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Pay for Performance and Employee Performance: A Systematic Literature Review of Mechanisms and Boundary Conditions

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Abstract

Organizations frequently rely on pay for performance (PFP) to raise employee output, but evidence on its effectiveness is mixed. This review synthesizes how PFP relates to performance, why it produces both favorable and unfavorable outcomes, and when its influence becomes stronger or weaker. Following PRISMA 2020, thirty-one articles published between 2014 and 2026 (17 empirical studies, 3 meta-analyses, 7 systematic reviews or protocols, and 4 conceptual reviews) were synthesized thematically. PFP is generally positively related to performance, more strongly for task performance and output quantity than for contextual performance and quality. Its effects operate through four mechanisms: informational versus controlling perceptions of pay, fairness perceptions, work stress and health, and workforce sorting. Their strength depends on job type, multitasking and prosocial mission, the mix of individual and group incentives, time since adoption, performance standard design, and cultural and institutional context. PFP is effective when it is designed fairly and transparently and aligned with job characteristics. The review proposes an integrative framework separating how PFP works from when it works, with implications for retail organizations and a future research agenda.

Keywords: pay for performance; performance-related pay; employee performance; intrinsic motivation; pay fairness; systematic literature review

INTRODUCTION

Pay is among the most powerful levers organizations use to recruit, keep, and energize their workforce (Fulmer et al., 2023; Gerhart et al., 2026). Under pay for performance (PFP), part of employee earnings depends on individual, team, or organizational results, through bonuses, merit increases, commissions, team incentives, or profit sharing (Bayo-Moriones et al., 2022; Oyedele, 2025). PFP should lift performance

through an incentive effect and a sorting effect that attracts and retains strong performers (Gerhart & Fang, 2015; Lee, 2025), but critics warn that it can crowd out intrinsic motivation, generate stress, and narrow attention to what is rewarded (Andelic et al., 2024; Kuvaas et al., 2020).

Empirical work has not settled the matter. Meta-analyses report a positive association, clearest for task performance (Chen et al., 2023), and a significant but modest one in the public sector (George & van der Wal, 2023), while other studies found no impact on task performance (Desa & Asaari, 2020) or benefits only after several years (Na et al., 2025). Indonesian studies also report mixed results (Dewi et al., 2022; Sulistyorini & Yerizal, 2026), a question that matters for retail firms relying on commissions, target bonuses, and group incentives.

Previous reviews have examined compensation in general (Kurniawan, 2025; Sulistyorini & Yerizal, 2026), pay fairness (Mahfud, 2026), public-sector PFP (Ahmad et al., 2024), or merit pay (Velghe et al., 2024), but few integrate meta-analytic, experimental, survey, and firm-level evidence to distinguish *mechanisms* (how PFP works) from *boundary conditions* (when PFP works). To build such an integrative framework, this review addresses four research questions (RQs):

- **RQ1:** How is PFP related to employee and organizational performance?
- **RQ2:** Which mechanisms explain the positive and negative effects of PFP?
- **RQ3:** Which boundary conditions strengthen or weaken the PFP–performance relationship?
- **RQ4:** Where does the evidence remain thin, and what should researchers study next?

THEORETICAL BACKGROUND

PFP, labelled *performance-related pay* (PRP) in much public-sector research, ties rewards to appraised performance at the individual, team, or organizational level (Bayo-Moriones et al., 2022; Lee, 2025); bonuses are paid once, whereas merit increases accumulate in base salary (Na et al., 2025). Expectancy theory holds that people are motivated when effort leads to performance and performance to valued outcomes (Vroom, 1964), and personnel economics adds that PFP raises productivity through

incentives and by changing who works for the firm (Lazear, 2000). PFP should therefore work best when employees see how their effort connects to the payout, known as *line of sight* (Kuvaas et al., 2020).

Cognitive evaluation theory holds that rewards read as *informational* nourish intrinsic motivation, whereas rewards read as *controlling* erode it (Deci & Ryan, 1985; Kuvaas & Ding, 2025). Equity theory adds that people compare their contribution–reward balance with others' (Adams, 1965), so distributive and procedural justice shape reactions to PFP (Chen et al., 2023; Saether, 2020). Agency theory views PFP as aligning interests when effort cannot be observed, but in multitask jobs strong incentives on measurable tasks divert effort from hard-to-measure ones (Holmström & Milgrom, 1991; Jones et al., 2023).

Performance covers task, contextual (Borman & Motowidlo, 1993), and adaptive dimensions (Tang et al., 2024), as well as output quantity and quality (Cerasoli et al., 2014), and at the organizational level productivity or KPIs (Dewi et al., 2022; Na et al., 2025). Because PFP is tied to easily measured indicators, its effects may differ across these dimensions (Chen et al., 2023).

METHODS

This review followed a systematic literature review (SLR) design reported according to the *Preferred Reporting Items for Systematic Reviews and Meta-Analyses* (PRISMA) 2020 statement (Page et al., 2021). No protocol was registered; the eligibility criteria in Table 1 were agreed before screening.

Table 1. Inclusion and Exclusion Criteria

Aspect	*Inclusion criteria*	*Exclusion criteria*
Topic	PFP, merit pay, bonuses, incentives, performance-based pay	General compensation unrelated to performance
Outcomes	Performance, productivity, effort, motivation, fairness, health, or retention	No employee or organizational outcomes

Aspect	*Inclusion criteria*	*Exclusion criteria*
Publication type	Peer-reviewed journal articles, including reviews and conceptual papers	Proceedings, theses, books, opinion pieces
Publication year	2014–2026	Before 2014
Language	English or Indonesian	Other languages
Availability	Full text accessible	Abstract only

On 2 October 2026, Scopus, Web of Science, Google Scholar, and Garuda (using equivalent Indonesian keywords such as "*kompensasi berbasis kinerja*" and "*kinerja karyawan*") were searched with the string below, supplemented by backward citation searching:

("pay for performance" OR "performance-related pay" OR "performance-based pay" OR "merit pay" OR "incentive pay") AND ("employee performance" OR "job performance" OR productivity OR motivation OR "work effort")

Records were exported to Mendeley, de-duplicated, and screened on titles, abstracts, and full texts against Table 1 by all five authors, with disagreements resolved by consensus (Figure 1). Bibliographic details, design and sample, setting, PFP type, outcomes, mechanisms, boundary conditions, and key results were extracted into a common template (Table 3).

Quality was appraised by study type to weight rather than exclude findings, giving meta-analyses and panel data more weight than cross-sectional surveys. Given heterogeneous designs, a narrative-thematic synthesis used six themes: (T1) PFP–performance relationship, (T2) motivation and reward perceptions, (T3) fairness, (T4) strain and health, (T5) sorting and organizational performance, and (T6) design and context.

RESULTS

Study Selection

Figure 1 shows the selection process, which left 31 included articles.

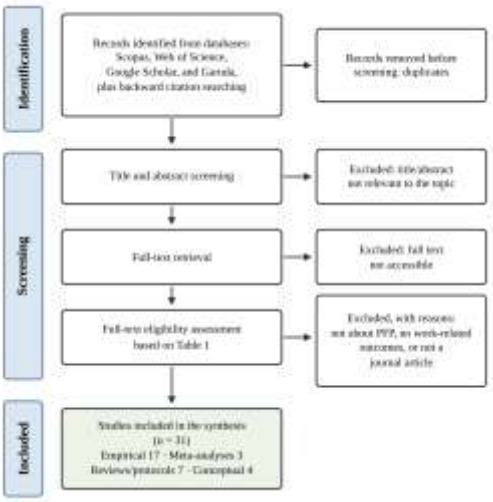

Figure 1. Flow of Studies Through the Review

Note. Based on the PRISMA 2020 template of Page et al. (2021).

Study Characteristics

Publication activity has accelerated, with 16 of the 31 studies (51.6%) appearing in 2023–2026 (Table 2). Empirical work accounts for 54.8%, mostly surveys, panel data, and experiments from Europe, Asia (including Indonesia), the United States, and Africa. Table 3 lists the extracted information.

Table 2. Profile of the Included Studies (*n* = 31)

Characteristic	*Category*	*n*	*%*
Year of publication	2014–2019	7	22.6
	2020–2022	8	25.8
	2023–2026	16	51.6
Study type	Empirical study	17	54.8
	Systematic review or protocol	7	22.6
	Conceptual or narrative review	4	12.9
	Meta-analysis	3	9.7
Empirical design (*n* = 17)	Employee or organizational survey	8	47.1

Characteristic	*Category*	*n*	*%*
	Secondary or panel data	5	29.4
	Experiment	3	17.6
	Before–after archival data	1	5.9

Note. Percentages for empirical designs are calculated from the 17 empirical studies.

Table 3. Extracted Information for Each Study

No	*Author (Year)*	*Design and Sample*	*Context*	*Main Findings*	*Theme*
1	Cerasoli et al. (2014)	Meta-analysis	Cross-national	Incentives predicted quantity; intrinsic motivation predicted quality	T1, T2
2	Gerhart & Fang (2015)	Conceptual review	—	Harm to intrinsic motivation overstated	T2, T5
3	Shaw & Gupta (2015)	Evidence review	—	Well-designed incentives are effective	T1
4	Kuvaas et al. (2017)	Employee survey	Norway	Extrinsic motivation unrelated or negative	T2
5	Motyka (2018)	SLR; 71 studies	Cross-national	Engagement related to performance	T2
6	Park & Yang (2019)	Experiment; n = 352	—	PFP raised self-efficacy; ambiguous standards harmful	T2, T6
7	Rehman et al. (2019)	Survey; n = 206	Pakistan	PFP raised creativity via intrinsic motivation	T2

No	*Author (Year)*	*Design and Sample*	*Context*	*Main Findings*	*Theme*
8	Aoki & Rawat (2020)	Secondary data	Global	PFP more common in individualistic systems	T6
9	Desa & Asaari (2020)	Survey; n = 150	Malaysia	Related to contextual, not task performance	T1
10	Kuvaas et al. (2020)	Three-wave survey	8 European countries	Individual PFP lowered intrinsic motivation	T2
11	Saether (2020)	Experiment; n = 298	—	Fair procedures raised motivation and creativity	T3
12	Bayo-Moriones & de la Torre (2022)	Survey; 203 plants	Spain	Quality management linked to PFP use	T6
13	Bayo-Moriones et al. (2022)	EWCS data	Europe	Computer use linked to team and firm PFP	T6
14	Dewi et al. (2022)	Before–after KPI data	Indonesia (state-owned construction firm)	Project KPIs rose after incentives	T1
15	Liu & Liu (2022)	Survey; n = 320	China	Incentivized staff performed better	T1

No	*Author (Year)*	*Design and Sample*	*Context*	*Main Findings*	*Theme*
16	Chen et al. (2023)	Meta-analysis; 100 studies	Cross-national	Positive, stronger for task performance; three mediators	T1–T4
17	Fulmer et al. (2023)	Literature review	—	Reviews PFP, pay dispersion, transparency	T1, T6
18	George & van der Wal (2023)	Meta-analysis; 13 studies	Public sector	Small positive PRP effect; stronger in Asia	T1, T6
19	Jones et al. (2023)	Experiments	United States	Smaller effects in prosocial jobs; sorting	T5, T6
20	Ahmad et al. (2024)	SLR	Public sector	Conditions for public-sector PRP success	T6
21	Andelic et al. (2024)	Panel data	United Kingdom	PRP linked to worse mental and cardiovascular health	T4
22	Tang et al. (2024)	SLR; 27 articles	Cross-national	Positive psychology and adaptive performance	T2
23	Velghe et al. (2024)	Review protocol	—	Protocol for merit pay review	T1, T2
24	Kurniawan (2025)	SLR; 67 articles	Cross-national	Monetary incentives context-dependent	T1, T2
25	Kuvaas & Ding (2025)	Three field studies	—	Controlling perceptions reduce motivation	T2, T4
26	Lee (2025)	Firm panel data	South Korea	Individual PFP buffers turnover only without collective PFP	T5, T6

No	*Author (Year)*	*Design and Sample*	*Context*	*Main Findings*	*Theme*
27	Na et al. (2025)	Panel; 317 firms	South Korea	No one-year gain; higher long-term growth	T5, T6
28	Oyedele (2025)	Mixed methods	Nigeria	Merit pay and bonuses linked to engagement	T1, T6
29	Gerhart et al. (2026)	Evidence review	—	Stronger effects when pay matters more	T2, T4, T6
30	Mahfud (2026)	SLR	Cross-national	Pay fairness mediates compensation–effort	T3, T6
31	Sulistyorini & Yerizal (2026)	SLR; 15 studies	Indonesia	Compensation mostly improves performance	T1

Note. T1 = PFP–performance relationship; T2 = motivation and reward perceptions; T3 = fairness; T4 = strain and health; T5 = sorting and organizational performance; T6 = design and context.

The PFP–Performance Relationship (RQ1)

Overall, PFP is positively related to performance, more clearly for task than for contextual performance (Chen et al., 2023), because incentives are tied to how *much* people produce, whereas intrinsic motivation is tied to how *well* they produce it (Cerasoli et al., 2014). Well-built schemes raise performance (Gerhart et al., 2026; Shaw & Gupta, 2015).

The size of the benefit varies. Public-sector effects are modest (George & van der Wal, 2023); PFP had no significant effect on task performance among Malaysian engineers (Desa & Asaari, 2020), and several Indonesian studies were non-significant (Sulistyorini & Yerizal, 2026). At firm level, project KPIs rose after incentives were introduced in an Indonesian state-owned construction firm (Dewi et al., 2022), and Korean firms adopting merit pay showed no first-year gain but faster long-run productivity growth (Na et al., 2025). Evidence from hospitals (Liu & Liu, 2022) and

Nigerian firms (Oyedele, 2025) confirms that PFP helps, but not uniformly.

Mechanisms of PFP Effects (RQ2)

Four mechanisms explain why PFP sometimes helps and sometimes harms.

a. Informational versus controlling perceptions. Perceived control explained why individual variable PFP lowered intrinsic motivation (Kuvaas et al., 2020). The same scheme can feel both controlling and informational; when the controlling reading dominates, autonomous motivation falls and anxiety and turnover intentions rise (Kuvaas & Ding, 2025). Conversely, PFP can raise self-efficacy, intrinsic motivation, and creativity (Park & Yang, 2019; Rehman et al., 2019), and claims that it destroys intrinsic motivation are often overstated (Gerhart & Fang, 2015; Gerhart et al., 2026).

b. Fairness perceptions. Distributive and procedural justice partly explain the link between PFP and task performance (Chen et al., 2023). Fair evaluation procedures increase intrinsic motivation and creativity (Saether, 2020), and perceived internal and external pay equity carries the effect of the pay system through to effort (Mahfud, 2026).

c. Strain and occupational health. A stress pathway partly offsets the performance gains of PFP (Chen et al., 2023), and British panel data show that PRP workers have worse mental health and raised systolic blood pressure and fibrinogen (Andelic et al., 2024), so judging PFP by productivity alone omits important costs.

d. Sorting effects. PFP attracts more able workers but can deter prosocially motivated applicants in mission-oriented jobs (Jones et al., 2023). Individual PFP softens the harm of turnover (Lee, 2025), and long-run productivity gains reflect cumulative incentive and sorting effects (Na et al., 2025).

Boundary Conditions (RQ3)

a. Performance type and multitasking. PFP is more effective for task performance and output quantity, which are easier to measure (Cerasoli et al., 2014; Chen et al., 2023), and in multitask jobs it may divert effort from unrewarded dimensions (Jones et al., 2023).

b. Prosocial mission and the public sector. PFP has smaller productivity effects in mission-oriented jobs (Jones et al., 2023), and public-sector PRP effects are small, vary by level of government, and depend on institutional factors and design (Ahmad et al.,

2024; George & van der Wal, 2023).

c. Mix of individual and collective incentives. Individual PFP cushions the harm of turnover only where collective PFP is absent (Lee, 2025), and group incentives foster cooperation but can demotivate top performers (Oyedele, 2025).

d. Time since adoption. Merit pay showed no effect after one year but higher long-term productivity growth (Na et al., 2025).

e. Standard design and the importance of pay. Relative and ambiguous standards are more harmful than absolute ones when rewards are not obtained (Park & Yang, 2019), and PFP effects are stronger where pay matters more, as in lower-income countries (Gerhart et al., 2026).

f. Culture, institutions, and supporting practices. National culture moderates the PFP–performance relationship (Chen et al., 2023), PRP effects are stronger in Asia than in Europe and the United States (George & van der Wal, 2023), and PFP adoption is associated with individualism, uncertainty avoidance, and decentralization (Aoki & Rawat, 2020). PFP is also linked to quality management (Bayo-Moriones & de la Torre, 2022), technology use and job design (Bayo-Moriones et al., 2022), and bundles of HR practices (Mahfud, 2026).

Summary of the Strength of Evidence

Table 4 summarizes each finding's direction and strength of evidence; confidence is highest for the meta-analytic findings and lowest for the incentive mix and long-run effects.

Table 4. Evidence Map of Mechanisms and Boundary Conditions

Finding	*Direction of Effect*	*Supporting Studies*	*Strength of Evidence*
PFP → task performance and quantity	Positive	Cerasoli et al. (2014); Shaw & Gupta (2015); Chen et al. (2023)	Strong
PFP → contextual performance and quality	Weaker or inconsistent	Cerasoli et al. (2014); Desa & Asaari (2020); Chen et al. (2023)	Strong

Finding	*Direction of Effect*	*Supporting Studies*	*Strength of Evidence*
PFP in government organizations	Positive but small	George & van der Wal (2023); Ahmad et al. (2024)	Strong
Controlling perceptions → intrinsic motivation	Negative	Kuvaas et al. (2020); Kuvaas & Ding (2025)	Moderate
Informational perceptions and self-efficacy → motivation	Positive	Park & Yang (2019); Rehman et al. (2019); Kuvaas & Ding (2025)	Moderate
Distributive and procedural fairness	Positive (mediator)	Saether (2020); Chen et al. (2023); Mahfud (2026)	Strong
Strain and occupational health	Negative	Chen et al. (2023); Andelic et al. (2024)	Strong
Workforce sorting	Positive for ability; mixed in prosocial jobs	Jones et al. (2023); Lee (2025); Na et al. (2025)	Moderate
Mix of individual and collective incentives	Negative interaction	Lee (2025); Oyedele (2025)	Limited
Time since adoption	Delayed effect	Na et al. (2025)	Limited
Culture and institutions	Moderator	Aoki & Rawat (2020); Chen et al. (2023); George & van der Wal (2023)	Strong

Note. Strong = at least one meta-analysis among the supporting studies; moderate = two or more primary studies using multi-wave, panel, or experimental designs; limited = only one or two supporting studies.

DISCUSSION

The synthesis yields an integrative framework: *PFP design → employee perceptions (informational/controlling, fair/unfair) → motivation, effort, and strain → individual performance → organizational performance*, with workforce sorting as a parallel pathway and all paths moderated by the boundary conditions above (Figure 2).

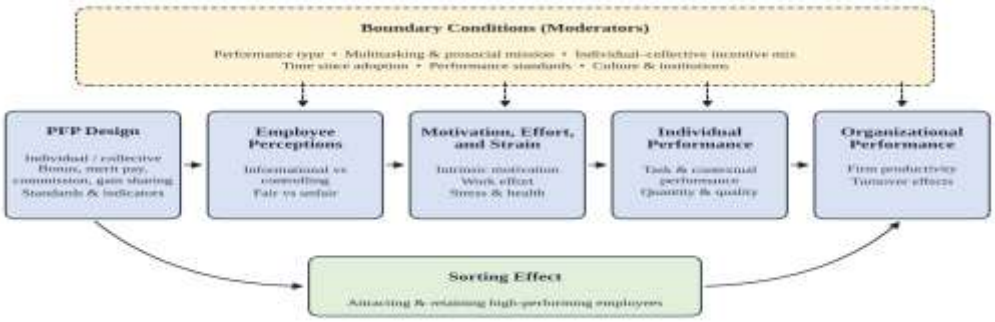

Figure 2. Proposed Model Linking PFP to Performance

Note. Authors' synthesis of the 31 included studies.

The framework explains the apparently contradictory findings: studies measure different types of performance; positive (informational, fair) and negative (controlling, strain) pathways operate simultaneously, so the net effect depends on which is stronger; and sorting effects appear only in firm-level, long-term data.

These findings agree with earlier reviews reporting positive but context-dependent effects (Kurniawan, 2025; Sulistyorini & Yerizal, 2026) while identifying the sources of that variation, and they show that fairness (Mahfud, 2026) is only one of four channels. The weak public-sector effects (Ahmad et al., 2024; George & van der Wal, 2023) reflect prosocial-mission and multitasking conditions also found in other sectors (Jones et al., 2023), complementing the forthcoming merit-pay review by Velghe et al. (2024). Theoretically, incentive theory and self-determination theory should be integrated rather than opposed, fairness should be treated as a core mechanism, and employee health should be included as an outcome of compensation (Andelic et al., 2024; Kuvaas & Ding, 2025).

Practical Implications

For organizations, including those in Indonesia, the synthesis suggests the following:

1. **Use balanced indicators** that capture quality and cooperation, not only quantity.
2. **Communicate PFP as recognition, not control,** with clear criteria and supportive feedback.
3. **Maintain fairness** through clear, absolute standards and transparent appraisal.

4. **Monitor health and work strain,** not only target achievement.
5. **Match the individual–collective incentive mix** to task interdependence.
6. **Evaluate over an adequate time frame,** not on first-year results alone.
7. **Embed PFP in the wider HR system** (appraisal, training, careers).

For retail, which relies on commissions, store target bonuses, and group incentives, four points stand out. First, sales-only commissions favor quantity over quality (Cerasoli et al., 2014) and should be combined with service measures such as customer satisfaction or mystery shopper scores. Second, interdependent store work supports store-level group incentives, provided high performers are still recognized (Lee, 2025; Oyedele, 2025). Third, targets that ignore location, seasonality, and head-office promotions feel unfair and controlling (Chen et al., 2023; Kuvaas & Ding, 2025), so store-specific, transparent targets are needed. Fourth, given high turnover, well-designed schemes can retain high performers (Lee, 2025) but should be evaluated over a sufficient period (Na et al., 2025).

CONCLUSION

This systematic review of 31 articles shows that PFP is generally positively related to performance, but its effect is not automatic, not uniform, and often small (RQ1). PFP operates through informational or controlling perceptions of rewards, fairness perceptions, work strain and health, and workforce sorting (RQ2), and its effects depend on performance type, multitasking and job mission, the incentive mix, time since adoption, standard design, and cultural and institutional context (RQ3). Future research should use longitudinal designs and multidimensional performance measures, test several mechanisms simultaneously, and expand Indonesian evidence (RQ4). PFP is thus better viewed as a management tool whose effectiveness depends on design and context than as a single solution for improving performance.

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