

ANALYSIS OF THE EFFECT OF REWARD AND PUNISHMENT ON IMPROVING EMPLOYEE PERFORMANCE OF PT SUMITOMO BATAM INDONESIA

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Abstract

The following research was conducted to find out how the effect of reward and punishment on improving employee performance. The subjects involved are employees who work at PT Sumitomo Batam Indonesia, and the objects involved in the following research are rewards, punishments and employee performance. The population involved in the following research is employees who are actively working at PT Sumitomo Batam Indonesia, with a sample of 100 people. The research was conducted using quantitative methods. Data collection for research purposes utilizes a digital form of questionnaire. Data processing in the research shows a positive influence on the provision of rewards and punishments on improving employee performance at PT Sumitomo Batam Indonesia.

Keywords: Reward, Punishment, Employee Performance.

Introduction

The presence of various innovations in the economic world is one of the impacts of high competition in surviving the globalization era. One of the things that causes this intense competition is that many companies offer similar services or products, so each company must have its advantages in order to become a comparative value to customers. In this labour-intensive era, global market conditions require companies to continue to compete strictly to survive in the ongoing economy (SI, 2020). This becomes heavier when the performance and image of the company still depend on human resources as the main resource in production efficiency in the sustainability and improvement of company performance. This emphasizes human labour as the main key to the company's economic development (Nainggolan, 2021); as stated (Hameed, 2015), employees are a precious source of organizational assets; the success achieved by the organization or the failure experienced by the organization depends on how the performance of employees within the company. The realization of company goals in the form of optimal target achievement requires the role of employees as assets in good performance. To achieve these achievements, a series of activities in the company are needed, including employee development in the form of human activities carried out in the company in order to achieve the company's predetermined targets. (Mutafi, 2020). Achieving company targets effectively and on time relies on employees with strong performance values. High performance is reflected in consistent improvement, catalyzing other resources to help meet the company's objectives. (Soehardi, 2021). The critical role of human resources in a company is evident in the need to develop a labour management strategy that aligns with the organization's overall objectives and integrates seamlessly with strategies in other areas. (Frimayasa, 2021)

Employee performance also affects productivity and has a significant impact on operational efficiency in the company; on the other hand, this indirectly also creates a competitive and positive work culture, which is also an advantage for the company. As stated (Mangkunegara, 2017), performance refers to the outcomes of employees' work, encompassing both the quality and quantity achieved in completing their assigned tasks. In its understanding, performance can be understood as an individual's overall achievement at a given time in completing assigned tasks, assessed against various benchmarks such as standard outcomes, targets, goals, or criteria. (Robbins, 2015). Basically, employees who have good performance are able to bring something new to the sustainability of the company. This can be in the form of service improvements in related companies, which also inevitably have an impact on improving the quality of the company. It is also a reference for comparison that the company is able to compete in dynamic global market conditions. The performance of employees plays an important role in PT Sumitomo Batam Indonesia, and it is one of the supporting factors for the sustainability and growth of the

company in the manufacturing sector. As a company that prioritizes innovation and product quality, employee performance is crucial because employee performance in the agency determines the effectiveness of the company (Frimayasa, 2021). Performance also has a direct effect on product quality and operational efficiency. The size of the work can be seen in terms of a certain amount and quality in accordance with the standards of the organization or company (Frimayasa, 2021).

The reward is the amount of appreciation given by the company to employees, which is a form of appreciation for the involvement, contribution, performance, and dedication of employees to the sustainability of the company. The form of reward is in the financial form in the form of salary, bonuses, or allowances, while in the non-financial form, this can be in the form of formal verbal recognition, promotion, and self-development opportunities, which are usually done by providing training. The provision of this reward is based on the company's expectation of increased motivation for employee performance, which has an impact on job satisfaction, productivity, and employee loyalty. On the other hand, it also aims to create a positive work culture so as to encourage employees to continue to provide good performance as a form of support for company goals. A reward system is considered effective if it is able to clearly meet employee satisfaction so that the company can attract, retain and employ individuals who, through their positive attitudes and behaviours, contribute productively to the company's progress (Frimayasa, 2021). The regulation of rewarding employees is based on superior performance, significant contributions or work behaviour that is in line with the company's values owned by employees. This assessment system is based on the suitability of achieving targets or certain contributions within a certain period. The provision of this reward must be fair, which means that the reward must be given for reasons that are directly related to the quality or achievement achieved by the employee. The presence of rewards creates passion and enthusiasm in employees, which improves employee performance. There is an influence between rewarding and improving employee performance.

We generally recognize punishment as the provision of corrective action to employees in response to rule violations or work performance that does not meet work standards. Basically, punishment does not eliminate unwanted behaviour but only provides short-term pressure (Frimayasa, 2021). Punishment aims to improve behaviour, maintain discipline, and ensure that employees comply with the company's work standards. Giving punishment must be done carefully and objectively, and consider all aspects related to the situation (Rivai, 2015). Punishment can be interpreted as a tool that leaders communicate to employees so that employees improve their behaviour. It is also a tool that utilizes an increase in awareness and willingness of people to obey all the rules of social norms that apply to the company. (Rivai, 2015). Punishment can be interpreted as a tool that leaders communicate to employees so that employees improve their behaviour. It is also a tool that utilizes an increase in awareness and willingness of people to obey all the rules of social norms that apply to the company. Suppose the provision of rewards and punishments is done in tandem with fairness. In that case, it will have a positive impact on the company, characterized by increased employee discipline to improve performance that encourages employees to work productively and efficiently. Reward and punishment, when side by side, have a role in employee performance. Based on the discussion above, the hypothesis formulation can be written as follows:

H1: "Rewarding has a positive and significant effect on improving employee performance."

H2: "Punishment has a positive and significant effect on improving employee performance."

Research Methods

The type of research used in this research is explanatory research. According to (Sugiyono., 2018), explanatory research is a research method that has the aim of providing an explanation of the position of each variable being studied as well as the relationship between one variable and another. The use of explanatory research methods in this study was chosen on the grounds that it tests the hypothesis and is expected to explain the relationship and influence between variables.

The following research method utilizes quantitative descriptive methods (Jalinus, 2020). The variables contained in the following research are reward (X1), punishment (X2), and employee performance (Y). The research was conducted using a survey research design. Survey research is a field research method that involves sampling from a certain population; data collection utilizes a questionnaire filled out by respondents via Google Forms. This study aims to describe phenomena, explain the relationship between variables, or make generalizations to a wider population based on data collected from samples. The questionnaire used and distributed contains alternative questions chosen by adopting a modified Likert scale with five levels of measurement, in the form of strongly agree, agree, neutral, disagree, and strongly disagree. The object of this research is active employees at PT Sumitomo Batam Indonesia, totalling 2709 employees. The number of samples obtained from the calculation by utilizing

the Slovin formula also sees the level of error value as a consideration. The error rate used is inversely proportional to the number of samples taken. The following is the Slovin formula that will be used:

$$n = \frac{N}{1 + N e^2}$$

Description :

n: Sample size

N: Population size

e: The level of tolerance for sampling error that is still acceptable in this study is as much as 10%.

In the following study, the total population (N) = 2709 employees, with a margin of error of 10%. Then the sample is:

$$n = \frac{2709}{1 + 2709 (10\%)^2}$$

= 96.44 rounded to 100 samples

Data were collected using the questionnaire method, which is a method of collecting data obtained based on the answers to a series of questions from respondents in writing (Sugiyono, 2018). The questionnaire was made online using a Google form and then distributed to employees of PT Sumitomo Batam Indonesia via short message.

This research adopts numerical-based data analysis with the aim of testing the hypotheses that have been proposed. Partial Least Squares (PLS) is defined as a very effective method of analysis because it does not make assumptions about certain measurement scales in the data. PLS is directed to assist the author in obtaining latent variable values for prediction purposes. The choice of PLS as a method in this study is based on the suitability of the characteristics of the Structural Equation Modeling (SEM)-PLS model with the sample size used. The PLS analysis applied in this study was carried out through the SmartPLS program (v.4.1.0.9), which is run on a computer device. The analysis in the following research adopts a quantitative analysis method approach. The following research utilizes numerical-based data analysis with the intention of testing the hypotheses that have been proposed. PLS-SEM includes convergent and discriminant. The factors used to assess convergent validity include the loading factor value, where a value of >0.7 is considered valid for confirmatory research, while a loading factor value of >0.6 is acceptable for exploratory research. In addition, the assessment also considers the average variance extracted (AVE) value. This study also measured the coefficient of determination test; hypothesis testing was carried out through a partial significant test (t-test) to determine whether the effect was significant or not. If the t-count value is greater than the t-table, then there is a significant effect, whereas if the t-count value is smaller than the t-table, then there is no significant effect.

Research Results

This section presents the conclusions of the research analysis obtained by the evaluation method. In this section, the results discussed include respondent data processing, research data analysis, and discussion of the implications of the research conclusions. Respondents who are part of the following research are active employees who work at PT Sumitomo Batam Indonesia. This data collection was carried out by distributing questionnaires using Google Forms. The data analysis in this study utilizes SmartPLS as a tool; the aim of this study is to evaluate the external model with three important measures, namely Convergent Validity, Discriminant Validity, and Composite Reliability. Referring to its definition, convergent validity refers to the extent to which factors and indicators designed to measure a construct in the form of latent variables are truly related and correlated to measure the same thing. The purpose of using convergent validity is to ensure that all related indicators in one construct have a strong relationship with each other. The evaluation parameters used are Average Variance Extracted (AVE), whose value is > 0.50, meaning that the construct is able to explain more than 50% of the variance of its indicators, and the Loading Factor owned by each indicator must be on a scale of more than 0.70. Discriminant validity is a process that ensures that a construct is empirically different from other constructs in the model. Indicators of a construct should not have a high relationship with other constructs. While composite reliability is a measure of the extent to which indicators on a construct consistently represent the construct, composite reliability is a measure of the internal reliability of the measurement model. This composite reliability test is carried out with the aim of ensuring that the construct has high reliability so that the research results can be trusted and relied upon. The evaluation parameter carried out on the composite reliability measurement is that the value must be in the range of 0.60-0.70 or > 0.70 to be acceptable for exploratory

research and can show good reliability. The following is a description of the loading factor value of each related variable in the study:

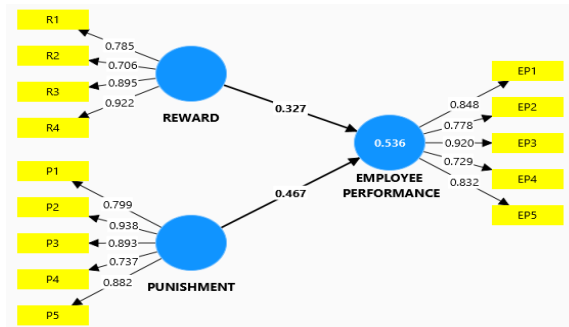


Figure 1. Output of Loading Factor Value
Source: Author 2024

From Figure 1, it is known that the outer model value or the relationship between constructs and other variables has met convergent validity because the value obtained is greater than the loading factor value of 0.70; referring to the existing data, it can be concluded that each variable already has a strong relationship with the construct in the form of latent variables, in the sense that the indicator is valid in representing latent constructs, on the other hand this can mean that the indicator provides a large contribution to the latent construct it represents, so it can be concluded that the indicator is relevant to continue to be used.

Discriminant Validity is a measure that ensures that a construct in the form of a latent variable in a model is significantly different from other constructs; from another point of view, it can be seen as an indicator that is used to determine the size of a construct that does not have too high a relationship with other constructs in the model so as to ensure that each construct is unique and measures different concepts. The purpose of this discriminant validity is to avoid overlap, strengthen the validity of the model and strengthen the accuracy of interpretation. In measurement, a model that can be said to have good discriminant validity is considered if the loading value of each indicator on one variable is higher than the loading value of other indicators. In this study, the discriminant test obtained is:

Table 1. Discriminant Validity Value (Cross Loading)

Variable	EMPLOYEE PERFORMANCE	PUNISHMENT	REWARD
EP1	0.848	0.631	0.484
EP2	0.778	0.399	0.471
EP3	0.92	0.729	0.62
EP4	0.729	0.403	0.301
EP5	0.832	0.594	0.7
P2	0.605	0.938	0.666
P3	0.743	0.893	0.615
P4	0.367	0.737	0.403
P5	0.622	0.882	0.711
R1	0.48	0.483	0.785
R2	0.406	0.483	0.706
R3	0.608	0.648	0.895
R4	0.633	0.664	0.922

Source: Author 2024

Referring to Table 1, it can be seen that each indicator on each latent variable has the highest loading factor value when compared to the loading factor value when connected to other latent variables. This condition shows that each latent variable has discriminant validity at a good level. In addition, criterion validity can also be assessed from the average variance extracted (AVE) on each construct. Constructs are categorized at high validity if the AVE value is more than 0.50 and are considered capable of showing convergent validity, which is able to represent the measured construct.

Table 2. Average Extracted Variance (AVE)

Variable	AVE
EMPLOYEE PERFORMANCE	0.679
PUNISHMENT	0.728
REWARD	0.692

Source: Author 2024

Referring to Table 2, it can be concluded that all constructs listed meet the validity criteria with an AVE value that exceeds 0.50, which is in line with the recommended criteria. Test reliability can be seen from Cronbach's Alpha value and Composite reliability. Cronbach's alpha value is used to test the reliability of a measurement instrument. Latent variables are considered to have a good level of reliability if Cronbach's Alpha value is > 0.6 and Composite reliability is > 0.7 .

Table 3. Cronbach's Alpha Value and Reliability Composite

Variable	Cronbach's alpha	Composite reliability
EMPLOYEE PERFORMANCE	0.881	0.914
PUNISHMENT	0.905	0.937
REWARD	0.85	0.882

Source: Author 2024

Referring to Table 3, we can conclude that each construct reaches the reliability criteria; this condition can be seen from Cronbach's Alpha value of more than 0.60 and the Composite Reliability value of more than 0.70, which is in line with the recommended criteria. The condition of Cronbach's Alpha value of more than 0.7 displays the condition of internal consistency in good value in the sense of having a strong relationship with each other. This also means that the instrument is reliable because it has stable and reliable results if used in the same context, such as a certain population and time, and it has a statistically valid measurement scale. The utilization of R-Square as the dependent variable of the T-test and the significance of the structural path parameter coefficients is a way of testing the inner model. The following table shows the test results of the R-Square that was carried out on the research data that had been collected and processed.

Table 4. R-Square

Variable	R-square
Employee Performance	0.536

Source: Author 2024

In Table 4, the table of R-square values totalling 0.536 on employee performance shows a strong value. On the other hand, it is known that testing the inner model is obtained by checking the Q2 value to calculate Q2 with the formula " $Q^2 = 1 - (1 - R^2_1) (1 - R^2_2) \dots (1 - R^2_p) \dots$ ", then:

Employee Performance

$$Q^2 = 1 - (1 - 0,5)$$

$$Q^2 = 1 - (0,5)$$

$$Q^2 = 0,5$$

If the Q2 value < 0 , then the variables and data cannot carry out the model prediction properly, and if $Q2 > 0$, then the variables and data can carry out the model prediction properly. Referring to the Q2 value of 0.5, the conclusion is that the employee performance variable can carry out model predictions well.

Hypothesis testing can be done using bootstrapping from PLS analysis, referring to the theory that states that if the t-count is greater than the t-table, then the results have an impact or effect; the t-count value is smaller than the t-table, then it has no impact or no effect.

Table 5. Result of Inner Weight.

	O	M	STDEV	O/STDEV	P values
P>EP	0.467	0.475	0.126	3.692	0.000
R>E P	0.327	0.328	0.124	2.644	0.008

Source: Author 2024

Referring to Table 5, the T statistical value for reward on employee performance is $3.692 > T$ table (1.960) with an original sample value of 0.500. The T statistical value and original sample show that reward has a positive and significant effect on employee performance. Then, hypothesis 1 is accepted. Reward is indeed a factor that supports increasing motivation to work and encourages enthusiasm at work (Hidayah, 2021). The reward is based on the acquisition of awards on the basis of fairness when giving them; this award in question can be in the form of incentives, bonuses, certificates, promotions, and even recognition. This has been proven by PT Sumitomo Batam Indonesia, which has been giving rewards with the maximum and fairest possible rewards, referring to the work performance and contribution of employees to the sustainability of the company.

Referring to Table 5, the T statistical value for punishment on employee performance is $2.644 > T$ table (1.960) with an original sample value of 0.500. Based on the T statistical value and original sample, it shows that punishment has a positive and significant effect on employee performance. Then hypothesis 2 is accepted.

The presence of rewards and punishments affects the improvement of employee performance; as stated (Pradnyani, 2020), "punishment and reward are better done in tandem appropriately and fairly so that they have a positive impact on the company resulting in improved employee performance". It is true that it is useful for improving employee performance. After it has been proven that the provision of rewards and punishments affects the improvement of employee performance, the company is required to monitor the process of giving rewards and punishments fairly in accordance with the scope of work so that employees continue to improve their performance, which also affects the company's performance in the process of achieving the goals and targets of the company agency.

Conclusion

In summary of the results of research data and discussion, the author concludes that the provision of rewards has a significant influence in increasing employee performance at PT Sumitomo Batam Indonesia. This means that the regulation and distribution of rewards in this company are good enough so that employees who work are prosperous, and the provision of rewards as a form of appreciation for work achievements and employee roles triggers an increase in employee performance. Punishment has a positive and significant effect on improving employee performance at PT Sumitomo Batam Indonesia. This means that the provision of punishment causes employees to be more careful in their behaviour when carrying out their duties in the scope of work, which has an impact on improving employee performance. The combination of these two strategies produces a productive work environment and motivates employees to improve work performance by also complying with applicable standards in the company.

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