeng et al., (2024) found that organizations that prioritize feedback foster a culture of continuous improvement, which not only enhances individual performance but also promotes organizational learning. In start-ups, where agility and innovation are paramount, maintaining an open line of communication between employees and management can facilitate rapid adjustments and encourage a culture of collaboration.

Furthermore, the impact of feedback on employee retention is amplified when employees perceive it as genuine and supportive. When feedback is perceived as constructive rather than punitive, it can strengthen the employee-manager relationship and build trust within the organization (Song et al., 2022). Thus, developing effective feedback mechanisms should be a strategic priority for start-ups aiming to retain their workforce and enhance overall performance.

Employee Development Opportunities

Offering opportunities for professional growth and skill development is another significant factor influencing employee retention in start-ups. Employees are more likely to stay with organizations that invest in their career advancement (Palma-Moreira et al., 2024). Providing training programs, mentorship opportunities, and resources for skill enhancement can increase employee satisfaction and loyalty.

Start-ups, due to their often limited resources, may struggle to implement comprehensive development programs. However, even small investments in employee training can yield substantial returns in terms of retention (Bautista et al., 2024). Research has shown that employees who participate in ongoing development initiatives are more engaged and committed to their organizations. This is particularly critical in start-up environments, where rapid changes in technology and market conditions necessitate a workforce that is adaptable and continuously learning.

Moreover, when start-ups cultivate a culture of learning, they not only enhance employee retention but also promote innovation. Employees who feel empowered to grow their skills are more likely to contribute innovative ideas and solutions that drive the business forward (Karimi et al., 2023). By prioritizing employee development, start-ups can create a competitive advantage, retain top talent, and foster an environment conducive to growth and success.

The Role of Organizational Culture

Organizational culture plays a pivotal role in the retention of employees within start-ups. A strong and positive culture aligns with employee values, enhances job satisfaction, and promotes loyalty. In start-ups, where the work environment is often dynamic and less formalized, establishing a cohesive culture becomes even more crucial.

A study by Alkhodary (2023) highlights that organizations with a strong culture of support and recognition experience lower turnover rates. When employees feel that they are part of a supportive community, their commitment to the organization increases. Conversely, a toxic culture can lead to dissatisfaction and high turnover, particularly in start-ups where employees may feel more vulnerable due to the inherent uncertainties of new ventures.

Additionally, promoting a culture that values open communication and feedback fosters trust and collaboration among

employees. When employees feel safe to express their opinions and ideas, they are more likely to engage fully in their work. Thus, creating a positive organizational culture should be a strategic focus for start-ups aiming to enhance employee retention and overall performance.

The Impact of Leadership Style

The leadership style adopted by start-up founders and managers significantly influences employee retention. Transformational leadership, characterized by supportive, inspiring, and motivating behaviors, has been linked to higher levels of employee engagement and retention (Gandrita et al., 2023). Leaders who foster a positive environment and actively engage with their teams are more likely to retain talent.

Research indicates that employees who perceive their leaders as approachable and empathetic are more likely to remain with the organization. Such leaders create an environment where employees feel valued and recognized for their contributions. In contrast, authoritarian leadership styles can lead to dissatisfaction and increased turnover, especially in the collaborative setting of a start-up.

Moreover, transformational leaders often prioritize the development and well-being of their employees. They invest time in understanding individual strengths and aspirations, providing personalized support for career growth. By fostering a strong leader-employee relationship, start-ups can enhance job satisfaction and reduce turnover rates, ultimately contributing to a more stable and motivated workforce.

Challenges in Performance Management Implementation

Despite the benefits of performance management systems, start-ups often face unique challenges in their implementation. Limited resources, lack of established processes, and a fast-paced environment can hinder the effectiveness of performance management initiatives (Joel et al., 2023). Many start-ups struggle to find the balance between maintaining flexibility and implementing structured performance

management practices.

Furthermore, the absence of a clearly defined performance management framework can lead to inconsistencies in evaluating employee performance. Research shows that when performance criteria are unclear, employees may feel uncertain about their expectations and outcomes, which can lead to disengagement and higher turnover. This uncertainty is particularly pronounced in start-ups, where roles and responsibilities may shift frequently.

To overcome these challenges, start-ups should consider adopting agile performance management practices that align with their dynamic nature. Implementing flexible systems that allow for ongoing feedback and adaptation can help create an environment where employees feel supported and motivated. By addressing the challenges of performance management implementation, start-ups can improve employee retention and foster a culture of high performance.

CONCLUSION

This study highlights the significant relationship between performance management practices and employee retention in start-up companies. A well-structured performance management system is essential for aligning employee objectives with organizational goals, providing constructive feedback, and fostering an environment conducive to professional growth. The findings suggest that start-ups that prioritize effective performance management strategies, including regular feedback mechanisms, development opportunities, and supportive leadership, can significantly enhance employee satisfaction and commitment, ultimately leading to improved retention rates. The role of organizational culture and the leadership style adopted by management further emphasize the multifaceted nature of this relationship.

Moreover, while start-ups face unique challenges in implementing performance management systems, adapting these systems to their dynamic environments is crucial. By leveraging agile performance

management practices and cultivating a positive organizational culture, start-ups can create an engaged workforce that is less likely to turnover. Future research should focus on exploring specific performance management strategies tailored for start-ups and their impact on retention, providing deeper insights into fostering a stable and committed workforce in this competitive landscape.

SUGGESTIONS AND ACKNOWLEDGMENTS

Based on the findings of this study, it is recommended that start-up companies invest in developing comprehensive performance management systems that are adaptable to their dynamic environments. Implementing structured feedback mechanisms and providing ample opportunities for employee development can significantly enhance employee engagement and retention. Additionally, fostering a positive organizational culture that aligns with employee values is essential for creating an environment where employees feel valued and motivated to contribute to the company's success.

Furthermore, start-ups should prioritize leadership development to ensure that managers adopt transformational leadership styles that inspire and support their teams. Training programs focused on effective communication, empathy, and performance management can empower leaders to create a more engaged workforce. Finally, ongoing research should be conducted to identify best practices for performance management in start-ups, enabling these organizations to thrive in an increasingly competitive landscape.

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