

# Bridging theory and practice: Performance management in SMEs – the Gun Collection experience

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## Abstract

This study aims to analyze performance management practices at Gun Collection, a family-owned SME operating in the apparel retail and distribution sector, facing operational challenges and opportunities for growth in local markets. Using a case study approach, this research explores key elements of the performance management system, including performance evaluation, employee development, rewards and compensation, and compliance with labor regulations. Theoretically, this study employs the framework developed by Aguinis (2019), identifying five key dimensions in the performance management process: Prerequisites, Performance Planning, Performance Execution, Performance Assessment, and Performance Review. This research adopts a qualitative case study method. The findings reveal that Gun Collection successfully implements a structured performance management system through regular evaluations, technical and interpersonal training programs, contribution-based rewards, and adherence to labor regulations. This holistic approach enhances individual productivity and team collaboration and strengthens a competitive and sustainable organizational culture. However, the study also highlights challenges such as limited resources and the need for adaptation in a dynamic business environment. The study contributes theoretically by expanding the understanding of performance management implementation in SMEs, particularly in developing countries. Practically, the findings guide SME practitioners to design relevant and effective performance management systems to support organizational growth and sustainability.

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## Introduction

Performance management is a continuous process of identifying, measuring, and developing individual and team performance while aligning it with organizational strategic objectives (Aguinis, 2019). Unlike traditional annual performance appraisals, performance management differs in two key aspects. First, it establishes a precise alignment with organizational strategic goals. Second, it is a continuous, dynamic process rather than a static snapshot conducted once a year. Moreover, an effective performance management system helps employees align their objectives with organizational strategies, providing relevant feedback to ensure optimal performance (Moullin, 2004). Therefore, a robust performance management system is essential for sustaining business operations.

Performance management is critical to achieving organizational success for large and small enterprises (Biron et al., 2011; Qalati, 2022). In today's volatility, uncertainty, complexity, and ambiguity (VUCA) environment (Troise et al., 2022), rapid technological, social, and economic changes significantly impact the nature of work and organizational management (Zhang & Chen, 2024). For small and medium-sized enterprises (SMEs), these challenges are amplified due to limited resources

and the ongoing need to implement performance management systems to remain competitive in dynamic markets (Mendy, 2021; Siraj & Hågen, 2023; Temouri et al., 2022). The VUCA environment pushes organizations to adopt flexible and innovative performance management strategies to enhance employee engagement, adaptability, and operational sustainability (Agarwal, 2021).

Despite extensive research and examples of successful performance management system implementations, most studies have focused on large organizations (Papulová et al., 2021; Susilawati et al., 2013). SMEs are often perceived as scaled-down versions of large companies, disregarding their specific needs and characteristics in performance management (Jamil & Mohamed, 2011). However, SMEs are pivotal in economic development, contributing significantly to national growth and progress (Susilo et al., 2023; Waśniewski, 2017). Yet, performance management in SMEs remains underexplored, as confirmed by prior research (Brem et al., 2008; Garengo et al., 2005; Susilo et al., 2023). Existing literature predominantly focuses on developing theoretical models, often neglecting practical guidelines for implementation (Abidi et al., 2020; Brem et al., 2008; Kafetzopoulos, 2022).

This issue is particularly pronounced in SMEs operating in the apparel retail sector in developing countries, where informal practices and limited resources often hinder the adoption of structured performance management systems (Pittino et al., 2016; Siraj & Hågen, 2023). In Indonesia, many SMEs lack standardized guidelines for aligning employee performance with strategic goals, resulting in inconsistent evaluation, weak reward structures, and limited training mechanisms (Dwikardana & Teressia, 2023; Eravia et al., 2015; Omsa, 2017; Surya et al., 2020). While prior research in developing countries like Pakistan (Memon et al., 2010; Raziq & Wiesner, 2016), Nigeria (Bikefe & Daniel, 2022; Ogunyomi & Bruning, 2016), Ethiopia (Siraj & Hågen, 2023), and Thailand (Na-Nan et al., 2017), it has explored the general challenges of performance management in SMEs. However, there remains a gap in understanding how these systems are practically implemented on the ground—particularly within the Indonesian context. This study addresses that gap by focusing on how a local SME operationalizes a performance management system in real-world conditions.

This study focuses on performance management practices at Gun Collection, a family-owned SME operating in the apparel retail and distribution sector, which faces operational complexities while leveraging growth opportunities in local markets. Gun Collection was selected as a case study due to its unique approach to implementing a structured performance management system. The research explores key elements of the company's performance management system, including performance evaluation, employee development, rewards and compensation, and compliance with labor regulations.

Theoretically, this study employs the framework developed by Aguinis (2019), which identifies five key dimensions of the performance management process: Prerequisites, Performance Planning, Performance Execution, Performance Assessment, and Performance Review. However, there is a notable gap in the literature regarding the practical implementation of this framework in SMEs, especially in developing countries like Indonesia. This study addresses that gap by exploring how these dimensions manifest through actual performance management practices in Gun Collection.

Accordingly, this study aims to analyze how Gun Collection—a family-owned apparel retail SME in Indonesia—operationalizes the performance management system using Aguinis's framework. Rather than focusing on theoretical design, the study explores how performance evaluation, employee development, rewards and compensation, and compliance with labor regulations are integrated in daily business operations. The findings are expected to offer empirical insights into the practical challenges and strategies of performance management systems (PMS) implementation in SMEs, particularly in developing countries, and provide actionable recommendations for similar businesses in resource-constrained environments.

## Literature Review

### Performance Management Systems in SMEs: Developing vs. Developed Countries

Performance management systems (PMS) are vital in aligning employee goals with organizational objectives, providing ongoing feedback, identifying areas for improvement, and recognizing

outstanding performance, particularly in SMEs (Rathnakara & Arachchige, 2020; Siraj & Hågen, 2023). However, the effectiveness of PMS varies considerably between developed and developing countries due to differences in resources, access to technology, managerial expertise, and cultural contexts (Kafetzopoulos, 2022; Sharma et al., 2005; Thusi, 2023).

In developed countries, SMEs benefit from digital tools and skilled HR professionals to implement sophisticated, data-driven performance systems (Lee et al., 2015; Sharma et al., 2005), while in developing countries, implementation is often constrained by cost, infrastructure limitations, and a lack of formal systems (Siraj & Hågen, 2023; Thusi, 2023). These challenges are further shaped by cultural factors—collectivistic cultures, common in developing countries, tend to emphasize team-based performance and harmony, whereas individualistic cultures prioritize individual achievements (Ohemeng, 2009).

Recent literature advocates a shift from rigid, annual evaluations to more flexible and dynamic performance management models that emphasize continuous feedback, learning, and engagement (Aboubichr & Conway, 2023; de Araújo et al., 2024). Within this evolving landscape, managerial influence and organizational culture are also recognized as key drivers of effective PMS, particularly in small firms (Ugheoke, 2021).

### **Performance Management Systems in SMEs**

Performance management system (PMS) is a structured process designed to align individual and team performance with organizational goals through integrated activities such as planning, monitoring, evaluation, development, and rewards (Aguinis, 2019; Armstrong & Taylor, 2020). Effective performance management is essential for any organization (Rathnakara & Arachchige, 2020). While PMS has been widely applied in large organizations, SMEs face specific challenges in adopting such systems due to limited resources and informal HR structures (Mendy, 2021; Rr, 2020; Susilo et al., 2023). Performance management is a strategic approach to ensure that employees contribute optimally to achieving organizational goals (Armstrong & Taylor, 2020). PMS not only supports performance outcomes but also embeds accountability and employee development within the strategic cycle (Dessler, 2020).

According to Saleem et al. (2021) an effective PMS must account for various performance domains—task, contextual, and counterproductive behavior—ensuring a comprehensive approach to individual contribution. Performance management is an ongoing process that identifies, measures, and develops individual and team performance and aligns performance with the organization's strategic goals (Aguinis, 2019). The core elements of performance management include performance planning, monitoring, development, appraisal, and reward (Dessler, 2020). Performance management consists of five stages: (1) Prerequisite processes to encourage employee participation and prepare operating information (Aguinis, 2023; Serban, 2013), (2) Performance planning that establishes outcomes, capability needs, and guides development (Ladzani et al., 2010; Sutthison et al., 2015), (3) Performance evaluation that compares actual performance with targets (Blasini & Leist, 2013; Zheng et al., 2012), (4) Performance Review, involving discussions between executives and employees about achievements and areas of improvement (Brown et al., 2010), and (5) Performance implementation, which includes the development of plans, missions, strategies, and management (Chaola et al., 2015). Each stage ensures the alignment between employee output and organizational strategy while providing actionable feedback to drive improvement. Despite extensive studies in large firms, PMS implementation in SMEs—especially in developing economies—remains underexplored (Papulová et al., 2021; Waśniewski, 2017). This study aims to contribute to filling that gap by examining how PMS operates in a real SME context in Indonesia.

### **Training and Development as a Component of the Performance Management System**

In the context of a performance management system (PMS), employee training and development represent a structured mechanism to improve competencies and support continuous performance improvement.

Employee training is vital to human resource development to enhance individual and collective performance (Noe et al., 2019). Research demonstrates that tailored training programs

enhance employee adaptability, productivity, and organizational performance (Demirkan et al., 2022; Djastuti et al., 2020), particularly in dynamic SME environments (Mahmood et al., 2023; Ramadhani & Pratama, 2023). These programs have significantly impacted organizational performance (Voca & Havolli, 2019). They should be prioritized as they enhance employee performance and foster long-term competitive advantages, even amid resource constraints (Tafese Keltu, 2024; Younas et al., 2018).

### **Rewards and Compensation within the PMS Framework**

Rewards and compensation systems serve as performance-based feedback mechanisms within PMS frameworks to reinforce desired outcomes and employee engagement. A reward system encompasses processes for distributing financial and non-financial benefits as part of the employment relationship (Aguinis, 2023). Performance-based rewards are key motivators for employees to achieve high-performance standards (Newman et al., 2017). Fair and structured compensation systems significantly foster motivation and job satisfaction (Gerhart & Rynes, 2003).

Research highlights a direct relationship between performance-based rewards and productivity, as employees who feel valued tend to deliver better (Güngör, 2011; Kerr & Rifkin, 2008). However, compensation levels in SMEs are influenced by market conditions, company lifecycle stages, growth rates, and internal and external variables (Balogh et al., 2021). Often necessitated by high formalization costs, informal HR practices are standard in SMEs (Cunningham & Rowley, 2007; Guerrero et al., 2022).

### **Ensuring Legal Compliance in the Implementation of PMS**

Legal compliance is a critical requirement for performance management systems (PMS), especially in SMEs, to ensure fairness, employee acceptance, and alignment with national labor laws. A fair and legally sound performance management system is crucial to ensure compliance and employee acceptance (Aguinis, 2023). Adherence to labor laws in performance management is essential for organizations, including SMEs (Akinboade & Kinfack, 2012; Li & Rees, 2021), particularly in Indonesia (Putra & Sari, 2024). Non-compliance with these regulations can damage an organization's reputation and result in severe legal consequences (Pranaditya et al., 2023).

However, SMEs face challenges navigating increasingly complex labor regulations (Harris, 2000; Nieuwenhuizen, 2019). Despite awareness of legal obligations, many SMEs fail to actively follow regulatory updates, often resulting in unintentional violations due to a lack of knowledge (Atkinson & Curtis, 2004; Mallett et al., 2019).

## **Research Methods**

### **Case Study Design**

This study adopts a qualitative method with a case study approach, selected to investigate the subject in its natural conditions (Creswell, 2013). A single-case study design was applied to gain an in-depth understanding of the phenomenon explored within its natural organizational context. This method is deemed appropriate for examining how the phenomenon evolves within a specific organizational setting (Yin, 2017). Case studies using qualitative analysis are also highly relevant for theory development through direct observation of constructs emerging in real-world situations (Eisenhardt, 1989).

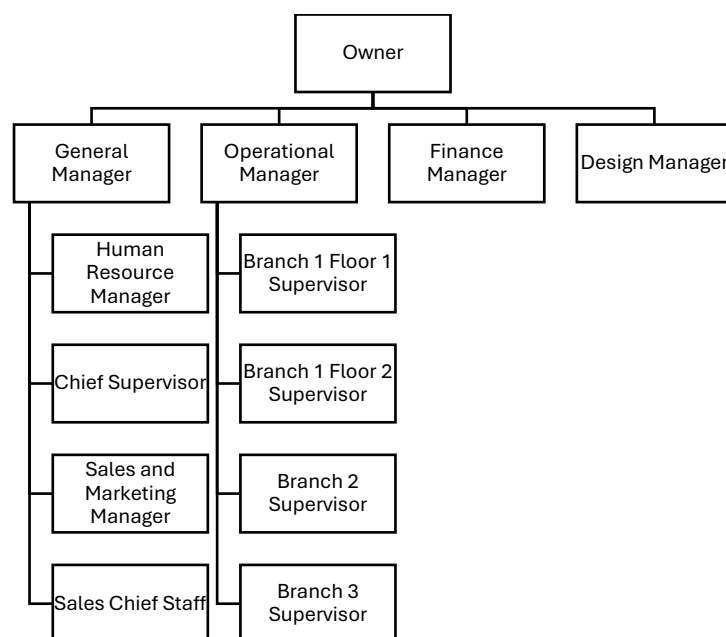
Purposive sampling was employed to support the depth of analysis. This technique allows the researcher to select subjects with unique characteristics relevant to the phenomenon, providing specific and valuable insights for a single-case study (Patton, 2015). Purposive sampling is considered adequate in case studies as it yields rich and detailed data, which is crucial for explaining the phenomenon within its context (Etikan, 2016).

### **Case Study: Gun Collection SME**

This study was conducted at Gun Collection, a family-owned SME engaged in apparel retail and distribution. The company sells a wide range of clothing-related products—from headscarves to

sandals—as well as household items such as bed linens and curtains. It is located on Jl. Potongan, Semanding Satu, Semanding, Gombong District, Kebumen Regency, Central Java. Gun Collection was officially established on May 31, 2007, by Ms. Gunarsih, following more than a decade of experience working at Kios Ibu Darmi, a family-owned traditional market stall. Since 1995, Ms. Gunarsih has developed her skills and business acumen in that environment, eventually launching her own business in a small kiosk at the Gombong traditional market. Through excellent customer service and quality products, the business steadily gained popularity. As demand increased, she expanded the business by founding Gun Collection and subsequently opened a second branch in 2017 and a third in 2021. The company now operates across three outlets and employs 33 staff.

The study involved five informants: the HR Manager, the Sales and Marketing Manager, the Finance Manager, and two employees. To understand Gun Collection's organizational dynamics and structure more thoroughly, Figure 1 illustrates the company's organizational structure. The figure outlines the roles and responsibilities of each informant, providing valuable insights for the subsequent analysis of performance management practices within this SME.



**Figure 1.** Organizational Structure of Gun Collection

Despite its SME classification, Gun Collection has adopted relatively structured performance management practices. These include regular performance evaluations conducted weekly or biweekly, structured job descriptions, training programs focused on both technical and interpersonal skills, and contribution-based rewards such as bonuses and promotions. Supervisors are assigned to monitor day-to-day operations, and the company complies with labor regulations, including adherence to the local minimum wage standard. These features demonstrate the company's practical commitment to structured performance management and make it a valuable case for understanding PMS implementation in resource-constrained settings.

## Data Collection

Data collection, presentation, and analysis processes were iterative and formed a key element of the case study method (Yin, 2017). An interview protocol consisting of prepared questions was developed to guide the interviews. Although structured guidelines were used, the interviews remained flexible, allowing for new queries and follow-up field visits as relevant issues emerged.

Before each interview, participants were informed that the session would be recorded and that their identities would remain confidential. Interviews lasted 30 minutes or over 2 hours, depending on the discussion's progression. Data collection was deemed sufficient when iterative

cycles between collection and analysis no longer produced new findings and theoretical saturation was achieved (Glaser & Strauss, 2017; Guest et al., 2006).

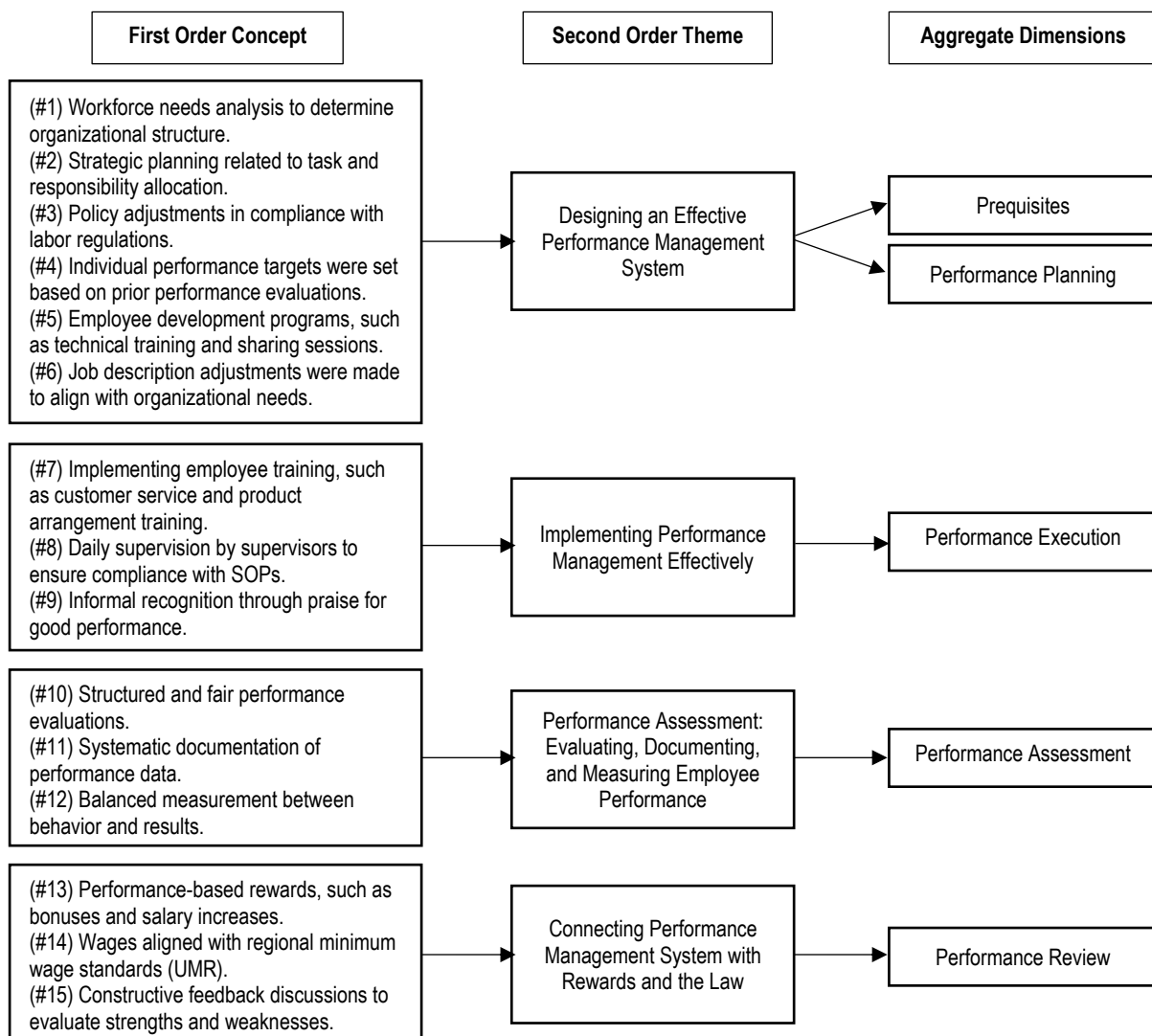
## Data Analysis

This study employed a thematic-narrative approach to data analysis. Researchers identified key themes from interview data and used narrative analysis to explore informants' specific experiences related to their roles, offering in-depth insights into the organizational context (Braun & Clarke, 2006). This combination enabled a comprehensive understanding of performance management practices at Gun Collection SME.

Qualitative data from the interviews were fully transcribed and triangulated across informants to ensure validity (Yin, 2017). This rigorous analytical approach provided a robust foundation for deriving meaningful insights into the performance management practices within the organization.

## Results and Discussion

This section presents empirical findings obtained from in-depth interviews with informants at Gun Collection. The research identified 15 responses related to performance management practices. These responses are written in italics, followed by a hashtag symbol and a number in parentheses (e.g., #1), indicating specific practices implemented by Gun Collection as part of its employee performance management system. The responses were categorized and analyzed using a thematic coding process.



**Figure 2.** Concepts, Themes, and Categories

These aspects were further abstracted into four second-order themes, each aligned with one or more of the five aggregate dimensions of performance management proposed by Aguinis (2019): Prerequisites, Performance Planning, Performance Execution, Performance Assessment, and Performance Review. This categorization process is visually illustrated in Figure 2 and forms the basis for the analytical narrative presented in the following subsections.

### Designing an Effective Performance Management System

Gun Collection developed its performance management system through a structured design grounded in practical workforce needs. This corresponds to the Prerequisites and Performance Planning dimensions (Aguinis, 2019), as reflected in six first-order concepts drawn from the field data.

First, the company began by conducting a (#1) *workforce needs analysis to determine organizational structure*, which helped in mapping out staffing requirements across its branches. It was followed by (#2) *strategic planning related to task and responsibility allocation*, enabling clearer job scopes and minimizing overlap.

*"We gather performance data through employee evaluations during branch supervisor meetings and sales and revenue analysis. This data is then analyzed to derive insights needed for performance management decisions."* (HR Manager, Gun Collection)

Gun Collection also made (#3) policy adjustments in compliance with labor regulations, ensuring their operational policies aligned with legal employment standards such as regional minimum wage and standard working hours. Next, (#4) *individual performance targets were set based on prior performance evaluations*, forming the basis for ongoing review and adjustment. This was reinforced by the active role of supervisors in monitoring progress and performance standards. A branch employee noted:

*"With supervisors in each branch, every employee's performance is observed and documented for weekly reports to Mrs. Gun (the owner)."* (Branch Employee 1, Gun Collection)

To ensure capacity-building, the company implemented (#5) *employee development programs, such as technical training and sharing sessions*. These programs were tailored to improve customer service skills and product presentation, while also fostering peer learning.

*"My strategy is to allow employees to grow without limitations; this ensures their performance remains stable and improves. If an employee wants to learn something, I'll gladly support them. We also conduct training for employee development, such as projects on product arrangement, engaging with customers, and more."* (HR Manager, Gun Collection)

Lastly, (#6) *job description adjustments were made to align with organizational needs*, especially as the business expanded. These adjustments ensured that employees' roles remained relevant and responsive to operational demands. Another employee remarked:

*"I experience daily monitoring and evaluation. There's a supervisor, so I'm also observed. If I make a mistake at work, I am immediately corrected."* (Branch Employee 2, Gun Collection)

This process ensures that performance evaluations function as strategic tools (Murphy, 2020) for continuous improvement and employee development (Gravina et al., 2021). Gun Collection's evaluation system combines routine monitoring, systematic documentation, and data-driven analysis, aligning with best practices emphasizing ongoing, evidence-based evaluations (Aguinis, 2019; Armstrong, 2022; Awan et al., 2020). The blend of structured methods and implementation flexibility establishes a strong foundation for effective human resource management.

### Implementing a Performance Management System Effectively

Gun Collection operationalized its performance management design through structured implementation strategies. This aligns with the Performance Execution dimension in Aguinis' (2019) framework, as seen in the three first-order concepts emerging from the interview data.

(#7) *Implementing employee training, such as customer service and product arrangement training*, is one of the company's main strategies to ensure that employees have the skills needed to meet customer demands. The HR Manager stated:

*“My strategy is to allow employees to grow without limitations; this ensures their performance remains stable and improves. If an employee wants to learn something, I’ll gladly support them. We also conduct training for employee development, such as projects on product arrangement, engaging with customers, and more.”* (HR Manager, Gun Collection)

In addition to formal training, Gun Collection also employs peer learning by organizing sharing sessions between junior and senior employees. These platforms foster experience exchange and help reinforce company values. The Sales and Marketing Manager shared:

*“We have several exciting programs to develop the team’s skills. These include training on effective customer interaction and sales techniques. We also hold sharing sessions where senior employees share their experiences.”* (Sales and Marketing Manager, Gun Collection)

*“The usual strategy includes regular training to enhance their knowledge.”* (Finance Manager, Gun Collection)

Training is not the only component of implementation. Gun Collection also applies (#8) *daily supervision by supervisors to ensure compliance with SOPs*. This daily monitoring aims to build discipline and prevent deviations from standard procedures, which the employees also perceive as part of their development.

*“Regarding the strategy, I’ve experienced supervision, learning, and discipline recording. That’s part of the development strategy. We’ve also had family gatherings and training to enhance our skills.”* (Branch Employee 1, Gun Collection)

In line with this, (#9) *informal recognition through praise for good performance* is frequently practiced. The company uses personal encouragement and recognition—whether in person or through messages in group chats—to motivate and affirm positive behavior.

*“The strategy includes training for employees like me, discussions together, and directions from the branch head, either directly or sometimes via the WhatsApp group.”* (Branch Employee 2, Gun Collection)

Such activities improve skills, enhance collaborative work culture, and boost employee loyalty to the company (Khan et al., 2024). Overall, Gun Collection’s employee development strategies reflect a holistic approach, encompassing technical training, interpersonal skill-building, and team relationship reinforcement. This approach aims to enhance individual productivity while creating a work environment conducive to organizational growth and sustainability. By combining formal and informal training, the company ensures that employees grow aligned with organizational needs (Piwowar-Sulej, 2021; Rampa & Agogué, 2021; Sykes, 2020).

### **Performance Assessment: Evaluating, Documenting, and Measuring Employee Performance**

Gun Collection applies performance assessment as a critical part of its performance management system. This aligns with the Performance Assessment dimension of Aguinis’s (2019) framework, which emphasizes continuous evaluation through behavior tracking, result measurement, and performance documentation.

(#10) *Structured and Fair Performance Evaluations* are carried out by direct supervisors, the HR manager, and divisional managers. These evaluations consider various components depending on the employee’s division, such as goal achievement, quality of work, behavior, and contribution to the organization. The HR Manager explained:

*“Evaluators in our performance management system include direct supervisors, the HR manager, and branch supervisors. The components assessed include goal achievement, work quality, behavior, and contributions to the company.”* (HR Manager, Gun Collection)

Similarly, the Sales & Marketing Manager elaborated on the customized evaluation criteria:

*“Performance evaluation involves direct supervisors and managers of each division. The assessed components vary by division. For example, in the marketing division, we assess sales targets, communication skills with customers, and initiative in overcoming field challenges.”* (Sales & Marketing Manager, Gun Collection)

Employees also confirmed this approach. One operational staff member stated:

*“My supervisor and divisional manager conduct the performance assessments. Because I work in operations, I’m assessed on order handling and communication with customers. What I appreciate is the fairness – they treat*



*everyone equally, without favoritism.*" (Branch Employee 1, Gun Collection)

(#11) *Systematic Documentation of Performance Data* is carried out through both observation and written reporting mechanisms. Supervisors play an active role in monitoring employee activities and reporting key performance aspects weekly. The HR Manager described:

*"We observe employees as they work. For example, the supervisor on the first-floor monitors operations and notes any complaints that arise so they can be addressed."* (HR Manager, Gun Collection)

Supporting this, the Sales & Marketing Manager emphasized the importance of tracking performance records:

*"I regularly review sales data and customer feedback. If there's a complaint, we record it and evaluate it with the team to improve our services. If it's a compliment, we note it for recognition."* (Sales & Marketing Manager, Gun Collection)

Weekly performance reporting mechanisms further confirm this documentation. An employee noted:

*"Because each branch has a supervisor, employee performance is observed and recorded for weekly reports to the owner."* (Branch Employee 1, Gun Collection)

(#12) *Balanced Measurement Between Behavior and Results* is a hallmark of Gun Collection's assessment philosophy. Managers and employees consistently reported that both the manner of work (behavior) and the outcomes (results) are assessed.

*"We assess performance based on both behavior—how employees follow instructions and act professionally—and results, like how many units are sold. Although we value results, we place a greater emphasis on behavior because good behavior often leads to good outcomes."* (HR Manager, Gun Collection)

Employees corroborated this approach in practice:

*"In my case, both behavior and results are assessed. Our owner values honesty and responsiveness, while the branch head checks our daily outcomes."* (Branch Employee 1, Gun Collection)

*"Behavioral performance means being disciplined—coming on time, being polite to customers. But results are also important, like achieving sales targets. I focus on behavior because it leads to better results. But yes, performance-based bonuses depend on both."* (Branch Employee 2, Gun Collection)

By integrating structured evaluation processes, systematic documentation, and balanced measurement of behavior and results, Gun Collection ensures a holistic and fair performance assessment approach that contributes to employee development, accountability, and strategic alignment.

## Connecting Performance Management System with Rewards and the Law

Gun Collection integrates performance management with an individual contribution-based reward system and adherence to labor regulations. Financial rewards such as bonuses and formal recognition motivate employees, enhance loyalty, and strengthen organizational culture. Simultaneously, compliance with labor laws, including wages that meet the regional minimum standards and a fair and proportional disciplinary system, ensures that employees' rights are protected and fosters a conducive work environment. This practice underscores the balance between rewards and justice to support organizational sustainability.

(#13) *Performance-based rewards, such as bonuses and salary increases* are a cornerstone of Gun Collection's strategy to motivate and retain employees. The HR Manager explained that the company recognizes outstanding performance through bonuses, allowances, promotions, and salary adjustments:

*"Performance management is connected to the company's reward system through recognition of employee achievements, provision of incentives such as bonuses and allowances, and promotions or salary increases as acknowledgment for exceptional performance."* (HR Manager, Gun Collection)

This performance-reward linkage supports task performance while promoting fairness. Both formal and informal recognition are used to maintain morale and encourage consistent productivity. As the Sales and Marketing Manager described:

*"Rewards come in various forms. There are basic salaries and bonuses for good performance. We also provide praise or recognition during evaluation meetings. The salary and bonus are tailored to each employee's achievements based on performance evaluations."* (Sales and Marketing Manager, Gun Collection)

This highlights how formal and informal recognition synergistically enhances employee motivation and satisfaction. From the employees' perspective, bonuses significantly impact work motivation. A branch employee explained:

*"I enjoy working here because I feel comfortable with the environment and my team. Plus, we always receive bonuses for good performance."* (Branch Employee 1, Gun Collection)

*"The rewards I receive include bonuses. In addition to basic salaries or holiday allowances (THR), we also get overtime pay."* (Branch Employee 2, Gun Collection)

Performance-based rewards boost morale and strengthen the connection between employee contributions and recognition. The financial manager emphasized how the financial system considers specific contributions to the company's financial goals:

*"Financial management is linked to various forms of rewards, such as recognizing outstanding financial achievements with performance bonuses or promotions for high-performing team members."* (Finance Manager, Gun Collection)

Gun Collection demonstrates a high commitment to labor law compliance, reflecting its responsibility as an organization that upholds legal principles and justice for its employees. (#14) *Wages aligned with regional minimum wage standards (UMR)* demonstrate the company's firm commitment to legal compliance. The HR Manager confirmed:

*"To ensure this, our company adheres to labor regulations by not paying wages below the local minimum standard of Kebumen Regency. Employee welfare is ensured through fair and equal treatment of all employees."* (HR Manager, Gun Collection)

This policy is consistently implemented across branches and recognized by employees:

*"In my opinion, everything here is compliant. Wages meet the local UMR, and working hours are standard at 7 to 8 hours. The owner rarely dismisses employees unless there's a valid reason."* (Branch Employee 1, Gun Collection)

*"As far as I'm concerned, Gun Collection complies with labor regulations. My rights as an employee are fulfilled, wages are decent, the work environment is supportive, and everyone is treated equally without gaps or discrimination."* (Branch Employee 2, Gun Collection)

(#15) *Constructive feedback discussions to evaluate strengths and weaknesses* are an additional element that links performance reviews to employee development. Feedback is not only a formal mechanism but also an interactive process embedded in the company's culture, as stated by the Sales and Marketing Manager:

*"At Gun Collection, we always follow labor regulations. We provide employees with rights, ensure their welfare, and avoid discrimination. Essentially, we strive to ensure that our performance management system complies with applicable laws, treating employees fairly and according to regulations."* (Sales and Marketing Manager, Gun Collection)

Overall, Gun Collection's rewards and compensation system reflects an integrated strategic approach, combining financial rewards, non-financial recognition, and acknowledgment of individual contributions. This combination enhances employee motivation (Aguinis et al., 2013; Camilleri et al., 2023; Matloob et al., 2021), loyalty (Nguyen et al., 2020), and productivity (Manzoor et al., 2021), making it a vital tool for effective performance management. Thus, rewards and compensation are transactional and serve as strategic elements in building a positive and competitive organizational culture.

## Discussion

The findings of this study reveal that Gun Collection implements a structured performance management system encompassing five key dimensions: Prerequisites, Performance Planning, Performance Execution, Performance Assessment, and Performance Review. Core practices such

as periodic performance evaluations, employee development through training, performance-based rewards, and adherence to labor regulations form this organization's performance management framework. These findings align with Aguinis' (2019) model, which underscores the significance of each component in a performance management system to achieve positive organizational outcomes. For instance, the periodic evaluations conducted at Gun Collection support the idea that performance assessment is pivotal in fostering accountability.

However, this study also highlights Gun Collection's unique characteristics, such as informal recognition and experience-based training, which are not explicitly detailed in Aguinis' model. This contributes novel insights to the literature by emphasizing the importance of contextual approaches to performance management, particularly for SMEs in developing countries.

The study demonstrates that the performance management dimensions at Gun Collection are interconnected and mutually reinforcing. For instance, Performance Planning is the foundation for Execution, where supervisors ensure compliance with standard operating procedures (SOPs) and support employees in task implementation. Periodic Performance Assessments provide data for Performance Reviews, which are ultimately used to set future work targets. As the literature recommends, the interaction between these dimensions creates an integrated performance management cycle (Aguinis, 2019).

## Implication and Conclusion

This study aimed to analyze how Gun Collection designs and implements an effective performance management system (PMS) within the SME context. The findings reveal that the PMS at Gun Collection reflects five core dimensions as outlined by Aguinis (2019): Prerequisites, Performance Planning, Performance Execution, Performance Assessment, and Performance Review. These dimensions are operationalized through workforce analysis, performance evaluations, employee development programs, performance-based rewards, and legal compliance practices.

This study reinforces the understanding that performance management in SMEs should not be treated as fragmented HR activities but as an integrated system that links strategy formulation, employee behavior, and organizational goals. A systemic approach to PMS enables SMEs in developing countries to overcome resource constraints by aligning internal capabilities with performance targets.

From a comparative perspective, SMEs in countries such as Pakistan, Ethiopia, and Vietnam demonstrate similar trends in adopting informal yet flexible PMS practices due to contextual limitations such as limited technology, managerial expertise, and regulatory enforcement (Raziq & Wiesner, 2016; Siraj & Hågen, 2023; Stanton & Pham, 2014). For example, in Pakistani SMEs, performance appraisals often rely on informal feedback and supervisory observations, similar to the documentation and supervision system used at Gun Collection (Raziq & Wiesner, 2016). In Ethiopia SMEs, employee development and behavior-based assessment are emphasized over structured KPIs, reflecting the cultural and operational similarities found in this study (Siraj & Hågen, 2023). Meanwhile, Vietnamese SMEs incorporate both results and behavioral indicators into employee evaluations, aligning with Gun Collection's approach to mixed performance measurement (Nguyen et al., 2020; Stanton & Pham, 2014).

Theoretically, this study extends the application of Aguinis' PMS framework to resource-constrained environments, offering empirical evidence on how each dimension can be effectively implemented in SMEs in developing countries. Practically, the findings offer valuable insights for SME practitioners and policymakers by providing a concrete case on how PMS can be structured and adapted to local contexts.

Future research should consider comparative multi-case studies across different sectors or regions to deepen understanding of the diversity of PMS implementation in SMEs. A mixed-methods or longitudinal approach could further reveal the long-term impact of integrated PMS practices on organizational resilience and sustainability.

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