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The Effect of Reward and Punishment on Employee Performance Through Work Discipline as A Mediating Variable (A Study at PT. XYZ)

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ABSTRACT

Aimed of this study is to analyze the mediating role of Work Discipline in the effect of Reward and Punishment on Employee Performance at PT. XYZ. Applying a quantitative approach, primary data were gathered via questionnaires distributed to PT. XYZ employees using a simple random sampling technique. Data evaluation was carried out through PLS-SEM via SmartPLS 4.0. The testing results indicate that Reward and Punishment independently exert a positive and significant effect on Work Discipline. Such an increase in Work Discipline is proven to significantly drive Employee Performance. Furthermore, Work Discipline successfully acts as a mediating variable connecting Reward and Punishment to Employee Performance. These findings demonstrate that effective implementation of Reward and Punishment can strengthen Work Discipline and subsequently contribute to enhanced Employee Performance.

INTRODUCTION

In an increasingly competitive business environment, companies must ensure that every element within the organization contributes optimally to the achievement of their strategic objectives. One of the key elements in organizational success is human resources (HR). High employee performance not only contributes to productivity but also enhances a company's competitiveness in the global market (Notmayanti et al., 2024). Various strategies are implemented by companies to manage and improve employee performance, one of which is through the implementation of reward and punishment systems. These two strategies are used as mechanisms to promote work discipline, increase employee loyalty, and encourage work effectiveness and efficiency. Studies have shown that the appropriate implementation of reward and punishment can have a positive long-term impact on companies (Elfina et al., 2023). Supporting this perspective, Chen et al. (2023), through a meta-analysis, examined the relationship between pay-for-performance systems and job performance, providing further insight into how performance-based rewards may be associated with employee performance. Similarly, Cai et al. (2022) The empirical relationship between pay-for-performance schemes

and the productivity of manufacturing workers has been examined, thereby underscoring the significance of performance-based compensation frameworks in elucidating variations in employee output.

According to Sakinah and Palupi (2023) employee performance at PT Jumbo Power International is positively and significantly influenced by rewards, whereas punishment demonstrates no significant direct effect. Interestingly, work discipline successfully mediates the impact of punishment on employee performance, yet it fails to act as a mediator for reward. In a related context, Purnomo (2021) observed at PT Dwida Jaya Tama that employee work productivity ultimately stems from the significant contributions of both rewards and punishment toward work discipline.

Rewards are allocated as a token of appreciation for exemplary employee performance and may manifest in various forms, including financial bonuses, performance incentives, remuneration increases, promotions, and formal managerial recognition. Empirical evidence indicates that personnel who consistently receive such rewards tend to exhibit heightened levels of work motivation and enhanced operational productivity (Pujianti, 2022). On the other hand, punishment refers to consequences imposed on employees who fail to meet work standards or violate company policies. Punishment within organizations may take the form of verbal or written warnings, salary deductions, delayed promotions, or even termination of employment. Several studies have indicated that punishment, when implemented fairly, can improve work discipline and prevent more serious violations (Septiana & Adinata, 2022). In this regard Park and Conroy (2022) examined the implementation of pay-for-performance systems and emphasized the importance of understanding how such systems are implemented within organizations. Furthermore, Baktash et al. (2022) Rewards are allocated as a token of appreciation for exemplary employee performance and may manifest in various forms, including financial bonuses, performance incentives, remuneration increases, promotions, and formal managerial recognition. Empirical evidence indicates that personnel who consistently receive such rewards tend to exhibit heightened levels of work motivation and enhanced operational productivity.

Similar findings were reported by Ronting et al. (2024) in their study at PT Sinar Galesong Pratama, which demonstrated that reward and punishment had significant relationships with employee performance, with work discipline serving as a mediator that strengthened these relationships. Another study by Vallery and Merinda (2020) Empirical findings derived from PT Pegadaian (Persero) Regional Office V Manado additionally demonstrated that the combined implementation of reward, punishment, and work discipline exerted a statistically significant impact on employee performance.

Meanwhile, punishment can also affect work discipline; however, in some cases, its effect on employee motivation may be negative. When punishment is applied excessively or unfairly, employees may lose their enthusiasm for work, which can lead to decreased productivity (Malik et al., 2024). A similar phenomenon can be observed at PT XYZ, a company that has

implemented reward and punishment systems as part of its human resource management strategy. However, despite the implementation of these policies, the company continues to face challenges in improving employee discipline and performance. Internal data indicate a high absenteeism rate, frequent lateness, and suboptimal productivity in several divisions.

Based on employee attendance data from December 2024 to April 2025, an average of only 72% of employees arrived at work on time. Approximately 18% of employees were recorded as arriving late, while 10% were absent without providing a valid explanation. The attendance records indicate that employee work discipline still needs to be improved.

Empirical evidence from prior literature suggests that variations in industrial sectors and workforce demographics lead to differing impacts of reward and punishment on work discipline and employee performance. While a number of studies emphasize the superiority of rewards in boosting worker motivation and output, other investigations highlight the substantial role of punishment in driving discipline. To bridge this empirical gap, the present study evaluates how reward and punishment influence employee performance at PT XYZ, using work discipline as an intervening mechanism. Beyond offering theoretical contributions toward understanding reward-punishment dynamics, this research serves as a strategic reference for corporate decision-makers in refining human resource management practices. On a broader scale, (Wood et al., 2023) analyzed individual and collective performance-contingent remuneration, offering valuable insights into how distinct reward frameworks shape organizational results.

Existing empirical literature reveals notable inconsistencies regarding the exact influence of reward and punishment on employee performance. Examining Waroeng Spesial Sambal Yogyakarta, Dihan and Hidayat (2020) demonstrated that work discipline and employee performance were both positively and significantly driven by reward and punishment. Additionally, their analysis confirmed that work discipline acts as a mediating variable in both structural pathways. A parallel outcome was reported by Ronting et al. (2024), whose empirical findings showed that reward and punishment significantly correlate with employee performance through the indirect role of work discipline. Divergent results, however, emerged in the study conducted by Ekowati et al. (2024), titled Building Employee Performance: The Role of Reward and Punishment Mediated by Work Discipline, involving PDAM Malang personnel. They discovered no significant direct linkage between either reward or punishment and employee performance, although work discipline retained its indirect mediating function. Given these conflicting empirical insights, further investigation into the structural relationships among reward, punishment, work discipline, and employee performance becomes essential within new organizational settings such as PT XYZ.

Conflicting conclusions across prior literature regarding reward, punishment, and employee performance establish the primary urgency of this study. Compounding this theoretical gap, internal operational challenges at PT XYZ are evident in company attendance records spanning from December 2024 to April 2025, which show that only 72% of personnel arrived on time, 18% were late, and 10% recorded unexcused absences. Consequently, this

research investigates how reward and punishment shape employee performance, analyzing both direct pathways and the indirect mediating role of work discipline. The empirical outputs are expected to offer actionable recommendations for corporate management in refining human resource strategies, alongside serving as a valuable reference for academic researchers. Grounded in these theoretical and contextual foundations, this investigation is carried out under the title "The Effect of Reward and Punishment on Employee Performance through Work Discipline as a Mediating Variable (A Study at PT XYZ)."

RESEARCH METHODS

A quantitative research design was implemented to evaluate the causal pathways linking reward and punishment as independent variables, employee performance as the dependent variable, and work discipline as the mediating mechanism Sugiyono (2019) notes that quantitative design suits studies requiring objective measurement of research constructs via structured questionnaires and subsequent statistical hypothesis testing. Primary data served as the main empirical foundation, collected directly from PT. XYZ personnel through questionnaire distribution. By using a five-point Likert scale—spanning from 1 (strongly disagree) to 5 (strongly agree), allows for an accurate capture of employee perceptions regarding each evaluated variable (Sugiyono, 2019).

The target population comprised all active employees at PT. XYZ. Selecting respondents involved probability sampling, specifically simple random sampling, ensuring every individual within the population held an equal probability of inclusion. To establish the sample size, the Slovin formula was applied with a 10% margin of error and a 90% confidence level, yielding a total sample of 41 employees (Sugiyono, 2019). For empirical estimation, Partial Least Squares Structural Equation Modeling (PLS-SEM) via SmartPLS 4.0 was utilized. As highlighted by (Ghozali & Kusumadewi (n.d.) PLS-SEM enables the simultaneous assessment of both the measurement model (validity and reliability) and the structural model, facilitating the evaluation of direct and indirect hypothesis testing across all variables.

RESULT AND DISCUSSION

PT. XYZ is a company engaged in the paint and thinner industry, producing various products for the furniture, construction, and retail markets. This study examines Reward (X1), Punishment (X2), Employee Performance (Y), and Work Discipline (Z) using primary data collected through questionnaires distributed via Google Forms. A total of 44 employees participated as respondents, consisting of 35 males (80%) and 9 females (21%). Most respondents were aged 21–30 years (43%), held a Bachelor's degree (50%), had 2–5 years of work experience (43%), and worked in the staff division (34.1%). The remaining respondents were distributed across different age groups, educational backgrounds, lengths of service, and divisions, including production, R&D, and warehouse.

Outer Model

Evaluated through the Average Variance Extracted (AVE), convergent validity in this research yields satisfactory metrics across all constructs, exceeding the standard threshold of 0.50. Specifically, empirical AVE calculations recorded values of 0.643 for Reward, 0.674 for Punishment, 0.572 for Work Discipline, and 0.580 for Employee Performance. These figures confirm that a substantial portion of variance among the indicators is effectively accounted for by their respective constructs, thereby satisfying the criteria for convergent validity.

To examine discriminant validity, cross-loading estimations were analyzed. Each indicator consistently displayed a stronger factor loading on its intended construct compared to its cross-loadings on other theoretical variables. This pattern demonstrates that the measurement items distinctly isolate their designated constructs, validating the model's overall discriminant validity.

Instrument internal consistency was verified using Composite Reliability alongside Cronbach's Alpha, with all constructs surpassing the requisite 0.70 baseline. Detailed results reveal high Composite Reliability and Cronbach's Alpha scores for Reward (0.915; 0.891), Punishment (0.925; 0.903), Work Discipline (0.903; 0.875), and Employee Performance (0.925; 0.909). Consequently, the empirical findings affirm that the measurement instruments possess strong reliability and operational consistency in capturing the research variables.

Table 1. Composite Reliability and Cronbach's Alpha

	Composite Reliability	***Cronbach's Alpha***
Reward	0,915	0,891
Punishment	0,925	0,903
Work Discipline	0,903	0,875
Employee Performance	0,925	0,909

Source: Processed from Researcher (2025)

Inner Model (R-Square)

Evaluating the inner model parameters in Table 2 reveals that Employee Performance achieves the strongest variance explanation, recording an R-Square value of 0.770, whereas Work Discipline yields an R-Square value of 0.415. From these figures, it can be inferred that 77.0% of the variance in Employee Performance is jointly accounted for by Reward and Punishment, with unexamined external variables explaining the remaining 23.0%. Meanwhile, Reward and Punishment contribute to 41.5% of the variance in Work Discipline, leaving 58.5% influenced by other factors outside the scope of this empirical model.

Table 2. Significance Value

	R-*Square*	**R-*Square Adjusted***
Work Discipline	0,415	0,386
Employee Performance	0,770	0,753

Source: Processed from Researcher (2025)

Hypotesis Test Result

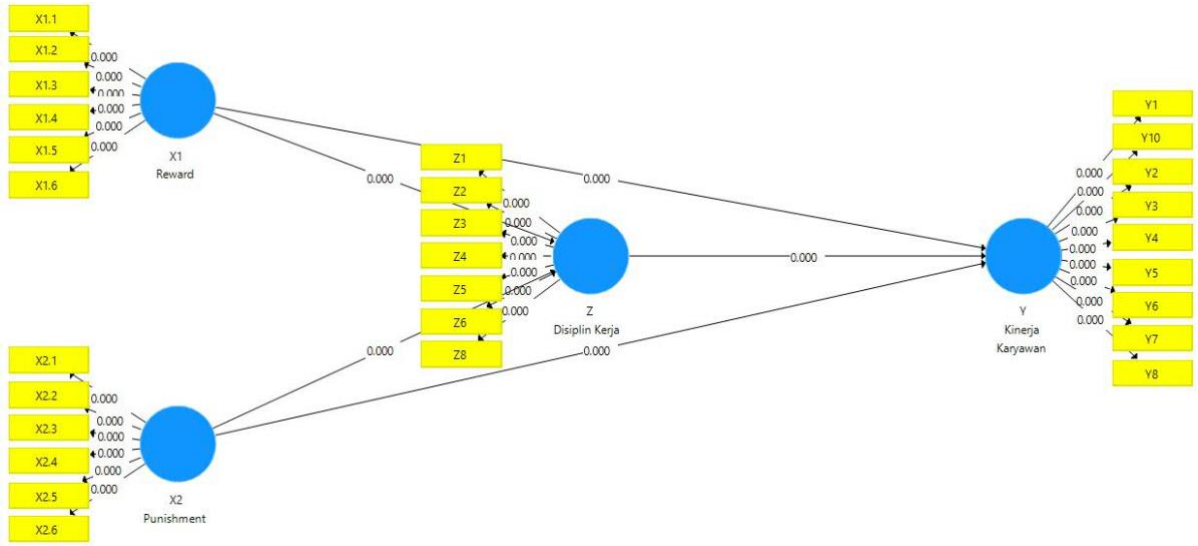


Figure 1. Path Coefficient

Source: SmartPLS 4

Table 3. Significance Value

	Original Sample (O)	***T-statistic***	***P values***	***Insights 1***	***Insight 2***
Reward -> Performance Discipline	0,501	5,027	0,000	Hypothesis 1 is supported	significant positive effect
Punishment - > Performance Discipline	0,480	4,378	0,000	Hypothesis 2 is supported	significant positive effect
Work Discipline - > Employee Performance	0,387	4,257	0,000	Hypothesis 3 is supported	significant positive effect
Reward -> Work Discipline -> Employee Performance	0,414	5,385	0,000	Hypothesis 4 is supported	significant positive effect
Punishment -> Work Discipline -> Employee Performance	0,465	6,317	0,000	Hypothesis 5 is supported	significant positive effect

Source: Processed from Researcher (2025)

Overall, the evaluation of the structural model indicates that all five proposed hypotheses are empirically validated, thereby confirming that every direct and indirect path yields a statistically significant positive effect ($p < 0.05$). Specifically, both reward and punishment act as robust drivers of work discipline, which in turn exerts a direct positive influence on employee performance. Moreover, work discipline operates successfully as a significant mediating mechanism through which reward and punishment indirectly enhance employee performance, thereby underscoring the vital function of organizational discipline in translating reinforcement strategies into superior performance outcomes.

Discussion

Empirical testing confirms the first hypothesis demonstrating that Reward has an effect on Work Discipline. This outcome corroborates earlier studies, aligning with empirical evidence provided by Jeffry and Agustina (2022), regarding the impact of Reward on Work Discipline. Giving appropriate rewards encourages employees to show higher commitment to company rules, thereby strengthening overall workplace discipline. When employees receive recognition or rewards for demonstrating disciplined behavior, it creates intrinsic motivation to maintain and improve such behavior. An effective reward system may include formal recognition, financial incentives, or career development opportunities, all of which contribute to the development of a positive work discipline culture.

Acceptance of the second hypothesis confirms that Punishment has an effect on Work Discipline. This finding echoes prior empirical literature, aligned closely with observations by Jeffry and Agustina (2022), regarding the impact of Punishment on Work Discipline. Enforcing clear sanctions against rule infractions has proven highly effective in strengthening workforce adherence and maintaining discipline. The effectiveness of punishment largely depends on the clarity of the rules, consistency in their implementation, and the proportionality of the sanctions to the violations committed. Constructive punishment is not merely intended to penalize employees but also to provide learning opportunities that encourage them to improve their behavior in the future.

Empirical evidence supports the third hypothesis which posits Work Discipline has an effect on Employee Performance. Alignment with prior literature confirms this outcome, echoing empirical findings from Ronting et al. (2024), regarding the positive link between Work Discipline and Employee Performance. Such impact manifests through employee adherence to standard operating procedures, punctual attendance, and consistent output quality. High workplace discipline fosters focus, structured work routines, and effective time management among personnel, thereby elevating overall productivity. Moreover, a strongly established disciplinary culture creates a conducive organizational environment that drives the attainment of both personal and collective targets.

Statistical testing likewise validates the fourth hypothesis asserting that Reward has an effect on Employee Performance through Work Discipline. This result aligns with insights from Olivia and Lestariningsih (2022) who demonstrated that Work Discipline mediates the structural relationship between Reward and Employee Performance. Well-structured reward mechanisms first cultivate higher discipline among staff, which subsequently translates into superior performance outcomes. These findings underscore the strategic role of targeted reward frameworks in inspiring employee discipline to reach optimal work targets.

Finally, acceptance of the fifth hypothesis confirms that Punishment has an effect on Employee Performance through Work Discipline. In line with research conducted by (Olivia and Lestariningsih (2022) Work discipline operates as a critical mediating variable within the relational pathway linking punishment and employee performance. When disciplinary measures are administered fairly and systematically, adherence to organizational regulations is reinforced, which subsequently drives enhancements in operational productivity. Accordingly, corrective disciplinary actions function as an indispensable organizational control mechanism designed to optimize aggregate performance outcomes by fostering sustained workplace discipline.

CONCLUSION AND SUGGESTION

Empirical evidence from this study confirms that Work Discipline at PT. XYZ is positively and significantly driven by both Reward and Punishment. Higher Work Discipline, in turn, directly yields a positive and significant impact on Employee Performance. Furthermore, empirical testing confirms that Work Discipline serves as a significant mediating variable connecting Reward and Punishment to Employee Performance. Because all five proposed hypotheses are statistically supported, these findings demonstrate that strategic management of Reward and Punishment effectively boosts Work Discipline, which ultimately elevates Employee Performance within PT. XYZ.

Several methodological limitations should be noted regarding this research. Focus was restricted strictly to PT. XYZ, thereby constraining the external validity and generalizability of the insights across different industrial sectors. Additionally, the analytical framework was bounded exclusively to Reward, Punishment, Work Discipline, and Employee Performance, leaving other potential determinants unexamined. Lastly, by positioning Work Discipline as the sole mediating variable, this research did not explore other underlying mechanism pathways that might link Reward and Punishment to Employee Performance.

To enhance external validity, subsequent investigations are recommended to broaden the empirical scope through the inclusion of personnel from a wider array of organizations and industrial sectors. Furthermore, the integration of complementary constructs such as work motivation, job satisfaction, leadership style, or organizational commitment would establish a more comprehensive framework for the evaluation of employee performance. In addition, the examination of alternative mediating mechanisms, including work motivation or job

satisfaction, could yield deeper insights into the structural pathways by which reward and punishment influence employee performance.

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