

THE EFFECT OF KPI-BASED PERFORMANCE APPRAISAL ON GENERATION Z EMPLOYEE PERFORMANCE AT THE HEAD OFFICE OF PT BASA INTI PERSADA

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Abstract:

Background: The rise of Generation Z as a dominant segment of today's workforce requires organizations to adjust performance appraisal systems to meet expectations for transparency, clarity, fairness, and participation. Prior studies show that traditional appraisal mechanisms often fail to match the behavioral characteristics and workplace needs of Generation Z, particularly in fast-paced industries such as retail. PT Basa Inti Persada, a modern Muslim fashion retail company, has implemented a Key Performance Indicator (KPI)-based performance appraisal system. However, its effectiveness in improving the performance of Generation Z employees has not yet been empirically validated.

Purpose: This study aims to (1) describe the implementation of the KPI-based performance appraisal system at the head office of PT Basa Inti Persada, (2) assess the performance level of Generation Z employees, and (3) analyze the direct effect of KPI system effectiveness on their performance.

Design/methodology/approach: The research used a quantitative approach with a structured survey. The study population included 68 Generation Z employees at the company's head office, and 51 respondents were selected using purposive sampling based on age (born 1997–2012) and minimum work tenure of six months. Data were collected through validated questionnaires and analyzed using descriptive statistics, Pearson correlation, and simple linear regression to measure the effectiveness of the KPI system, employee performance, and the magnitude of influence between variables.

Findings/Results: The KPI-based appraisal system was perceived as effective, with an average score of 67.20. Generation Z employee performance was relatively high, with an average score of 66.39. Correlation analysis revealed a strong positive relationship between KPI system effectiveness and employee performance ($r = 0.796$; $p < 0.001$). Regression analysis showed that 63.4% of the variance in performance is explained by the effectiveness of the KPI system ($R^2 = 0.634$). Hypothesis testing confirmed a significant influence, indicated by a t-value of 9.208 and $p < 0.001$.

Conclusion: The findings indicate that the KPI-based performance appraisal system significantly improves Generation Z employee performance. Key contributing factors include indicator clarity, appraisal fairness, employee participation, and reward alignment. These elements support higher motivation, engagement, and sustained performance among Generation Z employees.

Originality/value: This study contributes to the limited empirical research in Indonesia that connects KPI-based appraisal effectiveness with Generation Z characteristics in the modern Muslim fashion retail industry. The study provides practical insights and recommendations for organizations seeking to optimize performance appraisal systems that better align with the expectations of younger employees.

Keywords: employee performance, KPI-based performance appraisal system, performance appraisal, generation z, retail industry

How to Cite:

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INTRODUCTION

The transformation of human resource management (HRM), driven by digitalization, automation, and increasingly intense business competition, has shifted its role from an administrative function to a strategic driver of organizational performance. In practice, performance management systems serve as a critical mechanism for aligning individual contributions with organizational objectives while simultaneously motivating employees and strengthening their engagement. Performance management has evolved into a strategic organizational function that supports employee engagement and sustainable performance outcomes (DeNisi & Murphy, 2017; Fletcher, 2019; Aguinis & Burgi-Tian, 2021). Performance appraisal, as a central component of performance management, functions not only as an evaluative instrument but also as a strategic two-way communication channel that clarifies performance expectations, work standards, and career development pathways. Many organizations have begun adopting Key Performance Indicator (KPI)-based performance appraisal systems in response to criticisms of traditional appraisal methods, which are often characterized by subjectivity, inconsistency, and a lack of transparency. KPI-based appraisal systems are believed to offer structured, measurable, and transparent performance standards that enhance task clarity, expected work outcomes, and consistency in implementation. The digitalization of business processes has also transformed human resource management practices, requiring organizations to adapt performance management systems to changing workforce expectations (Almeida et al. 2020; Harney & Collings, 202

However, despite these advantages, the effectiveness of a KPI-based system is determined by several key factors, including indicator clarity, perceptions of procedural and distributive fairness, and the extent to which appraisal results are linked to recognition, rewards, and development opportunities. Thus, the success of a KPI system depends not only on its technical design but also on employees' cognitive and motivational responses to it. The theoretical mechanism explaining how KPI systems influence performance can be understood through Goal-Setting Theory and Expectancy Theory. Goal-Setting Theory posits that specific, measurable, and challenging goals enhance performance by directing attention, strengthening persistence, and encouraging the development of

relevant task strategies. Accordingly, KPI systems designed in line with goal-setting principles are likely to strengthen clarity of direction and goal-oriented work behavior.

Complementing this, Expectancy Theory argues that employee motivation is shaped by their perceptions of the relationships among effort, performance, and outcomes. From this perspective, KPI-based appraisal systems influence performance through their perceived structure, measurability, and transparency of performance standards. These theoretical perspectives become increasingly relevant in light of current workforce demographic changes. Data from Statistics Indonesia (BPS, 2023) indicate that Generation Z represents approximately 38% of the national labor force. This cohort is characterized by high digital literacy, a preference for continuous feedback, and strong expectations for transparency, fairness, and development opportunities.

Such characteristics shape how Generation Z perceives and responds to KPI-based appraisal systems. A mismatch between KPI design and generational characteristics may reduce engagement, weaken motivation, and lead to suboptimal performance. However, existing studies in Indonesia have not adequately examined how KPI systems function in work environments dominated by Generation Z, particularly in the highly dynamic retail sector. PT Basa Inti Persada, a modern Muslim fashion retail company, has implemented a KPI-based performance appraisal system at its head office. Although the system has been operational since 2021, its ability to support and enhance the performance of Generation Z employees has not yet been empirically evaluated.

This presents an important research gap, as Generation Z plays a strategic role in ensuring organizational sustainability, and the theoretical relevance of KPI systems in performance management requires empirical validation within this organizational context. Therefore, this study aims to examine the effect of KPI-based performance appraisal on the performance of Generation Z employees at the head office of PT Basa Inti Persada. The findings are expected to enrich the performance management literature by integrating KPI system effectiveness with generational perspectives. Additionally, the results are anticipated to offer practical implications for organizations in designing performance appraisal systems that are adaptive, fair, and aligned

with the expectations of the contemporary workforce. Finally, the study contributes to bridging the knowledge gap regarding KPI implementation in generationally diverse workplaces.

The implementation of Key Performance Indicator (KPI)–based performance management systems has been widely acknowledged as a strategic mechanism for aligning individual performance with organizational objectives. The Balanced Scorecard framework emphasizes the integration of financial and non-financial indicators to ensure strategic coherence and organizational control (Kaplan & Norton, 1996). In the human resource management domain, performance management is viewed as a continuous developmental process rather than merely an administrative evaluation mechanism (Armstrong, 2009). Within this framework, KPIs function not only as measurement instruments but also as strategic communication tools that clarify performance expectations, reinforce accountability, and guide employee development pathways.

A growing body of empirical studies indicates that KPI systems characterized by participation, transparency, and measurable standards positively influence employee motivation and performance outcomes. Research by Widodo and Nurhasanah (2020), Putra et al. (2022), Prasetyo and Andini (2020), and Yuliana et al. (2023) demonstrates that clarity of indicators, involvement in target-setting processes, and consistency in performance assessment enhance perceptions of procedural fairness and organizational engagement, which subsequently improve performance. However, most existing studies conceptualize employees as a homogeneous workforce and primarily emphasize the technical and procedural design of KPI systems. Limited attention has been given to how demographic characteristics—particularly generational differences shape employees’ perceptions of fairness, feedback, and performance accountability within KPI frameworks.

This limitation is increasingly significant in light of demographic shifts in the contemporary workforce. Generation Z, commonly defined as individuals born between the mid-1990s and early 2010s, exhibits distinct characteristics shaped by rapid technological advancement and digital socialization. Drawing from generational cohort theory, which posits that shared socio-historical experiences shape collective values and work orientations, Generation Z employees tend to

demonstrate high digital literacy, a preference for real-time feedback, flexibility, meaningful work, and heightened expectations of transparency and equity (Schroth, 2019; Mishra, 2025; Yahra, 2025; Surugiu, 2025). These characteristics suggest that generational cohort may function as a contextual determinant influencing how KPI systems are perceived and how performance expectations are internalized.

Rigid KPI systems that are heavily numeric and minimally developmental may not optimally engage Generation Z employees, even when technically well-structured. Conversely, adaptive and participatory KPI systems supported by digital integration and continuous feedback mechanisms may align more closely with generational preferences and thereby enhance performance outcomes. Despite this theoretical plausibility, empirical studies examining Generation Z as a specific analytical focus in KPI effectiveness research remain limited, particularly in emerging economies. Consequently, the role of generational characteristics as a contextual factor in performance management effectiveness remains underexplored in the literature.

In Indonesia, research integrating KPI effectiveness with generational perspectives is still scarce, especially within the modern Muslim fashion retail industry. This sector is characterized by intense competition, rapid digital transformation, target-driven operational systems, and a workforce composition dominated by young employees. The strategic role of Generation Z employees in sustaining retail competitiveness underscores the importance of understanding how KPI systems influence their performance. However, empirical evidence addressing this issue remains limited, thereby creating both theoretical and sectoral research gaps.

PT Basa Inti Persada (Nobby), one of Indonesia’s prominent modern Muslim fashion retailers, provides a relevant empirical context for addressing these gaps. The company has implemented a structured KPI-based performance management system and employs a workforce largely composed of Generation Z employees. Preliminary observations indicate that although performance targets are clearly formulated and systematically monitored, variations persist in employee engagement, perceived fairness, and performance outcomes. These conditions raise important analytical questions regarding the extent

to which the existing KPI system effectively drives performance while accommodating generational characteristics.

Accordingly, this study seeks to examine the effectiveness of KPI-based performance management systems in improving the performance of Generation Z employees at PT Basa Inti Persada. Theoretically, this research contributes to the performance management literature by integrating KPI system effectiveness with generational cohort theory, positioning generational characteristics as a contextual explanatory factor in understanding performance variations. Empirically, the study enriches evidence from emerging market contexts, particularly Indonesia's modern Muslim fashion retail sector. Practically, the findings are expected to provide managerial insights for designing KPI systems that are participatory, adaptive, and aligned with the expectations of the contemporary workforce, thereby strengthening organizational sustainability in competitive retail environments.

This study employs an analytical framework that integrates perspectives from performance management, motivational theory, and contextual performance measurement. Its primary foundation is derived from the work of Michael Armstrong (2009), who conceptualizes performance management as a strategic and continuous process aimed at aligning individual contributions with organizational objectives through systematic planning, monitoring, feedback, and development. Within this framework, the effectiveness of a Key Performance Indicator (KPI) system is assessed not merely in terms of its evaluative function, but also in its capacity to enhance role clarity, provide direction, and foster sustainable performance improvement. The KPI system is therefore conceptualized as both a measurement tool and a managerial instrument that guides employee behavior toward organizational goals. This dual function highlights the importance of integrating theoretical and practical perspectives in understanding performance management.

To explain the relationship between KPI implementation and employee performance, this study draws upon Goal-Setting Theory, which asserts that specific, measurable, and mutually agreed-upon goals can enhance focus and persistence in task execution. In addition, Expectancy Theory posits that motivation is influenced by an individual's belief in the linkage between effort, performance, and rewards. In the

context of Generation Z employees, who tend to value transparency and outcome clarity, a consistent and fair KPI system is therefore likely to strengthen motivation and reinforce accountability. These theoretical insights suggest that performance outcomes are not only shaped by system design but also by employees' perceptions and cognitive engagement. Consequently, understanding motivational mechanisms is crucial for evaluating the effectiveness of KPI systems in contemporary workforces.

From a systems design perspective, this study also considers Contingency Theory, which emphasizes the importance of alignment between managerial systems and organizational context. Accordingly, KPI effectiveness is not regarded as universal but contingent upon workforce characteristics, including digital orientation and generational expectations. Furthermore, Theory of Work Performance conceptualizes performance as a multidimensional construct shaped by motivation and situational support, thereby positioning the KPI system as a managerial instrument that structures work processes while facilitating optimal performance outcomes. Integrating these theories underscores that the impact of KPI systems depends on the interplay between system design, employee characteristics, and contextual factors. This perspective provides a comprehensive lens for analyzing performance management beyond technical implementation alone.

Methodologically, this study adopts a quantitative explanatory design to examine the causal effect of KPI system effectiveness on the performance of Generation Z employees, using measurement indicators that have been tested for validity and reliability. This approach seeks to address limitations in prior research, which has often examined KPI practices in isolation and has insufficiently incorporated generational context, particularly within Indonesia's retail sector. By combining theoretical grounding with rigorous empirical methods, the study ensures that findings are robust and meaningful. Through the integration of these theoretical perspectives, the KPI system is positioned as a strategic mechanism that contributes to performance enhancement by ensuring alignment among system design, motivational processes, and workforce characteristics. Ultimately, this framework provides both practical and theoretical insights for organizations aiming to optimize employee performance through structured and adaptive KPI systems.

This study aims to analyze the effectiveness of the Key Performance Indicator (KPI) system in improving the performance of Generation Z employees at the head office of PT Basa Inti Persada. The focus is directed at examining how KPI formulation and implementation through target setting, performance measurement, and feedback provision function as a strategic performance driver rather than merely an administrative evaluation tool. In addition, the study investigates how generational characteristics, such as the need for transparency, real-time feedback, and fair rewards, influence employees' perceptions of and responses to the performance management system. Theoretically, this research extends the performance management literature by positioning generational factors as an analytical context, while practically it is expected to provide implications for designing KPI systems that are more adaptive and aligned with the characteristics of the contemporary workforce.

METHODS

This study employed a quantitative research design using a survey method to examine the causal relationship between the effectiveness of the KPI-based performance appraisal system and the performance of Generation Z employees (Creswell, 2014; Sugiyono, 2017). The quantitative approach was selected because it allows for standardized measurement and statistical testing of relationships among variables. The research population consisted of all employees at the head office of PT. Basa Inti Persada, which was chosen as the research site because it serves as the central unit where the KPI system is formally designed, implemented, and monitored. Among the 68 employees, 51 were classified as Generation Z. This group was specifically selected as it represents the dominant workforce composition and exhibits distinct work characteristics, such as digital orientation, preference for real-time feedback, and high expectations for transparency. These characteristics are particularly relevant for evaluating the effectiveness of the KPI system.

A total population sampling (census) method was applied to ensure that all eligible employees were included in the study, capturing the full range of perceptions and experiences without sampling error. Data were collected from both primary and secondary sources. Primary data were obtained through a structured questionnaire based on theoretical constructs

derived from Goal-Setting Theory and Expectancy Theory. Secondary data were gathered from company documents, including KPI guidelines, performance appraisal reports, and HR policies, as well as from scholarly literature, such as indexed journals and performance management textbooks. This combination of data sources ensured that the research findings are well-supported and reliable.

Data were collected using a structured questionnaire consisting of closed-ended statements measured on a five-point Likert scale ranging from strongly disagree to strongly agree. This method enables the measurement of latent constructs such as perceptions, attitudes, and behavioral responses in a form that can be quantitatively analyzed. Prior to the main survey, the instrument underwent content validation through expert judgment, which involved two academics in human resource management and one HR practitioner experienced in KPI implementation. The experts evaluated the clarity, relevance, and comprehensiveness of each item to ensure that the questionnaire accurately captured the intended constructs. A pilot test was then conducted with 20 respondents who had similar characteristics to the research sample to verify the clarity of the items, response consistency, and initial reliability.

After validation and pilot testing, the final questionnaire was distributed to all 51 Generation Z employees at the head office of PT. Basa Inti Persada. Participation was strictly voluntary, and respondents were assured of confidentiality to minimize response bias and maintain data integrity. Respondents were instructed on how to complete the questionnaire and encouraged to answer honestly. The collected data were carefully checked for completeness and consistency before analysis. This systematic approach ensured that the data were reliable, valid, and suitable for testing the research hypotheses.

Data analysis was conducted in several stages to ensure the accuracy and reliability of the findings. First, descriptive statistics were used to present the profile of respondents and the general tendencies of their responses, providing an overview of the sample characteristics. The research instrument was then tested for validity and reliability, with validity examined using the Pearson Product-Moment correlation (minimum coefficient of 0.30) and reliability assessed through Cronbach's Alpha (threshold of 0.70). To ensure that the regression model met the BLUE (Best Linear

Unbiased Estimator) criteria, classical assumption tests were carried out, including normality, multicollinearity, heteroskedasticity, linearity, and outlier checks. Finally, hypothesis testing was conducted using simple linear regression to determine the direction and magnitude of the effect of the KPI-based performance appraisal system on Generation Z employee performance, while the coefficient of determination (R^2) measured the explanatory power of the model. All statistical analyses were performed using SPSS to support consistent and accurate results.

This study proposes the following hypothesis: H₁: KPI-based performance appraisal has a positive and significant effect on the performance of Generation Z employees at PT Basa Inti Persada. This hypothesis is based on the theoretical argument that a structured performance appraisal system can enhance individual performance. A KPI system conceptually incorporates specific and measurable targets, periodic performance monitoring, and clear feedback mechanisms, which collectively foster accountability and performance improvement. From the perspective of Performance Management Theory, clarity of expectations and systematic evaluation enhance responsibility and performance outcomes, while Goal-Setting Theory emphasizes that clear goals increase focus and persistence. Expectancy Theory further explains that a transparent linkage between effort, performance, and rewards strengthens work motivation. Because KPI-based appraisal integrates goal clarity, monitoring

processes, and performance-related consequences, it is theoretically expected to enhance motivation, clarify roles, and align individual contributions with organizational objectives. Considering that Generation Z employees tend to value transparency and objective performance measurement, the hypothesis regarding the positive effect of KPI-based appraisal on employee performance is empirically relevant to test.

The conceptual framework (Figure 1) of this study positions the effectiveness of the KPI-based performance appraisal system as the independent variable and the performance of Generation Z employees as the dependent variable. The figure illustrates the conceptual framework in which the KPI-based performance appraisal system (X) functions as the independent variable influencing Generation Z employee performance (Y) as the dependent variable. The KPI variable is measured through indicators such as goal clarity, goal difficulty, goal participation, goal commitment, performance feedback, and goal monitoring, based on Goal-Setting Theory (Locke & Latham, 1990). Employee performance, on the other hand, is assessed through dimensions including expectancy, instrumentality, valence, work output, timeliness, initiative, teamwork, and goal achievement, referring to Expectancy Theory (Vroom, 1964). This framework emphasizes that a structured and measurable KPI system can enhance employee motivation. Consequently, it is expected to improve the overall performance of Generation Z employees.

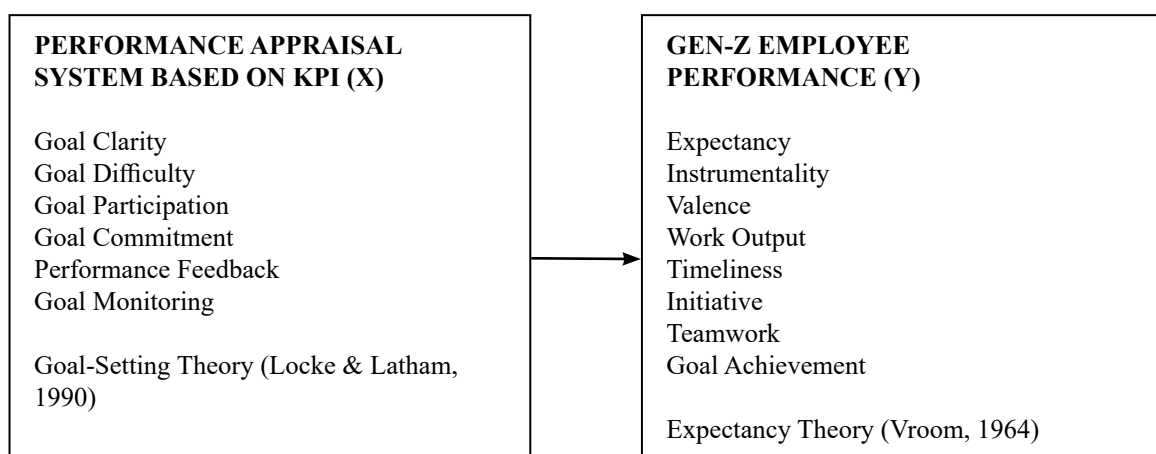


Figure 1. Conceptual framework diagram

RESULTS

Descriptive Analysis

Based on Table 1, the KPI-based performance appraisal variable has a mean score of 67.20, with values ranging from 53 to 75 and a standard deviation of 6.50. This finding indicates that, on average, Generation Z employees report a relatively positive perception of the KPI system implemented in the company. The mean value, which is closer to the upper range of the scale, suggests that most respondents perceive the performance indicators as clear and structured. However, the standard deviation shows a moderate level of dispersion, indicating that responses vary across individuals. This variation implies that perceptions of the KPI system are not uniformly distributed among all respondents.

In addition, the employee performance variable records a mean score of 66.39, with a minimum value of 51, a maximum value of 75, and a standard deviation of 6.73. These descriptive statistics indicate that the overall performance level of Generation Z employees can be categorized as relatively good within the observed range. The standard deviation, which is comparable to that of the KPI variable, reflects a similar degree of variability in performance scores among respondents. This pattern suggests that differences in performance levels are present across employees. Overall, the descriptive results provide an overview of the distribution and general tendencies of both variables without implying causal relationships.

From a practical perspective, these results indicate that the implementation of the KPI system at the head office of PT Basa Inti Persada functions as a structured performance management mechanism. The relatively high mean scores reflect that employees generally hold positive perceptions of the system and report good levels of performance. On the other hand, the observed variability underscores the importance of maintaining consistency in communication and KPI implementation across divisions. Enhancing employee participation in goal setting and ensuring clarity of performance standards may help minimize disparities in perceptions and performance outcomes. Thus, these descriptive findings serve as an initial empirical foundation for guiding the hypothesis-testing process through an inferential analysis approach.

Verificative Analysis

a. Simple Linear Regression Analysis

Table 2 presents the results of the simple linear regression analysis assessing the effect of KPI-based performance appraisal on the performance of Generation Z employees at the head office of PT. Basa Inti Persada. The estimated regression equation, $Y = 11.030 + 0.824X$, indicates a positive linear relationship between the independent and dependent variables. The regression coefficient of 0.824 suggests that each one-unit increase in the effectiveness of KPI-based performance appraisal is followed by an increase of 0.824 units in employee performance. Furthermore, the significance value of 0.000, which is below the 0.05 threshold, and the calculated t-value of 9.208 exceeding the critical value confirm that the effect is statistically significant. These findings provide empirical support for the proposed hypothesis that KPI-based performance appraisal has a positive and significant effect on employee performance.

From a practical perspective, the regression results highlight the strategic role of a structured and measurable KPI system in improving employee performance. Clear performance indicators, objective measurement criteria, and systematic feedback mechanisms contribute to greater clarity regarding job expectations and performance standards. Such clarity can enhance employee focus, responsibility, and consistency in achieving organizational targets. This finding is particularly relevant for Generation Z employees, who generally value transparency, measurable outcomes, and continuous feedback in the workplace. Therefore, the results suggest that effective implementation of a KPI-based appraisal system constitutes an important managerial instrument in strengthening performance outcomes within the organizational context.

b. Correlation Coefficient Analysis

The results of the Pearson correlation analysis demonstrate that KPI-based performance appraisal is strongly and significantly associated with employee performance (Table 3). The correlation coefficient of 0.796 indicates a strong positive relationship, suggesting that the two variables move in the same direction with a high degree of association. This finding implies that the more effectively the KPI-based appraisal system is implemented, the higher the

level of employee performance achieved. Moreover, the significance value of 0.000 (Sig. 2-tailed < 0.01) confirms that this relationship is statistically significant at the 1 percent level, meaning that the probability of the relationship occurring by chance is extremely low. Therefore, these results provide robust empirical support that a structured and measurable performance appraisal system plays an important role in shaping the performance outcomes of Generation Z employees at the head office of PT. Basa Inti Persada.

c. Coefficient of Determination Analysis

The coefficient of determination analysis indicates that the regression model possesses substantial explanatory power in predicting employee performance (Table 4). The R Square value of 0.634 shows that 63.4% of the variance in Generation Z employee performance can be explained by the KPI-based performance appraisal

system, while the remaining 36.6% is influenced by other factors not examined in this study. This proportion suggests that KPI implementation represents a dominant predictor within the proposed model. Furthermore, the Adjusted R Square value of 0.626 confirms the stability and robustness of the regression model after adjusting for the number of predictors, thereby strengthening the reliability of the estimation. These findings provide empirical evidence that the KPI-based performance appraisal system constitutes a major determinant of employee performance at the head office of PT. Basa Inti Persada. From a managerial perspective, the results imply that clearly defined performance targets, measurable indicators, and structured feedback mechanisms contribute significantly to enhancing employee focus, accountability, and productivity, particularly among Generation Z employees who value transparency and measurable achievement.

Table 1. Descriptive statistics of KPI-based performance appraisal and generation z employee performance

	Descriptive Statistics				
	N	Minimum	Maximum	Mean	Std. Deviation
Performance appraisal based on KPI	51	53.00	75.00	67.1961	6.49929
Performance	51	51.00	75.00	66.3922	6.72630
Valid N (listwise)	51				

Table 2. Simple linear regression analysis of KPI-based performance appraisal on generation z employee performance

Model		Coefficients ^a			
		Unstandardized Coefficients		Standardized Coefficients	t
		B	Std. Error	Beta	
1	(Constant)	11.030	6.040		1.826
	Performance appraisal based on KPI	0.824	0.089	0.796	9.208

a. Dependent Variable: Performance

Table 3. Pearson correlation test between kpi-based performance appraisal and generation z employee performance

		Correlations	
		Performance appraisal based on KPI	Performance
Performance appraisal based on KPI	Pearson Correlation	1	.796**
	Sig. (2-tailed)		0.000
	N	51	51
Performance	Pearson Correlation	.796**	1
	Sig. (2-tailed)	0.000	
	N	51	51

** . Correlation is significant at the 0.01 level (2-tailed).

Table 4. Coefficient of determination (R^2) of KPI-based performance appraisal on generation z employee performance

Model Summary ^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.796a	0.634	0.626	4.11203

a. Predictors: (Constant), Performance appraisal based on KPI

b. Dependent Variable: Performance

Hypothesis Testing

The results of hypothesis testing indicate that the KPI-based performance appraisal system has a statistically significant effect on employee performance. This is evidenced by a significance value of 0.000, which is below the 0.05 threshold, and a t-value of 9.208, which exceeds the critical t-table value. Therefore, the null hypothesis (H_0), stating that KPI-based performance appraisal has no effect on employee performance, is rejected, and the alternative hypothesis (H_1) is accepted. These findings confirm that implementing a structured and measurable KPI system effectively enhances the performance of Generation Z employees at the head office of PT. Basa Inti Persada.

Clear performance targets, objective measurement standards, and systematic feedback mechanisms enable employees to understand work priorities and expected outcomes. In line with Goal-Setting Theory, specific and measurable targets improve focus and persistence in completing tasks. From the perspective of Expectancy Theory, linking performance results to evaluation outcomes strengthens employees' motivation to achieve higher performance. Practically, the KPI-based appraisal system functions not only as a performance control mechanism but also as a development tool. It promotes productivity, accountability, and alignment between individual contributions and organizational objectives. This is particularly effective for Generation Z employees, who value transparency, measurable achievements, and continuous performance feedback.

KPI Effectiveness and the Performance of Generation Z Employees

The results of this study demonstrate that the KPI-based performance appraisal system significantly improves the performance of Generation Z employees at the head office of PT. Basa Inti Persada. This finding confirms the argument presented in the introduction that performance management systems are not merely technical tools but strategic mechanisms that shape

employee motivation, work behavior, and performance outcomes. The presence of clear performance targets, measurable work indicators, and structured evaluation processes enables employees to better understand their roles and expected achievements. Consequently, employees can focus more effectively on tasks, take greater responsibility for their work, and maintain consistent performance levels. These findings emphasize the practical importance of implementing a structured KPI system to align individual efforts with organizational goals.

From the perspective of Goal-Setting Theory, the clarity and specificity of KPI targets provide direction and enhance persistence in task completion. Meanwhile, Expectancy Theory suggests that when employees perceive a transparent link between effort, performance results, and appraisal outcomes, their motivation to perform increases. The empirical findings of this study support these theoretical assumptions, showing that a well-implemented KPI system functions not only as a performance control mechanism but also as a development tool. Specifically, it promotes continuous improvement, reinforces accountability, and strengthens employees' understanding of how their contributions impact overall organizational performance. Therefore, integrating KPI-based appraisal into daily management practices can effectively enhance both individual and organizational outcomes.

Generational Perspective as a Contextual Factor

One of the main research gaps highlighted in the introduction is the limited attention given to generational characteristics in explaining the effectiveness of KPI systems. The findings of this study confirm that the generational context plays a crucial role in shaping how performance appraisal systems are perceived and how they influence performance outcomes. Differences in work values, expectations, and motivational drivers across generations affect employees' responses to structured evaluation mechanisms. For example, younger employees may prioritize participation,

transparency, meaningful work, and continuous feedback more than older employees. These insights suggest that understanding generational characteristics is essential for designing performance management systems that are both effective and well-received by all employees.

Although the KPI system is generally perceived as effective, several respondents reported low scores on indicators related to involvement in target setting, consideration of employee opinions, and perceived control over work objectives. Limited participation in determining performance targets may reduce Generation Z employees' sense of ownership and intrinsic motivation. As a result, overall performance outcomes could be suboptimal if employees feel disengaged from the appraisal process. This emphasizes that the effectiveness of performance management systems depends not only on technical design but also on alignment with workforce characteristics. Therefore, organizations should incorporate participative mechanisms, clear communication, and continuous feedback when implementing KPI systems, particularly to engage and motivate younger generations effectively.

Comparison with Previous Studies

This finding supports previous studies indicating that participative target setting, transparent performance measurement, and measurable indicators improve employee performance and engagement. For example, Widodo and Nurhasanah (2020), Putra et al. (2022), Prasetyo and Andini (2020), and Yuliana et al. (2023) report that employees' perceptions of fairness and clarity in performance standards significantly influence work achievement. These studies emphasize that clear performance criteria and active involvement in target setting are critical for enhancing motivation and accountability. Overall, the literature shows that wellstructured KPI systems positively impact employee performance across various organizational contexts. Therefore, integrating technical design with employee-centered practices is essential for effective performance management.

More recent studies confirm similar patterns and highlight emerging trends in KPI implementation. Sari and Kurniawan (2021) found that digital KPI systems enhance employee responsiveness through real-time performance feedback, while Rahmawati et al. (2022) demonstrate that transparent performance

appraisal increases organizational trust and work commitment. Nugroho and Hartono (2023) emphasize that participative target setting strengthens employees' psychological attachment to organizational goals, and Lestari et al. (2021) show that continuous feedback is a key driver of motivation among younger employees. Saputra and Pradana (2024) reveal that KPI systems linked to career development significantly improve long-term productivity. These findings suggest that effective KPI systems combine transparency, participation, feedback, and career alignment to foster sustained engagement and performance.

However, unlike most previous studies that treat employees as a homogeneous group, this study confirms that generational characteristics significantly influence the effectiveness of KPI implementation. Generation Z employees, for instance, are more responsive to participative processes, transparent performance standards, and continuous feedback than older cohorts. This provides empirical support for the research gap stated in the introduction and extends the performance management literature by positioning generational perspective as a critical contextual factor. In practice, organizations should consider generational differences when designing KPI systems to ensure appraisal mechanisms are fair and motivating for all employees. Consequently, understanding workforce characteristics is essential for achieving optimal performance outcomes across diverse employee groups.

Sectoral and Organizational Context

This study also addresses the contextual gap identified in the introduction, specifically the limited empirical evidence from Indonesia's modern Muslim fashion retail sector. The high performance level of most employees indicates that the KPI system at PT. Basa Inti Persada has successfully established a structured and target-driven work environment, which is essential in a fast-paced and highly competitive retail industry. However, variations in performance achievement and engagement levels suggest that the current system still emphasizes performance control more than participative performance development. In such a dynamic sector, characterized by rapid growth, digital transformation, and tight performance targets, it is crucial that KPI systems are adaptive and aligned with generational work values. These findings confirm the initial organizational phenomenon presented in the introduction, showing that differences in performance

outcomes are closely related to how employees perceive and experience the KPI system. Furthermore, they imply that integrating participative mechanisms and continuous feedback could enhance employee engagement and overall effectiveness of the KPI system in this sector.

Managerial Implications

From a practical perspective, this study offers several strategic implications for the management of PT. Basa Inti Persada. First, KPI formulation should be more participative to strengthen employees' sense of ownership toward performance targets. Performance management processes should also be supported by digital and real-time feedback systems, as continuous communication and managerial messages can enhance employee responsiveness and engagement (Kadomura, 2025). Furthermore, integrating KPI achievement with career development pathways can position performance appraisal as a growth instrument while supporting employee retention and long-term talent sustainability (Johennesse & Chou, 2017). Finally, the KPI system should emphasize transparency, fairness, and continuous coaching to strengthen employee engagement, organizational trust, and sustainable performance outcomes. By implementing these measures, management can better align employee performance with organizational objectives while meeting the expectations of a multigenerational workforce.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The findings of this study confirm that the Key Performance Indicator (KPI)-based performance appraisal system is effective in improving the performance of Generation Z employees at the head office of PT. Basa Inti Persada. However, limited employee involvement in target setting reduces their sense of ownership and intrinsic motivation. This suggests that the effectiveness of performance management depends not only on technical measurement but also on the degree of participation, transparency, and perceived fairness in its implementation. The statistical results demonstrate a strong and significant relationship between KPI effectiveness and employee performance, highlighting that a well-structured, measurable, and transparent

appraisal system substantially enhances work focus, accountability, and productivity. Furthermore, the coefficient of determination shows that the KPI system explains a considerable proportion of the variance in employee performance, confirming its role as a strategic managerial instrument rather than merely an administrative tool. From a generational perspective, aligning performance management practices with Generation Z characteristics is critical for achieving optimal outcomes. Clear targets, measurable indicators, and structured feedback mechanisms are especially relevant for this generation, while limited participation in goal setting may weaken engagement. Overall, these findings address the research gap identified in the introduction and extend the performance management literature by emphasizing generational characteristics as an important contextual factor, particularly in Indonesia's modern Muslim fashion retail sector.

Recommendations

Based on the findings, management of PT. Basa Inti Persada is encouraged to strengthen participative mechanisms in KPI formulation to enhance employees' sense of ownership and accountability. Furthermore, a more transparent and inclusive performance management process will increase trust, motivation, and alignment between individual performance and organizational objectives. In addition, the KPI system should be supported by continuous performance coaching and periodic feedback to ensure consistent performance improvement. Integrating KPI achievement with career development pathways will reinforce its function as a performance development instrument rather than solely an evaluation tool, which aligns with the work values of Generation Z employees. Moreover, to further improve performance consistency, the company is advised to implement targeted development programs based on individual competency mapping, particularly in areas such as punctuality, task execution, and proactive behavior. For future research, incorporating additional variables such as work motivation, leadership style, organizational climate, and employee engagement can help develop a more comprehensive performance management model. Expanding the research scope to different sectors and generational compositions would also provide deeper insights into the contextual effectiveness of KPI-based performance appraisal systems.

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