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THE IMPACT OF REWARD AND PUNISHMENT MECHANISMS ON EMPLOYEE
PERFORMANCE: THE MEDIATING ROLE OF
WORK MOTIVATION

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Abstract. This study aims to explore the impact of rewards and punishments on employee performance, with an emphasis on the mediating role of work motivation in companies operating in the food industry. Data were collected through a questionnaire distributed to 96 employees of the company, and the analysis was conducted using PLS-SEM via the WarpPLS 7.0 application. The results indicate that rewards have a significant impact on work motivation and employee performance, while constructively applied punishments also positively affect performance, although their effect is smaller compared to that of rewards. Work motivation has been shown to act as a significant mediator in the relationship between rewards and performance, whereas mediation in the relationship between punishments and performance did not show the same significance. These findings emphasize the importance of implementing a fair and constructive reward system to enhance employee motivation and performance.

Abstrak. Penelitian ini bertujuan untuk mengeksplorasi dampak penghargaan dan hukuman terhadap kinerja karyawan, dengan penekanan pada peran mediasi motivasi kerja di perusahaan yang bergerak di industri makanan. Pengumpulan data dilakukan melalui kuesioner yang disebarkan kepada 96 karyawan dari perusahaan tersebut, dan analisis dilakukan menggunakan PLS-SEM melalui aplikasi WarpPLS 7.0. Hasil penelitian menunjukkan bahwa penghargaan memiliki pengaruh signifikan terhadap motivasi kerja dan kinerja karyawan, sedangkan hukuman yang diterapkan secara konstruktif juga memberikan dampak positif pada kinerja, meskipun efeknya lebih kecil dibandingkan dengan penghargaan. Motivasi kerja terbukti berfungsi sebagai mediator yang signifikan dalam hubungan antara penghargaan dan kinerja, sedangkan mediasi dalam hubungan antara hukuman dan kinerja tidak menunjukkan signifikansi yang sama. Temuan ini menekankan pentingnya penerapan sistem penghargaan yang adil dan konstruktif untuk meningkatkan motivasi dan kinerja karyawan.

INTRODUCTION

With the growing business landscape, competition within the business sector is also intensifying, including in the food industry. This leads to more complex company issues as they must face increased competition while being required to achieve targets through enhancing the quality of human resource (HR) services. HR empowerment efforts aim to improve individual performance and, ultimately, the overall performance of the company.

Employee discipline is a form of training that aims to correct and shape employees' knowledge, attitudes, and behaviours so they work cooperatively and improve job performance (Mathis & Jackson, 2021). In addition to work discipline, organizations also need to pay attention to the reward system. According to Robbins and Judge (2018), rewards encompass various incentives provided by organizations to employees as part of the psychological contract, where rewards satisfy several needs, employees seek to fulfil through their work behaviour choices.

Rewards and punishments are two contrasting but interrelated concepts. Both play a role in motivating employees to improve work quality and their responsibility for assigned tasks (Robbins & Judge, 2018). The provision of rewards and punishments must be done fairly and appropriately, not based on personal preferences. Unfair distribution can lead to social jealousy among employees, negatively impacting performance.

Research by Fahreza (2020) and Smith & Jones (2020) shows that rewards and punishments, both partially and simultaneously, have a significant impact on performance. Priyadi and Indriyani (2020) also found that rewards and punishments positively and significantly affect employee performance.

The crucial role of HR is reflected in the company's need to develop HR management strategies aligned with strategies in other areas. HR management involves programs and activities to acquire, develop, maintain, and optimize human resources to support the achievement of company goals. To achieve these goals, qualified employees are essential. Rewards and punishments are crucial in motivating employees to be more responsible and perform better.

Previous research has yielded mixed results. Prabu & Wijayanti (2016), Ferdinand & Satibi (2021), and Zuhariyah et al. (2022) state that rewards have a significant effect on performance as they are considered positive reinforcement.

On the contrary, Gunawan et al. (2023) found that rewards have a positive but not always significant effect on employee performance, as the size of the rewards received by employees does not affect their performance. Regarding the punishment variable, research by Berkovich & Eilam (2020) found that punishment significantly affects performance by imposing negative consequences, while De Jong et al. (2016) found that punishment does not significantly affect performance due to inconsistent policies.

This research aims to examine the effect of rewards and punishments on employee performance, with the hope of improving performance and achieving company goals. This study also seeks to provide recommendations for companies on implementing an effective reward and punishment system to enhance employee motivation and performance.

Research Questions:

- H1: Do rewards significantly affect employees' work motivation?
- H2: Do punishments significantly affect employees' work motivation?
- H3: Does work motivation significantly affect employee performance?
- H4: Do rewards significantly affect employee performance?

H5: Do punishments significantly affect employee performance?

H6: Does work motivation mediate the effect of rewards on employee performance?

H7: Does work motivation mediate the effect of punishment on employee performance?

LITERATURE REVIEW

Employee Performance

Hasibuan (2020) states that performance is the result achieved by an individual in carrying out the tasks assigned to them, based on their skills, experience, and dedication. The indicators for individual performance, according to Robbins & Judge (2021), include work quality, quantity, timeliness, effectiveness, and independence. In his book, Green (2019) emphasizes that employee performance management is influenced by fair rewards, which increase motivation and job satisfaction, and fair punishments that prevent dissatisfaction. A balance between the two is crucial for effective performance management, and a positive organizational culture can strengthen the reward and punishment systems, leading to greater employee contributions to organizational performance.

Work Motivation

Latham & Pinder (2005) define work motivation as the forces, both internal and external, that initiate work-related behaviour and determine its form, direction, intensity, and duration. Motivation is a critical aspect of work attitudes but is challenging to measure directly. Management cannot observe motivation directly; they can only infer it from visible behaviours. Furthermore, motivation is not the only factor influencing individual performance; other factors, such as job satisfaction, rewards, organizational commitment, and perceptions of fairness and trust, also play a role. The quality of employee relationships with supervisors and colleagues can affect their behaviour and motivation, making these relationships a potential mediator of work motivation.

Reward

According to Raymond et al. (2023), a reward is compensation provided by a company to its workforce for their contributions of effort and thought towards the company's progress and achieving its set goals.

Punishment

Mangkunegara (2019) describes punishment as a form of deterrence aimed at improving the performance of violators, maintaining established rules, and serving as a lesson to the offenders. However, organizations need to consider what kind of punishment is appropriate for specific situations and conditions. Rivai (2020) outlines several common forms of punishment, including light punishments (verbal warnings, written warnings, and expressions of dissatisfaction), moderate punishments (delayed salary increases, salary reductions, and delayed promotions), and severe punishments (demotions, dismissal from positions, voluntary termination, and employment termination).

Relationship between variables:

The Effect of Rewards on Work Motivation

Rewards play a significant role in increasing employee work motivation. When employees feel appreciated, it boosts their morale, satisfaction, and commitment to their work. Armstrong (2007), in his book, discusses a reward framework that includes intrinsic and extrinsic rewards and their effects on work motivation and employee productivity. Appropriate rewards can enhance employees' job satisfaction and commitment. Similarly, Pradnyani et al. (2020) found that both rewards and punishments influence work motivation and employee performance.

Based on this, the following hypothesis is proposed:

H1: Rewards have a significant effect on Work Motivation.

The Effect of Punishment on Work Motivation

Punishment in the workplace can have a complex impact on motivation. While punishment may control unwanted behaviour, its effects are often negative, such as causing stress and feelings of being unappreciated (Umama, 2019). Research by Pradnyani (2020) indicates that punishment can reduce autonomy and self-control, while Harahap (2020) found that fair punishment can increase motivation if applied consistently.

Based on this, the following hypothesis is proposed:

H2: Punishment has a significant effect on Work Motivation.

The Effect of Work Motivation on Performance

Work motivation significantly impacts performance. Motivated employees tend to be more productive and dedicated (Ahmadiansah, 2020). High motivation enhances focus, concentration, and the courage to take risks (Tumanggor, 2020; Nugroho, 2022).

Based on this, the following hypothesis is proposed:

H3: Work Motivation has a significant effect on Performance.

The Effect of Rewards on Performance

Rewards given to employees for their contributions can enhance performance by motivating them to work harder (Gunawan et al., 2023). Research by Sofiati (2021) shows that rewards create an emotional bond with the organization, while Apriyanti (2020) found that rewards increase intrinsic motivation.

Based on this, the following hypothesis is proposed:

H4: Rewards have a significant effect on Performance.

The Effect of Punishment on Performance

Punishment can affect performance either positively or negatively, depending on its fairness and consistency (Umama, 2019). Fair and proportional punishment can promote compliance, while unjust punishment can lead to dissatisfaction and lower performance (Ramadanita, 2021; Nampo & Pandowo, 2020).

Based on this, the following hypothesis is proposed:

H5: Punishment has a significant effect on Performance.

The Effect of Rewards on Performance through Work Motivation

Rewards can improve performance through higher work motivation. Rewards strengthen both intrinsic and extrinsic motivation, positively influencing employee performance (Warna, 2020; Sofiati, 2021).

Based on this, the following hypothesis is proposed:

H6: Rewards affect Performance, mediated by Work Motivation.

The Effect of Punishment on Performance through Work Motivation

Punishment can influence performance through work motivation, although its effects may be complex. Punishments received by employees may enhance intrinsic motivation if viewed as constructive feedback (Ahmadiansah, 2020; Raymond et al., 2023).

Based on this, the following hypothesis is proposed:

H7: Punishment affects Performance, mediated by Work Motivation.

RESEARCH METHODOLOGY

This study employs a causal approach to establish cause-and-effect relationships, where tests are conducted to determine the influence of one variable on changes in another, using a structured analysis of causal factors (Hair et al., 2017; Wong, 2013). Data were collected through questionnaires distributed to a sample of employees who had been employed for at least one year as permanent staff, ensuring that the data obtained accurately reflect the internal dynamics of the organization (Tenenhaus et al., 2005).

A descriptive approach was selected to provide a deeper understanding of organizational dynamics and their impact on employee performance while also allowing for a broader comprehension of the research context (Hair et al., 2017). To analyse data from 96 respondents, this study utilizes PLS-SEM analysis with the WarpPLS 7.0 application, chosen for its capability to handle complex models and relationships between variables. Subsequently, structural model evaluation is conducted to test the significance of relationships between variables, with the aim of offering valuable insights for decision-making and organizational performance improvement (Ringle et al., 2015).

RESULTS AND DISCUSSION

The following image displays the results of data analysis using WarpPLS 7.0, providing an overview of the findings from this research:

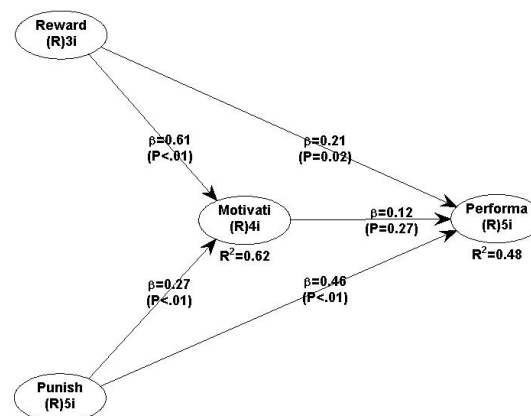


Figure 1. Results of Data Analysis

Source: Results of the Analysis using WarpPLS 7.0 (2024)

Additionally, the following table presents the results of data analysis, which serve as the findings of this research:

Table 1. Data Analysis Results using WarpPLS 7.0

Hypothesis	Path Coefficient	P-value	T-ratio
1. Reward → Performance	0.465	<0.001	3.881
2. Punishment → Performance	0.207	0.025	1.986
3. Motivation → Performance	0.116	0.272	0.609
4. Reward → Motivation	0.610	<0.001	6.850
5. Punishment → Motivation	0.270	0.002	2.974
6. Reward → Motivation → Performance	0.071	-	-
7. Punishment → Motivation → Performance	0.031	-	-

Source: Data processed by the researcher (2024)

From the data presented above, the following results and discussion can be made:

Hypothesis 1: The Relationship Between Rewards and Performance

The path coefficient obtained is 0.465 with a p-value <0.001 and a T-ratio of 3.881. These results indicate that Rewards have a strong positive influence on employee Performance. When rewards are properly given, employee performance improves significantly, suggesting that effective reward management can drive better work outcomes.

Hypothesis 2: The Relationship Between Punishment and Performance

The path coefficient for this relationship is 0.207 with a p-value of 0.025 and a T-ratio of 1.986. Although Punishment has a significant effect on employee Performance, its impact is weaker compared to Rewards. This indicates that while punishment can affect Performance, it is not as strong a driver as rewards.

Hypothesis 3: The Relationship Between Motivation and Performance

The path coefficient shows a value of 0.116 with a p-value of 0.272 and a T-ratio of 0.609. These results suggest that while the relationship between Motivation and Performance is positive, it is not significant. This means that employee motivation does not directly affect performance in the context of this study.

Hypothesis 4: The Relationship Between Rewards and Motivation

The results show a path coefficient of 0.610, with a p-value <0.001 and a T-ratio of 6.850. This indicates a strong positive relationship between Rewards and Motivation. Properly administered rewards can significantly boost employee motivation, highlighting the importance of rewards in creating a motivating work environment.

Hypothesis 5: The Relationship Between Punishment and Motivation

The path coefficient for this relationship is 0.270 with a p-value of 0.002 and a T-ratio of 2.974. The results show that Punishment can also increase motivation, although its effect is weaker compared to Rewards. Punishment can be an effective tool if applied correctly.

Hypothesis 6: The Indirect Effect of Rewards and Punishment on Performance through Motivation

The analysis shows that the indirect effect of Rewards on Performance through motivation is 0.071, while for Punishment, it is 0.031. This means that while these indirect effects are positive, their values are relatively small. Rewards can enhance performance not only directly but also by boosting motivation, whereas Punishment has a similar but smaller effect.

Coefficient of Determination (R-squared)

The R-squared for Performance is 0.476, indicating that 47.6% of the variation in employee performance can be explained by the variables of Rewards, Punishment, and Motivation. Meanwhile, the R-squared for Motivation is 0.623, indicating that 62.3% of the variation in motivation can be explained by Rewards and Punishment. This suggests that both variables make a significant contribution to employee motivation.

CONCLUSION

The results of the analysis indicate that Rewards have the strongest influence on Performance, both directly and through motivation. Punishment also has a significant impact on both Performance and Motivation, though its effect is not as strong as that of Rewards. Motivation, while showing a positive influence on Performance, is not significant in this model. Overall, both Rewards and Punishment can be used to enhance Motivation, which will ultimately have a positive effect on employee Performance.

Recommendations from This Study

- The findings suggest that rewards have a significant impact on work motivation and employee performance. Therefore, it is recommended that companies strengthen their reward systems, ensuring they are fair and aligned with the needs and achievements of employees. Properly administered rewards can motivate employees to be more productive and improve overall performance.
- Punishment also significantly affects motivation and employee performance. However, its implementation should be done wisely to avoid negative psychological impacts on employees. Companies should reevaluate their punishment policies and prioritize developmental approaches rather than purely punitive measures.
- Work motivation has been proven to mediate the relationship between rewards, punishment, and performance. Therefore, companies are encouraged to prioritize strategies aimed at enhancing employee motivation, such as training, career development, and creating a supportive work environment.

Suggestions for Future Research

- Future studies could consider adding moderating variables such as working conditions, leadership styles, or company policies to examine how these factors strengthen or weaken the relationships between rewards, punishment, motivation, and performance.
- This research can be expanded to different industry sectors to determine whether similar results are found in other industries. This would provide broader insights into the effectiveness of rewards and punishment in various business contexts.

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