

The Effect of Performance Appraisal Effectiveness on Employee Outcomes: The Mediating Role of Workplace Culture in Indonesian Banks

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ABSTRACT

Performance appraisal is widely recognized as a key human resource practice that supports organizational strategy through evaluating employee performance, delivering feedback, and fostering competence development. Despite its importance, the effectiveness of performance appraisal systems in improving work outcomes has shown inconsistent results across different organizational contexts. This study aims to examine the effect of performance appraisal effectiveness on two critical employee outcomes, employee retention and self-reported performance, by investigating the mediating role of workplace culture. The research focuses on the Indonesian banking sector, where managing talent and sustaining performance are strategic priorities. A quantitative approach was applied using Partial Least Squares Structural Equation Modeling (PLS-SEM) to test the proposed relationships and assess the mediating effects. The data demonstrate that retention and self-reported performance are not directly improved by the efficacy of performance appraisals. Instead, its positive impact becomes significant when mediated by workplace culture, which fosters fairness, trust, collaboration, and open communication. The results emphasize the importance of workplace culture in bolstering management control systems in firms and show how it is a crucial mechanism connecting employee outcomes and appraisal effectiveness.

Keywords: *Employee Outcomes, Employee Retention, Management Control Systems, Organizational Culture, Performance Appraisal Effectiveness, Self-Reported Performance.*

ABSTRAK

Penilaian kinerja diakui secara luas sebagai praktik sumber daya manusia utama yang mendukung strategi organisasi melalui evaluasi kinerja karyawan, memberikan umpan balik, dan mendorong pengembangan kompetensi. Terlepas dari pentingnya, efektivitas sistem penilaian kinerja dalam meningkatkan hasil kerja telah menunjukkan hasil yang tidak konsisten di berbagai konteks organisasi. Studi ini bertujuan untuk mengkaji efek efektivitas penilaian kinerja pada dua hasil karyawan yang penting, retensi karyawan dan kinerja yang dilaporkan sendiri dengan menyelidiki peran mediasi budaya tempat kerja. Penelitian ini berfokus pada sektor perbankan Indonesia, di mana mengelola talenta dan mempertahankan kinerja adalah prioritas strategis. Pendekatan kuantitatif diterapkan menggunakan Partial Least Squares Structural Equation Modeling (PLS-SEM) untuk menguji hubungan yang diusulkan dan menilai efek mediasi. Data menunjukkan bahwa retensi dan kinerja yang dilaporkan sendiri tidak secara langsung

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ditingkatkan oleh kemandirian penilaian kinerja. Sebaliknya, dampak positifnya menjadi signifikan ketika dimediasi oleh budaya tempat kerja, yang menumbuhkan keadilan, kepercayaan, kolaborasi, dan komunikasi terbuka. Hasilnya menekankan pentingnya budaya tempat kerja dalam memperkuat sistem kontrol manajemen di perusahaan dan menunjukkan bagaimana itu adalah mekanisme penting yang menghubungkan hasil karyawan dan efektivitas penilaian.

Kata kunci: Hasil Karyawan, Retensi Karyawan, Sistem Kontrol Manajemen, Budaya Organisasi, Efektivitas Penilaian Kinerja, Kinerja yang Dilaporkan Sendiri.

INTRODUCTION

The global banking industry faces persistent challenges in managing employee performance and retention amid increasing market competition, rapid digital transformation, and heightened regulatory demands. Banks operate in high-pressure environments that demand precision, accountability, and continuous adaptation, making effective performance appraisal systems essential for maintaining workforce productivity and motivation. However, many banking institutions struggle to implement appraisal mechanisms that are perceived as fair, transparent, and development-oriented, leading to dissatisfaction, declining engagement, and high turnover rates (Mohammad, 2016). In developing countries such as Indonesia, these issues are more prominent due to hierarchical organizational structures, limited feedback cultures, compensation systems, and work stress (Rohendra et al., 2024). This raises a critical question of how performance appraisal systems can be designed and aligned with the prevailing workplace culture to enhance employee outcomes and organizational sustainability.

Performance appraisal is a key component in management control systems that functions to support organizational strategy implementation, ensure accountability, and monitor and evaluate individual and team performance (Cravens et al., 2015). Through this process, organizations can assess employee work results, provide continuous constructive feedback, and identify competency gaps to recommend relevant training (Michael & Taylor, 2020). Additionally, performance appraisal serves as a tool to measure employee contributions to organizational goals, enhance motivation, and build a high-performance-oriented work culture (Cascio & Aguinis, 2019; Noe et al., 2024). The success of performance appraisal systems is shaped not only by their technical configuration but also by employees' subjective evaluations of the system's fairness, openness, and focus on professional growth. Ambilichu et al. (2024) found that clear and just appraisal processes significantly enhance employee commitment, especially when rewards are linked to appraisal outcomes. Schleicher et al. (2020) further highlight that performance management systems must be evaluated across multiple criteria, including perceived fairness and developmental impact, to ensure effectiveness. Previous research shows inconsistent results regarding the relationship between performance appraisal and employee outcomes, indicating the need for more in-depth analysis approaches (Cravens et al., 2015; Awan et al., 2020).

In fact, employee performance is strongly influenced by behaviors demonstrated in their work environment, and workplace culture is the most significant factor influencing this behavior and can drive organizational competitive advantage (Deloitte, 2016). Workplace culture in organizations reflects behavioral patterns, values, beliefs, leadership styles, and work atmospheres that shape daily activities (Babu et al., 2020; Alqahtani, 2024). Each organization establishes patterns that direct employee behavior based on this work culture, and the more employees accept and follow these patterns, the higher their commitment to the organizational culture (Atatsi et al., 2019; Robbins et al., 2021). Most previous research by Dessler (2015), Wei He et al. (2021), and Sandra and SeTin (2023) on performance evaluation tends to overlook the important role of workplace culture and rarely connects it with employee outcomes. Workplace culture is a critical mediator because it shapes how employees perceive and respond to performance appraisal systems whether they view them as supportive and developmental or as merely administrative and

punitive. The alignment of appraisal practices with cultural principles of fairness, mutual respect, and collaboration increases the likelihood of promoting higher levels of employee engagement, motivation, and sustained retention.

Furthermore, although workplace culture is recognized as important, prior studies have not integrated workplace culture as a mediating variable in the relationship between performance appraisal effectiveness and employee outcomes. Recent studies, such as those by Ghani et al. (2024) and Pepple and Ambilichu (2024), began to demonstrate empirically that workplace culture can mediate the impact of assessment effectiveness on retention and self-reported performance, indicating the need for integrated models in this area. As noted by Vincent (2024) and Yusoff (2025), organizations that align appraisal practices with their unique workplace culture are better positioned to foster long-term engagement and retention.

Therefore, this study aims to investigate the impact of performance appraisal effectiveness on employee retention and self-reported performance, with workplace culture functioning as a mediating variable within the Indonesian banking sector. This research contributes theoretically by integrating workplace culture to explain how appraisal effectiveness drives employee outcomes, and by offering a socio-cultural perspective to management control theory. Practically, it provides guidance for banks to design fair and development-oriented appraisal systems that strengthen retention, enhance performance, and foster a supportive workplace culture in a highly competitive industry.

LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

Performance Appraisal Effectiveness and Workplace Culture

Drawing on Organizational Justice Theory, the effectiveness of performance appraisal depends on how fairly and transparently the process is perceived by employees. When appraisals are conducted in ways that reflect distributive, procedural, and interactional justice, they reinforce employees' trust and sense of respect, which are essential for shaping shared values and behaviors in the workplace (Ambilichu et al., 2024). In line with Yusoff (2025). Managing fairness and transparency in the appraisal process is a key factor in increasing employee trust and engagement, which indirectly contributes to building a good organizational culture. Effective performance appraisal provides employees with insights into actions that support organizational goal achievement. An effective performance appraisal system offers employees valuable feedback and guidance on behaviors and actions that contribute to the attainment of organizational goals. Workplace culture, which is closely related to employees' psychological aspects, plays an important role in this process, particularly in the banking sector, where employees focus on task execution to achieve targets (Cravens et al., 2015; Kong et al., 2023). Greater employee accountability and creativity are fostered by an open and pleasant corporate culture. Boudreau and Rice (2017) assert that performance evaluation systems that prioritize openness, transparency, and trust help build healthy communication cultures. Additionally, Westwood (2022) highlights that constructive criticism and feedback in performance evaluations encourage the creation of positive work environments.

H1: Performance appraisal effectiveness has a positive effect on workplace culture.

Workplace Culture and Employee Retention

Workplace culture embodies the organisation's character and serves as a guiding framework for all members in fulfilling their responsibilities (Rustandy et al., 2020; Lisdiono et al., 2023). One important factor in forming organizational environments that have a big impact on employee retention is workplace culture. Positive and inclusive cultures foster a sense of belonging and employee engagement, making them more likely to stay because they feel valued and part of the company (Guest, 2017; Kusumah et al., 2021). SHRM's (2024) global survey identifies honest management, civil behavior, and meaningful work as core cultural elements that drive retention worldwide (Ginting et al.,

2024; Xiang, 2024). On the other hand, even when competitive pay is offered, employees are more likely to seek chances elsewhere when they work in environments that are toxic or negative and marked by harassment, discrimination, or a lack of support. Employees who fit well with company culture are more satisfied and stay longer, while those who don't tend to seek more suitable environments (Schein, 2017).

Self-reported performance enhances employee engagement and motivation by fostering self-awareness, confidence, and ownership of work (Lina, 2016; Adeoye et al., 2023). Supportive workplace cultures marked by openness and appreciation encourage honest reporting, improving its validity and aiding HR strategies (Soomro & Shah, 2019). On the other hand, fear is fostered by unsupportive corporate cultures, which leads to biases in reporting, such as underreporting or overreporting.

H2: Workplace culture has a positive effect on employee retention.

H3: Workplace culture has a positive effect on self-reported performance.

Workplace Culture as Mediator Variable

According to Edy (2020), performance reviews assist in preserving alignment with company values, which affect employees' perceptions and motivate them to live up to them. Through open communication and constructive criticism, this fosters pleasant work environments where employees' efforts and accomplishments are acknowledged, increasing commitment and satisfaction. The beneficial effects of performance reviews are enhanced by workplace cultures that value cooperation, openness, and gratitude. Positive cultures encourage employees to contribute to the fullest extent possible since they feel more linked to the organization's objectives (Na-Nan et al., 2020). On the other hand, even when performance reviews are successful, unsupportive or unfair environments can lead to irritation and lower motivation (Franco-Santos et al., 2021).

Employee perceptions about performance review procedures ingrained in company culture have a big impact on employee retention. Organizations with positive cultures, clear strategies, and effective management achieve higher retention (Lina, 2016; Soetjipto et al., 2021). Healthy cultures reduce turnover and strengthen emotional bonds, enhancing appraisal effectiveness and motivation. Self-reported performance reflects how employees assess their contributions and is more reliable in supportive environments that encourage growth (Firnawati et al., 2020; Petasis et al., 2020; Irawan et al., 2023). Strong cultures foster engagement and shared goals (Anugerah, 2018; Gafarova & Özari, 2021). According to HRM theory, performance appraisal shapes outcomes through workplace culture, which acts as a behavioral and psychological pathway linking HR practices to attitudes, retention, and performance. Appraisal effectiveness yields positive outcomes when aligned with fair, developmental, and supportive cultural values.

H4: Workplace culture mediates the relationship between performance appraisal effectiveness and employee retention.

H5: Workplace culture mediates the relationship between performance appraisal effectiveness and self-reported performance.

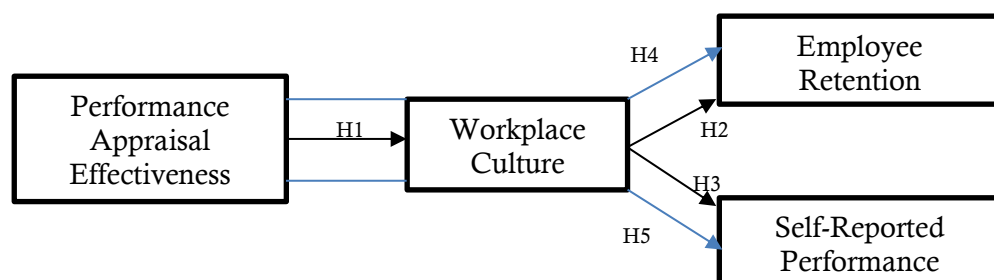


Figure 1. Conceptual Framework

Figure 1 is a conceptual model depicting the relationship between Performance Appraisal Effectiveness, Workplace Culture, Employee Retention, and Self-Reported Performance. In this model, performance appraisal effectiveness influences work culture. Furthermore, work culture acts as a mediating variable that influences two important outcomes: employee retention and self-reported performance. In other words, work culture acts as a link that determines the extent to which effective performance appraisals can increase employee loyalty while encouraging more honest and valid performance reporting.

RESEARCH METHODS

The impact of performance evaluation effectiveness on employee retention and self-reported performance is examined in this study using a quantitative research approach, with workplace culture acting as a mediating variable within the Indonesian banking industry. The approach is deductive, drawing from human resource management theories to test hypothesized relationships. A survey method was used to collect perceptual data from employees, facilitating the analysis of causal links and mediation effects. This design suits mediation studies in organizational contexts, enabling efficient data gathering while mitigating common method bias through anonymous responses and varied question formats.

The population comprises employees in state-owned banks listed on the Indonesia Stock Exchange (IDX), a key segment of Indonesia's financial industry. Purposive sampling, a non-probability method, was applied to select participants based on criteria ensuring relevance: staff-level employees to branch managers with at least one year of experience. This ensures familiarity with performance systems and cultural dynamics. The technique was chosen for its focus on knowledgeable respondents in targeted settings, as seen in similar banking research. Based on the ten times rules adequate for PLS-SEM analysis, the minimum required sample size for a model with 5 predictors is 50 samples (Hair, 2014).

A structured questionnaire was developed, incorporating validated scales from prior literature. It included sections on: (1) performance appraisal effectiveness (e.g., fairness, feedback); (2) workplace culture (e.g., openness, support); (3) employee retention (e.g., intent to stay); and (4) self-reported performance (e.g., productivity perceptions). Items were measured on a 5-point Likert scale (1 = strongly disagree to 5 = strongly agree). The instrument was adapted for cultural fit and pilot-tested (n=30) to verify clarity and reliability. Questionnaires were distributed online (e.g., via Google Forms) and in-person where possible, over 4-6 weeks. Informed consent emphasized voluntariness, confidentiality, and withdrawal rights. Ethical protocols were followed, including institutional approval.

Partial Least Squares Structural Equation Modeling (PLS-SEM) was conducted using SmartPLS software to assess direct effects and the workplace culture's mediating role. This method handles complex models and non-normal data effectively. Measurement validity and reliability were tested before hypothesis analysis. Construct validity was confirmed through convergent and discriminant validity using Average Variance Extracted (AVE > 0.50) and the Fornell-Larcker criterion. Reliability was ensured using Cronbach's alpha and composite reliability (CR > 0.70), while indicator loadings above 0.70 demonstrated item consistency. The measurement model was refined by removing items below these thresholds. To ensure data adequacy, multicollinearity was checked using the Variance Inflation Factor (VIF < 5). Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS was then applied to test direct and mediating effects, bootstrapped resamples to assess the significance of path coefficients.

RESULTS

A sample of 100 respondents was selected from two state-owned banks that were listed on the IDX using questionnaires distributed to employees of state-owned banks. The majority of respondents are female (65%), have bachelor's degrees (64%), fall into the

productive age groups of 25–35 years (55%) and 36–49 years (44%), have significant work experience (6–15 years), and are permanent employees (69%). These characteristics are displayed in Table 1.

Table 1. Respondents' Profile

Respondent	Respondents Characteristics	Total	Percentage
Gender	Male	35	35.0%
	Female	65	65.0%
Education	Diploma	36	36.0%
	Bachelor	64	64.0%
Age	18 – 24 years	1	1.0%
	25 – 35 years	55	55.0%
	36 – 49 years	44	44.0%
Work Tenure	< 1 year	2	2.0%
	1 – 5 years	31	31.0%
	6 – 15 years	65	65.0%
	>15 years	2	2.0%
Employment status	Permanent employees	69	69.0%
	Contract employees	31	31.0%

The demographic profile of respondents in this study, in Table 1, provides a comprehensive overview of the characteristics of the workforce in Indonesian state-owned banks listed on the Indonesia Stock Exchange (IDX). Based on gender, the majority of respondents were female, accounting for 65.0%, while male respondents represented 35.0%. This indicates that the banking sector continues to attract and retain more female employees, reflecting broader trends of women's increasing participation in financial services. In terms of education, most employees held a bachelor's degree (64.0%), followed by diploma holders (36.0%). These figures suggest that the industry values formal higher education qualifications, particularly at the undergraduate level, to support the technical and analytical demands of banking operations. Regarding age distribution, the largest group of respondents fell within the 25–35 years bracket (55.0%), followed by those aged 36–49 years (44.0%), while only a small fraction was in the 18–24 category (1.0%). This highlights the predominance of mid-career professionals within the sample, representing a workforce that combines both youthful adaptability and professional maturity, which are essential qualities for navigating the dynamic and competitive banking environment.

Work tenure and employment status further illustrate the stability and structure of this workforce. A significant proportion of employees had been with their organizations for 6–15 years (65.0%), indicating a strong trend of long-term employment and loyalty within state-owned banks. This is complemented by the presence of employees with shorter tenure: 31.0% had worked for 1–5 years, while only 2.0% each had tenure of less than one year or more than 15 years. The predominance of permanent employees (69.0%) over contract workers (31.0%) reinforces the sector's orientation toward long-term employment security, which is often linked with higher organizational commitment and reduced turnover. These demographic features underscore a workforce characterized by stability, higher education, and professional maturity, making the findings of this study especially relevant to the human resource management practices of Indonesian banks that rely on employee retention, organizational culture, and performance self-assessment to maintain resilience in a rapidly transforming financial industry.

Table 2 presents the results of the measurement model analysis, including factor loadings, Composite Reliability (CR), and Average Variance Extracted (AVE) for all constructs. All indicator loadings exceed the minimum threshold of 0.60, confirming acceptable indicator reliability. The CR values range from 0.902 to 0.975, indicating strong internal consistency across constructs. Meanwhile, AVE values between 0.529 and 0.951 demonstrate adequate convergent validity, as each exceeds the 0.50 benchmark. According to these findings, each of the following constructs is consistently represented

by the measurement items: Self-Reported Performance (SRP), Workplace Culture (WPC), Employee Retention (ER), and Performance Appraisal Effectiveness (PAE).

Table 2. Validity and Reliability Test

Indicators	Loadings Factor			
	PAE	WPC	ER	SRP
1	0.641	0.738	0.976	0.688
2	0.734	0.735	0.974	0.712
3	0.691	0.811	-	0.797
4	0.716	0.789	-	0.755
5	0.722	0.782	-	0.687
6	0.733	0.816	-	0.720
7	0.750	-	-	0.738
8	0.748	-	-	0.807
9	0.801	-	-	0.813
10	-	-	-	0.773
11	-	-	-	0.787
CR	0.910	0.902	0.975	0.935
AVE	0.529	0.607	0.951	0.568

Source: PLS-SEM data analysis results

Every research hypothesis exhibits statistically significant effects, as seen in Table 3. Workplace Culture (WPC) is significantly positively impacted by Performance Appraisal Effectiveness (PAE) ($p < 0.01$), which explains 18.7% of the variation (H1 supported). These results imply that improved workplace culture results from more successful performance reviews. Employees are more likely to adopt favorable views toward organizational values, such as accountability, teamwork, and results-oriented conduct, when they believe that the performance review process is impartial, open, and equitable. This result is consistent with Sandra and Setin’s earlier research (2023).

Additionally, Workplace Culture (WPC) explains 15.2% of the variation (H2 supported) and has a substantial positive influence ($p < 0.01$) on Employee Retention (ER). The results support the findings of Cravens et al. (2015) by showing that a stronger workplace culture leads to higher employee retention rates. Additionally, Workplace Culture (WPC) and Self-Reported Performance (SRP) have a strong positive connection ($p < 0.01$), which explains 18.8% of the variance (H3 supported). According to the study, employees’ self-reported performance improves when their workplace culture is improved and is marked by cooperative ideals, mutual trust, fairness, and open communication.

Table 3. Hypotheses Test

Hypothesis	Coefficient	t-statistic	p-value	R ²
PAE → WPC	0.433	5.166	0.000	0.187
WPC → ER	0.390	4.099	0.000	0.152
WPC → SRP	0.433	5.081	0.000	0.188
PAE → WPC → ER	0.169	3.193	0.001	
PAE → WPC → SRP	0.187	3.286	0.001	

According to Table 3’s analytical results, Employee Retention (ER) is significantly and favorably impacted by Performance Appraisal Effectiveness (PAE) when it is mediated by Workplace Culture (WPC) ($p < 0.01$), supporting hypothesis H4. This means that effective performance appraisal alone is not enough to directly ensure employees remain in the organization. These results are consistent with Cravens et al. (2015), who demonstrated that workplace culture serves as a key mechanism linking formal organizational systems to the desired behavioral outcomes of employees. Instead, the appraisal system needs to first shape a positive workplace culture before its impact on employee retention becomes meaningful. In other words, when employees perceive the appraisal system as fair, transparent, and supportive, it contributes to building a culture of trust and inclusivity. Such a culture strengthens employee loyalty, increases their attachment to the organization, and motivates them to stay longer. Without this cultural

mediation, the appraisal process might be perceived as rigid or formal, providing little effect on long-term employee commitment.

Likewise, the findings support hypothesis H5 by demonstrating that Workplace Culture (WPC) mediates Performance Appraisal Effectiveness (PAE), which impacts Self-Reported Performance (SRP) in a favorable way ($p < 0.01$). This suggests that effective appraisal systems do not immediately improve how employees evaluate their own performance. Instead, their impact is significantly enhanced when the appraisal contributes to shaping a workplace culture that fosters collaboration, fairness, and open communication. In order to improve accuracy and validity, a supportive culture encourages staff members to report their performance with greater assurance, candor, and self-reflection. When employees work in an environment where they feel appreciated and trusted, they are more likely to assess themselves positively while recognizing areas for improvement. Workplace culture is therefore a key mediating factor, guaranteeing that the efficacy of performance reviews results in observable gains in employee retention and self-reported performance outcomes.

DISCUSSION

The results of this study provide valuable insights into the dynamics of human resource management in the Indonesian banking sector, particularly among state-owned banks listed on the Indonesia Stock Exchange (IDX). Most participants have 6–15 years of tenure (65%) and permanent status (69%), which aligns with the sector's emphasis on long-term employment. This composition suggests that the findings are particularly relevant to mid-career professionals in a regulated industry, where retention and performance self-assessments are critical amid economic pressures and digital transformations in banking (Maharvi et al., 2023).

Hypothesis testing results in Table 3 reveal significant pathways that highlight the mediating role of workplace culture. The direct effect of PAE on WPC ($\beta = 0.433$, $t = 5.166$, $p < 0.001$, $R^2 = 0.187$) supports H1, indicating that effective performance appraisals marked by fairness, transparency, and constructive feedback foster a positive organizational culture. Prior research affirms that appraisal systems significantly shape employee commitment and cultural values (Ambilichu et al., 2024). This relationship implies that when employees view appraisals as equitable, it cultivates collaboration and accountability, potentially reducing cynicism and enhancing morale. This corroborates Sandra and Setin (2023), who found in Indonesian firms that transparent appraisal systems strengthen cultural norms by aligning individual goals with organizational objectives, leading to higher trust levels.

Furthermore, WPC's positive impact on ER ($\beta = 0.390$, $t = 4.099$, $p < 0.001$, $R^2 = 0.152$) validates H2, suggesting that supportive cultures defined by openness, appreciation, and mutual support boost retention by fulfilling employees' needs for belonging and stability. Studies show that positive organizational culture mitigates turnover by embedding employees in social and professional networks (Cravens et al., 2015; Anugerah, 2018). In the banking context, where high turnover disrupts continuity, this finding emphasizes culture as a retention lever. This resonates with Ghani et al. (2024), who found that performance appraisals indirectly reduce turnover intentions through mediating cultural and motivational mechanisms.

Similarly, WPC significantly influences SRP ($\beta = 0.433$, $t = 5.081$, $p < 0.001$, $R^2 = 0.188$), supporting H3. A collaborative and trusting environment encourages honest self-reflection, leading to improved self-perceived performance via heightened motivation and self-efficacy (Babu et al., 2020). This aligns with self-determination theory, where intrinsic needs such as autonomy, competence, and relatedness are met in supportive cultures, resulting in better self-assessments and actual productivity. Previous works also stress that performance management systems improve employee engagement, which subsequently enhances job performance (Awan et al., 2020; Franco-Santos et al., 2021).

The mediation analyses further elucidate indirect effects. PAE's influence on ER via WPC ($\beta = 0.169$, $t = 3.193$, $p = 0.001$) confirms H4, revealing full mediation: effective appraisals enhance culture, which in turn promotes retention. This suggests that without cultural improvements, appraisals alone may not retain talent, emphasizing the need for integrated HR strategies (Ambilichu et al., 2024). Likewise, PAE affects SRP through WPC ($\beta = 0.187$, $t = 3.286$, $p = 0.001$), supporting H5 and indicating that cultural mediation amplifies appraisal benefits by creating environments conducive to self-improvement and bias-free reporting (Firnawati et al., 2020; Edy, 2020).

These findings underscore the interconnectedness of appraisal systems, culture, and employee outcomes in Indonesian state-owned banks. Practical implications include investing in appraisal training, cultural initiatives, and HR development to curb turnover, potentially saving costs equivalent to 1.5–2 times an employee's salary (Dessler, 2015; Michael & Taylor, 2020). Moreover, fostering positive workplace cultures can elevate both retention and performance, thereby enhancing organizational resilience. Limitations include the small sample size and cross-sectional design, which restrict causal inference; future research should adopt longitudinal or cross-sectoral approaches for deeper validation. Nonetheless, this study contributes to HR literature by empirically validating culture's mediating role in a developing economy context, offering actionable strategies for strengthening resilience in the banking sector.

CONCLUSION

The findings of this study conclusively demonstrate that workplace culture plays a mediating role in the relationship between performance appraisal effectiveness, employee retention, and self-reported performance. The results highlight that performance appraisal systems alone are insufficient to directly improve employee outcomes. Instead, their effectiveness becomes meaningful when supported by a strong and positive workplace culture that fosters trust, fairness, recognition, and open communication.

From a practical perspective, this research underscores the importance of organizations integrating cultural development with appraisal systems. Managers and HR practitioners should not limit efforts to technical aspects of evaluation, but also invest in creating an environment where employees feel valued and motivated. A supportive workplace culture enhances the credibility of performance appraisal processes, strengthens employee loyalty, and encourages accurate self-assessment, which in turn drives long-term organizational effectiveness. From a theoretical standpoint, this study contributes to the literature by confirming the mediating role of workplace culture in human resource management, particularly in linking appraisal effectiveness to retention and performance. It extends prior studies by emphasizing that cultural dynamics are not peripheral but central to understanding the impact of performance management systems.

However, this research is not without limitations. The analysis was conducted within a single organizational context, limiting the generalizability of results across industries or ownership structures. It is advised that future research compare private and public sector firms to examine how various ownership contexts influence the relationship between employee outcomes, performance reviews, and workplace culture.

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