Designing a Performance Management Strategy to Retain Employees in an IT Consulting Startup

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ABSTRACT: In today's competitive business environment, attracting and retaining top talent is a significant challenge. Developing an excellent employer branding strategy that aligns with an effective performance management strategy is critical to achieving these objectives. Regular performance appraisal is one measure that can enhance employee engagement by providing clarity about roles and responsibilities. Indonesia is expected to face a talent shortage of about nine million skilled and semi-skilled professionals between 2018 and 2030. Retaining top employees is crucial, and factors such as compensation, development opportunities, collaboration, workload, and feedback are critical to employee performance. A proposed performance management strategy for the IT Consulting Startup includes developing performance objectives, differentiated compensation, and regular feedback. By implementing these recommendations, the startup can retain top talent, create a positive workplace culture, and drive organizational success.

KEYWORDS: Employee Retention, Performance Management, Performance Appraisal, Service-based Startup, Technology Startup.

1. INTRODUCTION

Human resource management is critical to a company's success, and the workforce is often regarded as its most valuable asset (Tanwar & Prasad, 2017). To attract and retain top talent, companies must implement an effective employer branding strategy that aligns with their performance management strategy. Performance management involves measuring and developing the performance of individuals and teams to align their efforts with the organization's strategic goals. An effective performance management strategy can help companies identify and retain top talent.

Despite the need for skilled technology professionals increasing significantly after COVID-19, retaining top employees in the technology sector remains challenging. IT Consulting Startup is looking for an effective performance management strategy that aligns with their culture and values to retain its current workforce and minimize recruitment expenses. Employee retention can be influenced by physical, mental, and social factors, as well as aspects such as remuneration and rewards, career advancement, opportunities, work environment, organizational culture, training, workplace safety and hygiene, communication, and the exchange of opinions.

Companies need to prioritize building a culture of continuous recognition and feedback to improve their employer brand and attract and retain highly skilled professionals. Many businesses are transforming their old-fashioned yearly performance review process to a more dynamic and ongoing approach that emphasizes timely and relevant feedback, clear expectations, and alignment of employee goals with organizational goals (Sloan et.al, 2017). The research aims to identify the elements that impact performance in the technology startup to create an effective performance management strategy.

2. LITERATURE REVIEW

Employee Retention

Employee retention is a major challenge for companies in today's business landscape. Losing valuable employees can be a significant setback, especially considering the resources and time invested in their recruitment, training, and development. In order to develop effective retention strategies, companies should focus on effective communication, leadership, and a healthy work culture. In addition, compensation and rewards, job-related training, and performance appraisal serve as critical factors that can

increase employee satisfaction, motivation, and commitment, ultimately leading to higher retention rates and driving competitive advantage (Vlad, 2008).

Effective communication and leadership, both personal and organizational, are crucial for employee retention (Omer et al., 2015). This not only enhances an employee's identification with the company but also fosters an atmosphere of honesty and reliability (Sinha & Sinha, 2012). Provision of compensation and rewards, including financial and indirect benefits, is an effective way to retain employees. Job-related training can lead to increased problem-solving abilities, confidence, and motivation among employees,

Ultimately enhancing their commitment to their job. Performance appraisal serves as an important link between management and employees, providing opportunities for individual improvement and contributing to the organization's overall success.

Companies with satisfied employees are likely to experience higher retention rates, increased engagement, and commitment towards the company's vision and mission (Hong et al., 2012). Effective communication, compensation and rewards, job-related training, and performance appraisal are critical factors that can contribute to employee satisfaction, motivation, and commitment (Hong et al., 2012). Therefore, it is crucial for organizations to carefully consider their retention strategies to ensure employee satisfaction and retention, ultimately driving competitive advantage. By investing in employee retention, companies can foster a stronger sense of loyalty and dedication to the company among its employees (Cloutier et al., 2015).

Employee Retention Strategies and Organizational Performance

Organizational performance is the effective transformation of inputs into outputs to achieve desired outcomes. To achieve optimal performance, companies must prioritize implementing effective retention strategies to motivate employees (Singh, 2019). However, several factors such as personal concerns, societal ideals, and past experiences can negatively impact motivation. Therefore, enhancing employee motivation is crucial for improving organizational performance, and it requires a thorough understanding of the complexities involved (DiBenedetto & Schunk, 2020).

Factors such as employee involvement in decision-making, organizational reputation, opportunities for advancement, provision of incentives, and job expansion can all serve as motivating variables that encourage employees to work towards achieving organizational goals (Singh, 2019). Involving employees in organizational decision-making can create a sense of ownership and engagement among employees in their daily tasks (Hematifar & Bali, 2018). Additionally, an active salary enhancement program is important, and providing a pay raise to high-performing employees outside of the regular cycle can serve a strong motivator (Igbinoba et al., 2022).

Companies must focus on retaining top-performing employees through effective communication, leadership, and a healthy work culture. Compensation and rewards, job-related training, and performance appraisal also play a critical role in increasing employee satisfaction, motivation, and commitment, ultimately leading to higher retention rates and driving competitive advantage. By investing in employee retention, companies can foster a stronger sense of loyalty and dedication to the company among its employees, which can lead to improved organizational performance.

Performance Management

The achievement of great organizational performance requires a systematic approach that begins with defining the organization's mission, strategy, and objectives (De Waal, 2017). This process involves making goals and targets measurable, which allows for tracking progress and taking appropriate corrective or preventive actions. The organization's success depends on achieving these goals and targets, and careful planning and monitoring are necessary to drive it towards success.

To create a culture of success through performance-driven behavior, it's important to have a systematic approach to strategic performance management. This approach contains multiple sub-processes, including strategy development, budgeting/target setting, execution/forecasting, performance measurement, performance review, and incentive compensation (De Waal, 2017). All of these sub-processes work together to achieve organizational goals.

Conceptual Framework

In conducting research, it is important to establish a clear and concise conceptual framework that outlines key concepts, variables, and relationships. The Author interviewed the Human Resource Director to define the business issue and concluded that the company needs a performance management strategy to retain its employees. To gain a better understanding of the situation, the Author will

conduct interviews with existing employees on value propositions for employer branding, using research from Dabirian et al. (2019) to guide the analysis. Singh's (2019) research on employee motivation will be used to identify key drivers of performance, while Rajagopalan and Rupashree's (2019) research will guide the analysis of factors that affect performance.

Table 1. Factors Included in the Designed Questions

No	Values	Factors	Source
1	Economic Value	Salary and compensation based on competency	Agarwal & Bhargava (2009)
		Rewards and recognition for exceptional performance exceeding expectations	Maxwell & Knox, (2009)
		Access to benefits and perks for all employees	
No	**Values**	**Factors**	**Source**
		Healthcare benefits	Agarwal & Bhargava (2009)
2	Development Value	Career growth opportunities	Hughes & Rog, (2008)
		Empowerement to take decisions	Tumasjan et al., (2011)
		Opportunities to develop new skills through training	Agarwal & Bhargava (2009)
		Opportunities to apply what was learnt	Berthon et al., (2005)
3	Social Value	Culture of supportive and encouraging colleagues	Agarwal & Bhargava (2009), Berthon et al., (2005)
		Treating people with respect and trust	Hughes & Rog, (2008)
		Culture of supportive leadership	Montgomery & Ramus (2011)
		Work-life balance	Agarwal & Bhargava (2009)
4	Work Value	Periodic performance on feedback	
		Flexible work schedule	
		Adequate resource to perform on the job	
		Role clarity	Bhatnagar (2007)
5	Brand Image	Organization's reputation on being ethical	Srivastava & Bhatnagar (2008)
		Competent and fair leadership	Kennedy & Daim (2010)

When deciding on what benefits to offer employees, it's important to consider what employees value most. This includes not only salary, but also benefits like healthcare and paid time off. It's also important to invest in employees' long-term success with opportunities for growth and professional development. A team-oriented and employee-focused culture is important for social values, while work values emphasize work-life balance and flexibility. Finally, a company's reputation and brand image are becoming increasingly important for attracting potential employees. This includes factors like work culture and reputation.
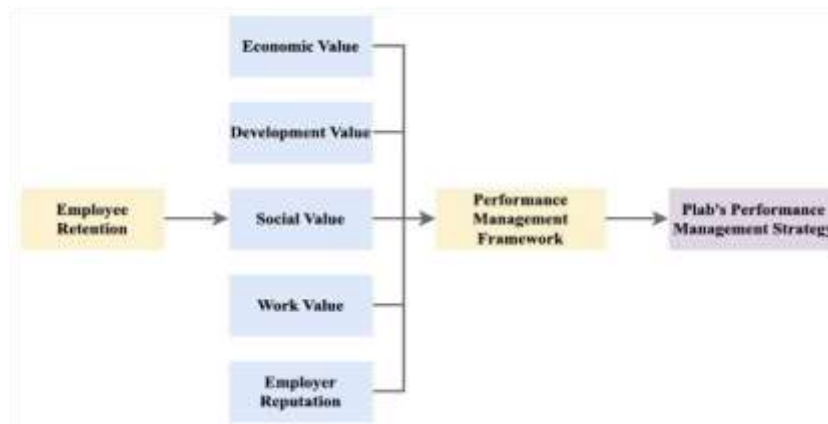

Figure 1. Conceptual Framework

3. METHODOLOGY

Research design is a systematic process that guides the research method employed and ensures validity in collecting and analyzing data (Creswell, 2014). It aims to convert research problems into data for analysis and provide relevant answers to research questions. There are three categories of research design: quantitative, qualitative, and mixed methods. In the context of the technology startup, a performance management strategy, specifically for employee retention, is being developed through qualitative research design using open-ended questions directed towards employees. Primary data will be collected through interviews, while secondary data will be gathered through reviewing academic journals and industry publications to gain a comprehensive understanding of performance management and employer branding.
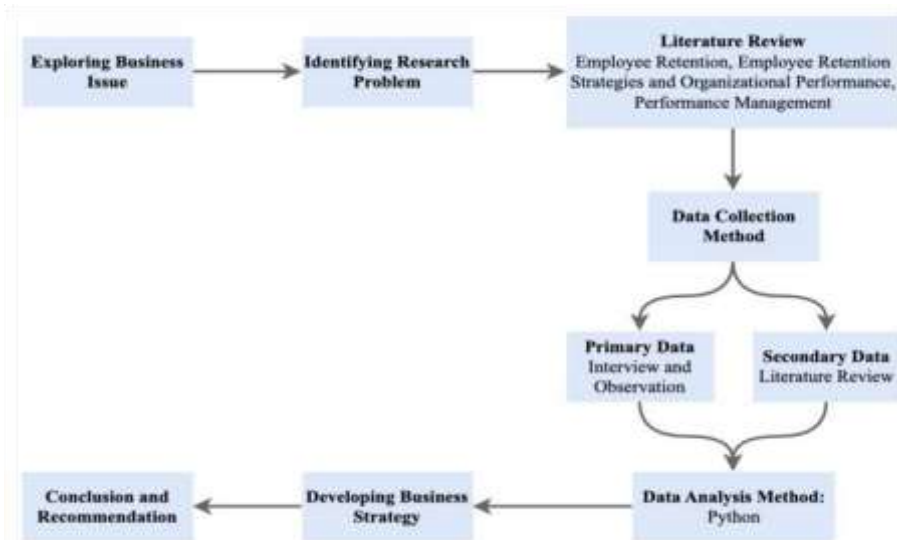

Figure 2. Research Design

After conducting interviews with different levels of employees, the collected data will be analyzed using the TF-IDF algorithm. The algorithm uses term frequency (TF) and inverse document frequency (IDF) to measure the importance of words within the text (Zhiliang et al., 2019). This analysis will provide valuable insights regarding performance management and employer branding at company and help identify key factors that can influence employee performance. The use of TF-IDF is a popular and effective technique in text information processing, widely used in applications such as natural language processing and information retrieval.

4. RESULT AND DISCUSSION

During an interview with the employees, it was found that the company offers a variety of economic benefits including a base salary, monthly bonuses, complimentary lunches, health insurance, and free courses. The top factors for economic value are salary, project, and bonus, but transparency needs to be improved. The company also places a high value on employee development, offering multiple platforms for growth. The significant factors for development are learning, course, and development, but there needs to be a better balance between technology and non-technology teams. The company's social values prioritize collaboration, needs, and workload, but there is an imbalance in the workload among employees affecting their work-life balance. In terms of work value, project, feedback, and workload are key factors, but the evaluation process could benefit from more clearly defined targets and KPIs. The company brand image is strong but could benefit from improvement in leadership. Overall, the company's dedication to employee growth and development fosters a positive and supportive work environment, leading to productivity and success.

5. BUSINESS SOLUTION

After conducting a thorough analysis, Author has come up with three key recommendations for performance management strategy in the company. The first recommendation is to develop performance objectives that align with the company's overall goals and priorities. This involves creating a consistent set of Key Performance Indicators (KPIs) for assessing performance in a quantitative

manner. Three recommended KPIs are utilization rate, project and non-project contribution, and learning and development completion.

Figure 3. KPI Development Process

The second recommendation is to create levels of compensation that ensure a meaningful differentiation of compensation among low, middle, and high performers. This can be achieved by implementing Deloitte's Performance Management Framework which involves team leaders evaluating each team member's performance and contribution to the company using a set of questions (Buckingham & Goodall, 2015). This approach allows for fair recognition and compensation based on each person's actual performance.

The third recommendation is to emphasize the importance of regularly providing feedback and having ongoing discussions about employee development. Effective team leadership involves conducting frequent check-ins with team members to discuss upcoming tasks, establish expectations, review recent work, and provide guidance or updated information (Buckingham & Goodall, 2015). These constructive discussions promote clarity regarding the expected contributions of each team member and how to perform optimally in the days ahead. By implementing these recommendations, the company can effectively evaluate the performance of their employees and drive performance results that positively impact the bottom line.

Table 2. Previous and Proposed Strategy Comparison

Previous Strategy	Proposed Strategy
Performance management relies heavily on subjective evaluations rather than quantiative metrics.	Developing performance objectives that align with the company's overall goals and priorities. Using utilization rate, project and non-project contribution, learning and development completion as the KPIs.
Every month, the compensation is determined through meetings of executive boards.	Creating levels of compensation to differentiate low, middle, and high performer based on performance review framework.
The feedback process is not very consistent, as it solely handled by the human resource director and not done on a regular basis.	Emphasizing the importance of regularly providing feedback and having ongoing discussion about employee development, either monthly or at the end of each project.

6. CONCLUSION AND RECOMMENDATION

The research on designing a performance management strategy for an IT consulting startup has identified significant factors that affect employee performance. These factors include economic, development, social, work, and brand-image factors. After conducting an assessment, it was discovered that the company lacks key performance indicators, a quantitative method for determining bonuses, and regular feedback. Therefore, a performance management plan has been suggested, which includes systematically evaluating employee performance, creating levels of compensation, and emphasizing regular feedback and ongoing discussions about employee development.

Further research is suggested to explore the effectiveness of various performance metrics, assess the effectiveness of performance management systems, and explore the use of technology to support performance management. The goal is to drive performance results that positively impact the bottom line and lead to organizational success.

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