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Employee Perception of Fairness in the Performance Appraisal Process and Its Impact on Performance in Indonesian Startups

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Article Info

ABSTRACT

This study investigates the relationship between employee perceptions of fairness in the performance appraisal process and employee performance in Indonesian start-up companies. A quantitative approach was employed, with data collected from 115 employees using a Likert scale-based survey. The data were analyzed using Structural Equation Modeling - Partial Least Squares (SEM-PLS 3). The results reveal that all three dimensions of fairness—procedural fairness, distributive fairness, and interactional fairness—significantly influence employee performance. Procedural fairness had the strongest positive relationship with performance, followed by interactional fairness and distributive fairness. The findings suggest that employees who perceive the appraisal process as fair in terms of consistency, outcomes, and interpersonal treatment are more likely to exhibit higher job performance. The study highlights the importance of fairness in performance appraisals for fostering a productive work environment in start-up companies.

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1. INTRODUCTION

In today's highly competitive business environment, particularly within Indonesian start-up companies, employee performance is a crucial determinant of organizational success and sustainability. As these start-ups endeavor to establish themselves in the market, workforce productivity and efficiency become essential differentiators. One significant mechanism for fostering and evaluating employee performance is the performance appraisal system, which, when implemented effectively, can substantially influence employee motivation, satisfaction, and overall organizational performance. Notably, the perception of fairness in the performance appraisal process is a critical factor that shapes employee responses and subsequent performance—especially vital in start-ups where resources are limited and efficiency is paramount. Fair performance appraisals have been shown to positively impact employee motivation and satisfaction, such as in the case of PT. XYZ, where procedural fairness was notably associated with higher satisfaction [1], and at PT Pelindo IV Bitung, where general satisfaction was observed though recommendations were made for improving the system's effectiveness and reward mechanisms [2]. Appraisals function as motivational tools by connecting performance with rewards, establishing

goals, and identifying employee strengths and weaknesses, which leads to elevated satisfaction and motivation levels [3]. Similarly, the Wringinanom Sugar Factory study demonstrated that appraisal systems influence performance both directly and indirectly via satisfaction and motivation [4]. Further evidence from Bank Syariah Mandiri confirmed that performance appraisals significantly affect employee outcomes, underlining their role as a strategic tool for performance enhancement [5].

Fairness in performance appraisals is a fundamental concept that shapes employee reactions to feedback, rewards, and the overall evaluation process through three key dimensions: procedural, distributive, and interactional fairness. Procedural fairness concerns the transparency and consistency in how performance is evaluated, which plays a vital role in gaining employee acceptance and satisfaction with appraisal outcomes [6], [7]. Distributive fairness relates to how justly outcomes or rewards are allocated based on appraisal results, aligning with equity theory, which asserts that fair reward distribution enhances job satisfaction [8], [9]. Meanwhile, interactional fairness focuses on the interpersonal treatment employees receive during appraisals—such as respect, empathy, and clear communication from supervisors—which significantly contributes to employee satisfaction and the perceived legitimacy of the appraisal process [7], [8]. When these dimensions of fairness are upheld, employees are more likely to respond positively to appraisals, resulting in improved job satisfaction, motivation, and overall performance.

Despite the importance of fairness in performance appraisals, there is limited research focusing on how employees in Indonesian start-up companies perceive fairness in these systems and how such perceptions influence their performance. This gap in the literature is significant, as the start-up culture is often marked by rapid changes, informal structures, and unique challenges that may affect the way employees view performance evaluations. Understanding the dynamics of fairness perceptions in

performance appraisals within this specific context is crucial for developing more effective human resource practices in start-up companies. The purpose of this study is to explore employee perceptions of fairness in the performance appraisal process and investigate how these perceptions impact employee performance in Indonesian start-up companies.

2. LITERATURE REVIEW
2.1 Performance Appraisal in Organizations

Performance appraisals in Indonesian start-up companies face distinct challenges due to their informal structures and evolving organizational frameworks, yet they remain crucial for directing employee development, clarifying expectations, and aligning individual contributions with broader organizational goals. The lack of formalized procedures and clearly defined roles in these settings often results in subjective evaluations, which can negatively impact employees' perceptions of fairness and, consequently, their motivation and engagement [10]. Given the increasing reliance on human capital as a key driver of start-up success, there is a growing need for structured, fair, and transparent appraisal systems [11]. Performance appraisals serve both developmental and administrative functions by identifying strengths and areas for improvement, particularly vital in start-ups where resources are constrained and expectations need to be explicitly communicated [10], [11]. However, the absence of formal systems can exacerbate perceptions of bias, further emphasizing the need for clear evaluation criteria and consistent application [10]. To overcome these limitations, strategies such as implementing documented systems like management by objectives [12], and conducting regular evaluations and feedback

sessions [13], can foster transparency and developmental alignment. Ultimately, a fair appraisal process not only enhances employee motivation and engagement but also ensures the optimal utilization of human resources by addressing employee reactions and clearly defining the purpose and process of appraisals [10], [11].

2.2 Dimensions of Fairness in Performance Appraisals

Fairness in performance appraisals is crucial for maintaining employee trust and motivation, especially in Indonesian start-ups where formal procedures are often lacking. This fairness encompasses three key dimensions: procedural, distributive, and interactional fairness, all of which significantly influence employee satisfaction and organizational effectiveness. Procedural fairness, which involves transparent and consistent evaluation processes, is critical for fostering trust and preventing perceptions of arbitrariness, particularly in start-ups with informal structures [1], [14]. Distributive fairness, or the equitable allocation of rewards such as bonuses and promotions, is vital in resource-constrained environments, as unfair distribution can severely reduce employee motivation and satisfaction [1], [15]. Interactional fairness focuses on respectful treatment and clear communication during appraisals, which is especially important in start-up cultures that value informal and personal interactions; poor communication or disrespect can lead to dissatisfaction and negatively affect performance [15], [16].

2.3 The Relationship Between Fairness Perceptions and Employee Performance

Employee perceptions of fairness in performance appraisals significantly influence job satisfaction, motivation, and performance, with procedural, distributive, and interactional fairness playing key roles. Procedural fairness—ensuring transparent and unbiased processes—builds trust and supports performance improvement, especially when ongoing communication between employees and supervisors is present [9], [17]. Distributive fairness, or the equitable allocation of rewards, is vital in resource-limited start-ups and has been strongly linked to job satisfaction through fair salary and profit distribution [9], [18]. Interactional fairness, involving respectful and clear communication, enhances employees' sense of value and motivation, contributing to better performance [9], [19]. Overall, perceptions of fairness in appraisals are significantly correlated with job satisfaction and performance, with some studies noting even stronger effects among older employees [19], [20].

2.4 Fairness Perceptions in Indonesian Start-ups

Fairness perceptions in performance appraisals are particularly crucial in Indonesian start-ups, where cultural values like respect for authority and interpersonal relationships strongly influence employee attitudes. As the start-up ecosystem in Indonesia rapidly evolves, so too must its appraisal systems, which directly shape perceptions of fairness and impact employee satisfaction and motivation—factors essential for organizational success. Studies highlight that fair appraisals enhance employee motivation and satisfaction, with procedural fairness playing a central role through transparent and consistent processes [1]. Moreover, organizational justice, including fairness in appraisals, is closely linked to organizational citizenship behavior and

commitment, mediated by job satisfaction and cultural alignment [21], [22]. Interpersonal fairness, such as respectful treatment by managers, and outcome fairness, like equitable pay and rewards, are also key predictors of fairness perceptions, which in turn sustain employee motivation and engagement [23].

3. RESEARCH METHODS

This study employs a cross-sectional quantitative design to examine the relationship between employees' perceptions of fairness in performance appraisals—specifically procedural, distributive, and interactional fairness—and their performance outcomes in Indonesian start-up companies. Data are collected through a structured questionnaire designed to assess fairness perceptions and self-reported job performance. The population includes employees from various start-ups in sectors such as technology, e-commerce, and digital services, with a sample of 115 full-time employees who have undergone performance evaluations. A convenience sampling method is used to ensure accessibility, while the sample's diversity in age, gender, and job roles supports the generalizability of the findings.

The questionnaire consists of two main sections: demographic data and Likert-scale items measuring perceptions of fairness and employee performance. Procedural fairness items assess transparency and consistency in appraisals; distributive fairness evaluates the fairness of rewards; and interactional fairness gauges the quality of communication and interpersonal treatment. Employee performance is measured through self-assessed items reflecting motivation, productivity, and commitment. These items are adapted from validated instruments in prior studies to suit the Indonesian start-up context. The key variables are the three fairness dimensions as independent variables and employee performance as the dependent variable.

Data analysis is conducted using Structural Equation Modeling - Partial Least Squares (SEM-PLS) 3, suitable for examining complex variable relationships. The analysis involves several steps: model specification (mapping fairness dimensions to employee performance), evaluation of the measurement model (assessing reliability and validity through factor loadings and composite reliability), and structural model evaluation (analyzing path coefficients, R² values, and statistical significance via bootstrapping). Model fit is assessed using indices such as SRMR and NFI to ensure the model accurately represents the data. This approach enables a comprehensive understanding of how fairness perceptions affect performance in the dynamic environment of Indonesian start-ups.

4. RESULTS AND DISCUSSION
4.1 Descriptive Statistics

The study's sample consisted of 115 employees from various Indonesian start-up companies, representing a young and educated workforce typically familiar with modern performance appraisal practices. As shown in the demographic data, the majority of respondents were male (65.2%) with an average age of 28.5 years, and most (73.9%) fell within the 20–30 age range. Regarding educational background, 78.3% held a bachelor's degree, while 21.7% had a master's degree. In terms of work experience, 62.6% had been employed at their current company for 1 to 3 years, 26.1% for 4 to 6 years, and 11.3% for more than 7 years. These characteristics provide context for interpreting the findings, reflecting a demographic typical of the Indonesian start-up ecosystem.

4.2 Measurement Model Evaluation

The first step in the SEM-PLS analysis involved evaluating the measurement model to ensure the constructs used in the study were both reliable and valid. Reliability

was assessed using Cronbach's Alpha and Composite Reliability (CR), while validity was examined through Average Variance Extracted (AVE) and discriminant validity measures. All constructs surpassed the minimum thresholds required, indicating that the measurement model was sound and suitable for further structural analysis.

For internal consistency, Cronbach's Alpha values for all constructs exceeded the acceptable threshold of 0.70—procedural fairness (0.83), distributive fairness (0.80), interactional fairness (0.85), and employee performance (0.88)—demonstrating good reliability. Similarly, the Composite Reliability values ranged from 0.81 to 0.92, confirming the constructs' reliability beyond mere internal consistency. Furthermore, the AVE values for all constructs were above 0.50, which indicates that each construct explained more than half of the variance in its observed indicators. Specifically, AVE values were 0.61 for procedural fairness, 0.58 for distributive fairness, 0.65 for interactional fairness, and 0.72 for employee performance.

Discriminant validity was also confirmed, as the square root of the AVE for each construct was greater than its correlations with other constructs, affirming that the constructs were distinct from one another. These findings collectively suggest that the measurement model demonstrates strong reliability and validity, ensuring that the constructs are accurately measured and appropriate for subsequent structural analysis within the SEM-PLS framework.

4.3 Structural Model Evaluation

The structural model was evaluated to examine the relationships between the dimensions of fairness (procedural fairness, distributive fairness, and interactional fairness) and employee performance. The path coefficients, R-squared values, and significance levels were assessed.

a. Path Coefficients and Hypothesis Testing

The SEM-PLS results revealed significant relationships between the dimensions of fairness and employee performance. The standardized path coefficients are presented in Table 1.

Table 1. Path Coefficients

Path	Path Coefficient	t-Statistic	p-Value
Procedural Fairness → Employee Performance	0.358	4.216	0.000
Distributive Fairness → Employee Performance	0.281	2.012	0.047
Interactional Fairness → Employee Performance	0.424	5.187	0.000

The results provide strong empirical evidence that employees' perceptions of fairness in performance appraisals significantly influence their job performance. Procedural fairness showed a positive and significant relationship with employee performance, with a path coefficient of 0.358 ($p < 0.01$), indicating that employees who view the appraisal process as

consistent, transparent, and objective tend to perform better. Distributive fairness also demonstrated a significant positive effect, with a path coefficient of 0.281 (p < 0.05), suggesting that equitable rewards and outcomes enhance employee performance. Notably, interactional fairness exhibited the strongest positive relationship, with a path coefficient of 0.424 (p < 0.01), highlighting that respectful communication and clear feedback during the appraisal process greatly motivate employees and improve their performance.

b. **R-squared and Model Fit**

The R-squared value for employee performance was 0.59, indicating that the three dimensions of fairness explained 59% of the variance in employee performance. This is a moderate to strong explanatory power, suggesting that perceptions of fairness in the appraisal process play a substantial role in shaping employee performance outcomes.

The goodness-of-fit indices indicate a satisfactory fit for the model. The Standardized Root Mean Square Residual (SRMR) was 0.05, which is well below the recommended threshold of 0.08, suggesting a good fit. The Normed Fit Index (NFI) was 0.91, further confirming the adequacy of the model.

4.4 Discussion

The results of this study provide valuable insights into how fairness perceptions influence employee performance in Indonesian start-up companies. The positive relationship between procedural fairness and employee performance emphasizes the need for a transparent, consistent, and objective appraisal process. When employees believe that evaluations are conducted fairly and based on clear procedures, they tend to be more motivated and engaged in their work. This finding is consistent with previous research [24], [25] that highlights the crucial role of procedural fairness in enhancing employee satisfaction and performance.

Distributive fairness also shows a significant positive relationship with employee performance, indicating that employees are more driven to excel when they perceive that appraisal outcomes—such as rewards or recognition—are fair and proportionate to their efforts. This supports the equity theory [26], [27], which posits that perceptions of fairness in outcomes are essential for sustaining motivation and encouraging performance. In the context of start-ups, where financial and non-financial rewards may be limited, maintaining a fair distribution based on contribution becomes particularly critical.

The strongest relationship found was between interactional fairness and employee performance, underscoring the importance of respectful and transparent communication during the appraisal process. When employees receive constructive feedback and feel respected by their supervisors, they are more likely to respond with higher levels of motivation and performance. This aligns with the work of [28], [29], who emphasized the significance of interpersonal treatment in shaping positive organizational behavior. Overall, the findings confirm that procedural,

distributive, and interactional fairness each play a vital role in boosting employee performance, and organizations—especially start-ups—should prioritize fairness in their appraisal systems to foster greater employee engagement and effectiveness.

4.5 Implications for Practice

For start-up companies in Indonesia, the findings of this study offer valuable implications. First, companies should ensure that their performance appraisal systems are perceived as fair by employees. This can be achieved by making the appraisal process transparent, consistent, and based on clear criteria. Second, companies should focus on providing equitable rewards and recognition that align with employee contributions. Finally, fostering a culture of respectful communication and providing constructive feedback can significantly enhance employee motivation and performance.

4.6 Limitations and Future Research

Despite the valuable insights provided by this study, it is important to acknowledge some limitations. The study relies on self-reported data, which may be subject to biases such as social desirability bias. Additionally, the cross-sectional design limits the ability to draw causal inferences. Future research could explore longitudinal designs to examine the long-term effects of fairness perceptions on performance. Furthermore, expanding the sample to include employees from a wider range of industries could improve the generalizability of the findings.

5. CONCLUSION

This study provides valuable insights into how perceptions of fairness in the performance appraisal process influence employee performance in Indonesian start-up companies. The findings suggest that all dimensions of fairness—procedural, distributive, and interactional—play a critical role in enhancing employee performance. Of these, interactional fairness emerged as the most influential, indicating that employees' perceptions of how they are treated during the appraisal process strongly impact their motivation and performance. This highlights the need for start-up companies to design and implement performance appraisal systems that are perceived as fair and transparent, ensuring consistency in procedures, equity in rewards, and respectful treatment during evaluations. These practices can help foster a more motivated and productive workforce. Future research could explore the longitudinal effects of fairness perceptions on performance and extend the study to other industries to enhance generalizability.