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THE EFFECT OF REWARDS AND COMPETENCE ON EMPLOYEE PERFORMANCE WITH PUNISHMENT AS AN INTERVENING VARIABLE IN WEST SUMATRA REGIONAL OFFICE OF BPJS KETENAGAKERJAAN

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ABSTRACT

This study aims to analyze the effect of reward and competence on employee performance , with punishment as an intervening variable at West Sumatra Regional Office of BPJS Ketenagakerjaan.This research employs a quantitative approach using a survey method. The population consists of all employees of West Sumatra Regional Office of BPJS Ketenagakerjaan, with a total sample of 109 employees , selected using a census sampling technique . Data were collected through questionnaires and analyzed using Partial Least Square–Structural Equation Modeling (PLS-SEM) with the assistance of SmartPLS software.

The results indicate that reward and competence have a positive and significant effect on employee performance . Furthermore, reward and competence also have a positive and significant effect on punishment , and punishment has a positive and significant effect on employee performance . The indirect effect analysis shows that punishment mediates the relationship between reward and competence and employee performance . Therefore, it can be concluded that improving employee performance can be achieved through appropriate reward systems, enhanced employee competence, and the effective and proportional implementation of punishment.

Introduction

Amidst increasingly fierce global competition, an organization's effectiveness is greatly influenced by the quality of its workforce. Employees are not merely policy implementers; they are a vital strategic resource that impacts an organization's ability to thrive and survive, particularly in the public sector. BPJS Ketenagakerjaan Wilayah Sumatera Barat which is tasked with ensuring workers' welfare, is crucial in providing protection to employees in Indonesia. Therefore, the performance of staff at BPJS

Ketenagakerjaan Wilayah Sumatera Barat particularly at the Solok branch, is crucial to providing prompt, accurate, and attentive service to the community's needs. To ensure optimal employee performance, organizations must implement a comprehensive human resource management approach. A commonly adopted strategy involves recognizing employee achievements. Rewards can take the form of monetary benefits such as bonuses, incentives, and allowances, or non-monetary benefits such as recognition, promotions, and opportunities for career development. Well-targeted incentives are thought to increase employee motivation, commitment, and productivity.

Besides rewards, capabilities are also a crucial factor in performance. Capabilities encompass the knowledge, skills, and mindsets employees possess to fulfill their roles. Employees with strong capabilities generally work more effectively, complete tasks more quickly, and adapt well to changes within the organization and its requirements. Continuous skills development through training and education is crucial for maintaining a competitive edge, especially with evolving regulations and changing societal demands. However, in managing employees, simply increasing rewards and improving skills does not always guarantee peak performance. It is often observed that even after rewards are given and skills are developed through various training sessions, employees may still exhibit a lack of discipline, low productivity, or even inappropriate behavior. This highlights the need for additional corrective measures, one of which is the use of discipline.

Discipline in an organization is not merely intended to punish; it serves as a means of maintaining control and enforcing rules to reduce negative work behavior. Fair and consistent application of discipline can act as a deterrent and encourage discipline in the workplace. Therefore, discipline can serve as a connecting factor between rewards and abilities in terms of employee performance. This implies that rewards and skills can be more effective in improving performance when accompanied by appropriate disciplinary measures. As a public institution, the Manpower and Civil Service Agency (BPJS) must consistently improve the quality of its services. Understanding the influence of rewards, skills, and discipline on improving employee performance is crucial in this effort. Furthermore, the need for transparency, accountability, and public demand for high-quality services require an effective and efficient employee management system within the organization.

In this context, this study aims to empirically evaluate how rewards and skills influence employee performance, with discipline as a connecting variable. The findings of this study are expected to assist the management of the Manpower and Civil Service Agency (BPJS) in developing strategies to improve employee performance through appropriate reward mechanisms, increased skills , and discipline management.

Table 1. Quarterly Performance Report

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No	Section / Work Unit	Number of Employees	Month 1	Category	Month 2	Category	Month 3	Category
1	Participant Services	35	3.25	Enough	3.35	Enough	3.45	Good
2	Participation	30	3.30	Enough	3.40	Enough	3.50	Good
3	Finance	20	3.10	Enough	3.20	Enough	3.30	Enough
4	General & HR	15	3.15	Enough	3.25	Enough	3.35	Enough
Overall Average		**100**	**3.20**	**Enough**	**3.30**	**Enough**	**3.40**	**Enough**

Source: West Sumatra Regional Office of BPJS Ketenagakerjaan

Table 1 shows that employee performance over the three-month period was categorized as adequate and suboptimal. In the first two months, all work units were largely in the adequate category, with the Finance Department recording the lowest performance score. Although the Participant and Membership Services Department showed improvement in the third month, reaching the good category, overall employee performance remained adequate, highlighting performance challenges that need to be addressed.

After collecting performance information from the Solok BPJS Ketenagakerjaan, a preliminary survey will be conducted to assess any issues within the institution. Researchers will ask 30 employees to complete a questionnaire. The preliminary survey findings are as follows:

Table 2. Pre-Survey Employee Performance Variables (Y)

No	Statement	Yes	Percentage (%)	No	Percentage (%)
1	I am able to produce work output in accordance with the targets set.	13	43%	17	57%
2	I complete work with a low error rate.	11	37%	19	63%
3	I completed the task on time according to the work schedule.	12	40%	18	60%

Source : West Sumatra Regional Office of BPJS Ketenagakerjaan

Based on the initial survey results regarding the Employee Performance variable (Y), it appears that most participants did not demonstrate ideal performance. This can be seen from the high percentage of "No" answers to all statements. Fifty-seven percent of participants stated that they were unable to achieve the results they set, 63% reported that they did not complete work with a minimal error rate, and 60% stated that they did not complete tasks on time according to work schedules. These results indicate that employee performance still requires more focus and improvement.

Table 3. Pre-Survey Punishment Variable (Z)

No	Statement	Yes	Percentage (%)	No	Percentage (%)
1	The warnings given to employees are clear and educational.	11	37%	19	63%
2	Administrative sanctions are given fairly according to the level of violation.	10	33%	20	67%
3	Deferral of promotions or salaries is applied objectively.	9	30%	21	70%

Source : West Sumatra Regional Office of BPJS Ketenagakerjaan

Based on the findings from the preliminary survey regarding the Punishment variable (Z), the majority of participants answered No to every statement. Sixty-three percent of participants believed that warnings were not communicated clearly and instructively, 67 percent stated that administrative sanctions were not enforced fairly, and 70 percent felt that delays in promotions or salary increases were not carried out objectively. These findings indicate that the implementation of punishment in the organization is still inadequate and needs to be improved.

Table 4. Pre-Survey Reward Variable (X1)

No	Statement	Yes	Percentage (%)	No	Percentage (%)
1	I receive a salary that is commensurate with my workload and responsibilities.	12	40%	18	60%
2	The bonus given by the company is able to motivate me to work better.	10	33%	20	67%
3	The allowance I receive is sufficient for my work needs.	11	37%	19	63%

Source : West Sumatra Regional Office of BPJS Ketenagakerjaan

Based on the initial survey findings regarding the Rewards factor (X1), the majority of participants answered No to every statement. Sixty percent of participants indicated that their salaries were not commensurate with the work and duties expected of them, 67 percent felt that bonuses failed to motivate improved performance, and 63 percent reported that the benefits provided were inadequate for their job requirements. These results indicate that the current rewards system is still lacking and needs improvement.

Table 5. Pre-Survey Competency Variable (X2)

No	Statement	Yes	Percentage (%)	No	Percentage (%)
1	I have a strong drive (internal motivation) to do my job well.	14	47%	16	53%
2	I have a personal character that supports professionalism in work.	15	50%	15	50%
3	I understand my roles and responsibilities in my job.	13	43%	17	57%

Source : West Sumatra Regional Office of BPJS Ketenagakerjaan

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Based on the findings from the preliminary survey regarding the Competence variable (X2), it appears that respondents' views are still not very positive. Fifty-three percent of participants stated that they felt they lacked strong internal motivation to complete tasks, while 50 percent believed they had not developed personal qualities that foster professionalism. Furthermore, 57 percent stated that they did not fully understand their roles and responsibilities at work. These findings indicate that there is still a need to improve employee competency.

Identification of problems

1. The work results of the West Sumatra Regional Office of BPJS Ketenagakerjaan staff have not yet reached the ideal level, and several departments are still only achieving satisfactory results.
2. The incentives given to staff are not completely uniform and are considered unfair, thus not encouraging significant performance improvements.
3. Employees' skills vary, especially in handling tasks and technical abilities, which affect the accuracy and quality of their work.
4. The enforcement of sanctions has not been carried out firmly and appropriately, so it does not create a deterrent effect or improve work discipline.
5. The relationship between rewards and competencies in relation to employee performance through sanction systems is not well understood and requires more empirical research.

Formulation of the problem

Based on this context, the formulation of the research questions is as follows:

1. Does Reward have a positive and significant effect on Employee Performance at BPJS Ketenagakerjaan West Sumatra Region?
2. Does Competence have a positive and significant effect on Employee Performance at BPJS Ketenagakerjaan West Sumatra Region?
3. Does Reward have a positive and significant effect on Punishment at the BPJS Ketenagakerjaan West Sumatra Region?
4. Does Competence have a positive and significant effect on Punishment at the BPJS Ketenagakerjaan West Sumatra Region?
5. Does Punishment have a positive and significant effect on Employee Performance at the BPJS Ketenagakerjaan West Sumatra Region?
6. Does Reward have a positive and significant effect on Employee Performance with Punishment as an intervening variable at BPJS Ketenagakerjaan West Sumatra Region?
7. Does Competence have a positive and significant effect on Employee Performance with Punishment as an intervening variable at BPJS Ketenagakerjaan West Sumatra Region?

Research objectives

After identifying the problem, the research objectives are established. This study has the following objectives:

1. To test and analyze the effect of Reward on Employee Performance at BPJS Ketenagakerjaan West Sumatra Region.
2. To test and analyze the effect of Competence on Employee Performance at BPJS Ketenagakerjaan West Sumatra Region.

3. To test and analyze the effect of Reward on Punishment at BPJS Ketenagakerjaan West Sumatra Region
4. To test and analyze the effect of Competence on Punishment at BPJS Ketenagakerjaan West Sumatra Region
5. To test and analyze the effect of Punishment on Employee Performance at BPJS Ketenagakerjaan West Sumatra Region
6. To test and analyze the effect of Reward on Employee Performance with Punishment as an intervening variable at BPJS Ketenagakerjaan West Sumatra Region.
7. To test and analyze the effect of Competence on Employee Performance with Punishment as an intervening variable at BPJS Ketenagakerjaan West Sumatra Region

Benefits of research

This study is expected to provide theoretical and practical advantages, as described below:

1. Theoretical Benefits

This study aims to enhance the existing knowledge base, particularly in human resource management, by offering empirical insights into how rewards and competencies influence employee performance, along with the influence of punishment as a moderating factor. The findings of this study can also serve as a resource for future researchers interested in exploring similar factors across various organizational settings.

2. Practical Benefits

On a practical level, this research is projected to offer valuable suggestions for BPJS Ketenagakerjaan West Sumatra Region administration in developing more effective strategies to improve employee performance.

a. For organizational leaders, the results of this study can serve as a guide to maintaining a balanced reward and punishment system, as well as to improve employee skills.
b. For workers, this research is expected to highlight the importance of skills, discipline in the workplace, and how reward systems can effectively influence performance.
c. For government agencies and other public service organizations, the findings of this study can play an important role in establishing performance-oriented human resource management policies.

Employee performance

According Mathis & Jackson (2017), performance refers to the results of employee work behavior, which are evaluated based on certain standards set by the organization. Gomes (2017) defines employee performance as the level of success an employee has in fulfilling their duties in accordance with the expectations and goals of the organization.

Employee Performance Indicators

According to Mathis & Jackson (2017) list the following performance indicators:

1. Work results (output)
2. Error rate in work
3. Time required to complete the task
4. Creativity in work
5. Compliance with guidelines

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Punishment

According to Robbins & Judge (2017) describe punishment as a negative consequence given to an individual for inappropriate behavior or for violating organizational rules, with the aim of reducing the likelihood of that behavior occurring again. According to Mondy & Martocchio (2017) describe punishment as a corrective action applied to an employee for failing to follow work policies or procedures, with the aim of enforcing discipline and order in the workplace.

Punishment Indicator

According to Mondy & Martocchio (2017) note that punishment can be assessed through:
1. Direct or written warning
2. Implementation of administrative sanctions
3. Delay in promotion or salary increase
4. Job reassignment (as a punitive measure)
5. Termination of employment as a last resort

Reward

According to Armstrong (2017) defines rewards as anything given by an organization to employees in recognition of their contributions and performance, which can be in material or non-material forms. Noe et al. (2017) state that rewards are compensation or recognition received by individuals for achieving certain goals or results, which aims to inspire and maintain employee commitment.

Reward Indicator

According to Armstrong (2017) identifies reward indicators as:
1. Salary
2. Bonus
3. Allowance
4. Acknowledgement
5. Non-financial incentives

Competence

According to Spencer and Spencer (2017), competencies are the key characteristics that distinguish a person, including aspects such as skills, abilities, drives, principles, and actions that significantly influence job performance. According to Boyatzis (2017) that competencies involve a person's abilities, which include the skills, abilities, and mindsets needed to produce successful outcomes in a position.

Competency Indicators

According to Spencer and Spencer (2017) outline that competency indicators include five main characteristics known as the "Iceberg Model":
1. Encouragement
2. Characteristics
3. Self-image
4. Expertise
5. Ability

Conceptual Framework

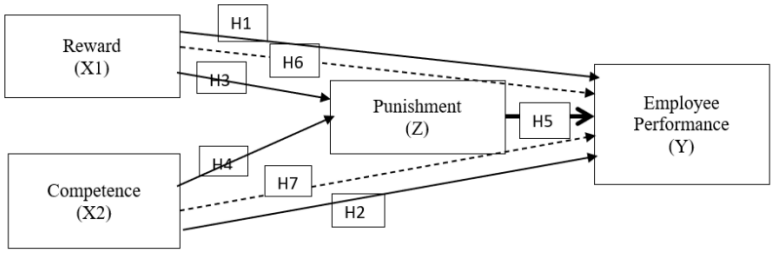

Figure 1: Conceptual Framework

Hypotheses

H1 Reward has a positive and significant effect on Employee Performance at BPJS Ketenagakerjaan West Sumatra Region

H2 Competence has a positive and significant effect on Employee Performance at BPJS Ketenagakerjaan West Sumatra Region

H3 Reward has a positive and significant effect on Punishment at the BPJS Ketenagakerjaan West Sumatra Region

H4 Competence has a positive and significant effect on Punishment at BPJS Ketenagakerjaan West Sumatra Region

H5 Punishment has a positive and significant effect on Employee Performance at BPJS Ketenagakerjaan West Sumatra Region

H6 Reward has a positive and significant effect on Employee Performance with Punishment as an intervening variable at BPJS Ketenagakerjaan West Sumatra Region.

H7 Competence has a positive and significant effect on Employee Performance with Punishment as an intervening variable at BPJS Ketenagakerjaan West Sumatra Region

Method

The researcher used a quantitative research method. According to Sugiyono (2017) stated that the quantitative research approach is based on the philosophy of positivism. This method is used to analyze specific groups or samples and collect data using research instruments, evaluating quantitative or statistical information with the aim of validating predetermined hypotheses.

Research Time and Location

This research was conducted from October to December 2025. This research was conducted at the offices of BPJS Ketenagakerjaan West Sumatra Region (BPJS Ketenagakerjaan Solok, Bukittinggi, Padang).

Population

The research population used is 109 employees of the BPJS Ketenagakerjaan West Sumatra Region (BPJS Ketenagakerjaan Solok, Bukittinggi, Padang). Population is a general area consisting of objects or subjects that have specific quantities and characteristics determined by the researcher to be studied and then conclusions are drawn (Sugiyono, 2017).

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Sample

This research uses a sample where the entire population of 109 employees will be sampled, using a saturated sampling technique. According to Sugiyono (2017), a sample is part of the number and characteristics possessed by the population.

Research Data Sources

This research relies on primary data sources. Sugiyono (2017) states that primary data is collected directly from the source or subject, without involving any intermediaries.

Data Collection Technique

The data collection technique used is a questionnaire. The researcher distributed questionnaires to respondents to fill out. This research uses a survey method obtained from the original location by distributing questionnaires (Sugiyono, 2017). A questionnaire is a data collection technique carried out by providing written questions or statements submitted to respondents (Sugiyono, 2017).

Operational Variables

According to Sugiyono (2017) explains that a variable is any type of data chosen by a researcher to examine to gather information and draw conclusions. Operationalization involves determining the type, indicators, and scale of each variable in the study. The following outlines the operationalization of the variables in this study:

Table 6. Operational Variables

Variables	Definition	Indicator
Employee performance (Y)	Performance is the result of employee work behavior measured based on certain standards in order to achieve organizational goals (Mathis & Jackson, 2017).	Work output, work error rate, task completion time, creativity, compliance with instructions (Mathis & Jackson, 2017)
Punishment (Z)	Punishment is a corrective action or negative consequence given to employees for violating organizational rules to enforce discipline (Mondy & Martocchio, 2017).	Direct/written warnings, administrative sanctions, suspension of promotion/salary, transfer of punishment, dismissal (Mondy & Martocchio, 2017)
Reward (X1)	Rewards are anything given by an organization to employees as a form of appreciation for their contribution and performance, both material and non-material (Armstrong, 2017).	Salary, bonuses, benefits, recognition, non-material rewards (Armstrong, 2017)

Competence (X2)	Competence is a fundamental characteristic possessed by individuals such as knowledge, skills, attitudes, and values that contribute to superior work performance (Spencer & Spencer, 2017).	Motives, personal traits, self-concept, knowledge, skills (Spencer & Spencer, 2017)

Data Research Techniques

In this study, latent variables accompanied by various indicators were used to measure other variables. Furthermore, to ensure the existence of relationships between variables, mediation testing was necessary to validate the feasibility of the study. This approach aligns with PLS-SEM analysis. A technique known as Partial Least Squares Structural Equation Modeling (PLS-SEM) uses a partial methodology to model the relationships between variables in a model. This technique can be applied to assess correlational and causal relationships between variables in a model (Hair et al., 2017). The PLS framework consists of two main elements: a measurement model and a structural model. To validate the hypothesis, path analysis was used after confirming the validity and reliability of the measurement model (Henseler et al., 2009).

Measurement Model Test (Outer Model)

To ensure that the variables, assessment tools, and indicators used in this study maintain adequate validity and reliability, as well as consistent measurement across samples, this study implemented a measurement model evaluation known as the outer model. In PLS-SEM data analysis, measurement model evaluation includes validity and reliability testing.

Validity Test

a. Convergent Validity Test

Convergent validity assessment serves as a means to evaluate the correlation or relationship between research constructs and their measurement tools (Cohen et al., 2018). This test aims to ensure whether the measurement tools in the questionnaire can measure certain variables reliably and consistently (Morling, 2017). The average variance extracted (AVE) and factor loadings can be used to determine convergent validity. Research by Latan (2015) shows that an indicator shows a strong correlation with the construct being measured if its factor loading exceeds 0.6 and its AVE exceeds 0.5.

b. Discriminant Validity Test

Discriminant validity assessment is a method used to validate an instrument that accurately measures a variable without being confounded by other variables. This test evaluates how well a measuring instrument distinguishes the variable being assessed from other variables (Sugiyono, 2020). The existence of cross-loading values for each evaluated indicator provides insight into the discriminant validity assessment process. Kock & Lynn (2012) suggest that a variable is considered valid when each indicator has a cross-loading value that exceeds the value of the other unmeasured variable.

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Reliability Test

Reliability assessment refers to the process of determining the consistency and reliability of a research measurement instrument in evaluating the same variable over time and with different respondents. This study implemented reliability assessment by examining composite reliability (CR) and Cronbach's alpha values. Henseler et al. (2016) stated that a variable is considered reliable if the composite reliability (CR) of the measurement instrument is above 0.7 and the Cronbach's alpha value exceeds 0.7.

Structural Model Test (Inner Model)

The structural framework in this study serves as an internal model used in the PLS-SEM analysis to analyze the relationships between constructs within the research framework. This structural framework will identify the relationships between constructs related to the strength and significance of the path coefficients used in the study, which develop through various stages.

PLS-SEM Inner Model Assumptions

As stated by Henseler et al. (2016), the main assumption for the internal model in PLS-SEM is the absence of multicollinearity among the constructs assessed through the measurement tools in the research model. This assumption can be verified by analyzing the VIF (Variance Inflation Factor) value. The VIF value indicates the extent to which an independent variable is influenced by other independent variables in the research model. A VIF value of less than 5 indicates the absence of multicollinearity among the constructs in the research model (Hair et al., 2017).

Coefficient Of Determination Test (R^2)

In structural models, the R-Square (R2) examination in PLS-SEM serves as an indicator to assess how much variability in the dependent variable can be explained by the independent variables (Henseler et al., 2016). Hair and others (2017) explain that in the context of assessing variability, the "R-Square" value can range from 0 to 1, where values of 0.75, 0.50, and 0.25 indicate levels identified as strong, moderate, and weak in their capacity to explain variation in the dependent variable.

Hypothesis Testing

Hypothesis testing for the internal PLS-SEM model was performed using the bootstrapping method in SmartPLS software. After the bootstrapping process, hypothesis testing can be performed by analyzing the path coefficients, t-statistics, and p-values. A positive path coefficient indicates a favorable relationship between two variables, while a negative coefficient indicates an unfavorable relationship between them (Hair et al., 2017). A t-statistic exceeding 1.96 and a p-value below 0.05 indicate that the coefficient is statistically significant and reliable (Hair et al., 2017).

Results and Discussion

***Outer Model* Analysis**

External Model Analysis

The measurement model (external model) assessment aims to analyze the relationship between latent and manifest variables. This evaluation includes testing for convergent validity, discriminant validity, and reliability.

Convergent Validity

This test assesses factor loadings; the threshold value is set at 0.7, and the threshold for Average Variance Extracted (AVE) is 0.5; if the value exceeds this, it is considered valid. This indicates that the indicator value is considered valid if it represents the construct variable with a value higher than 0.7. The structural model used in this study is illustrated in the figure below:

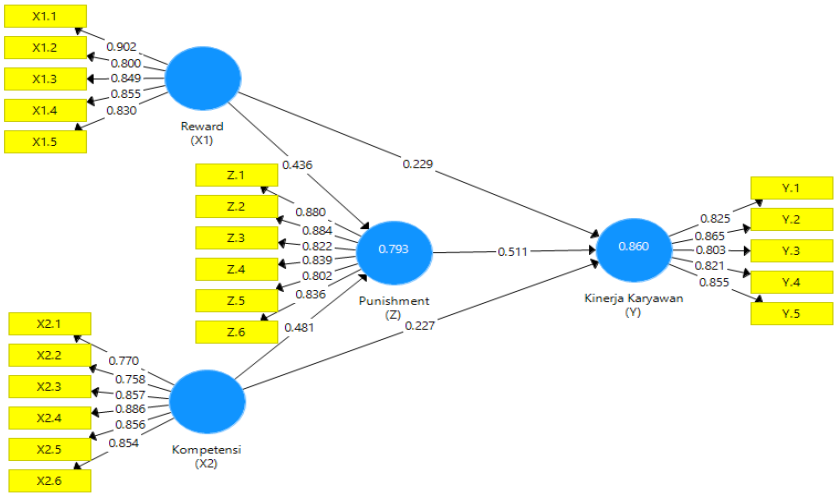

Figure 2. Outer Model

Source; Smart PLS 3.3.3

The Smart PLS output for the loading factors provides the results in the table below: External Loading In this study, there is a relationship consisting of two substructures.

For substructure 1

Z = b1X1 + b2X2 + e1

Z = 0.436 + 0.481 + e1

For substructure 2

Y = b3X 2 + b4X 1 + b5Z + e2

Y = 0.229 + 0.227 + 0.511 + e2

Table 7. Outer Loadings

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	Employee Performance_(Y)	Competence_(X2)	Punishment_(Z)	Reward_(X1)
X1.1				0.902
X1.2				0.800
X1.3				0.849
X1.4				0.855
X1.5				0.830
X2.1		0.770		
X2.2		0.758		
X2.3		0.857		
X2.4		0.886		
X2.5		0.856		
X2.6		0.854		
Y.1	0.825			
Y.2	0.865			
Y.3	0.803			
Y.4	0.821			
Y.5	0.855			
Z.1			0.880	
Z.2			0.884	
Z.3			0.822	
Z.4			0.839	
Z.5			0.802	
Z.6			0.836	

Source :Smart PLS3.3.3

According to Table 2, each indicator in the Reward (X1), Competence (X2), Employee Performance (Y), and Punishment (Z) variables shows an outer loading value exceeding 0.70. This indicates that each indicator effectively represents its construct and meets the convergent validity criteria. Consequently, all indicators are considered valid and suitable for application in subsequent structural model assessments.

Discriminant Validity

Further research will evaluate the validity of the data by applying Discriminant Validity. The purpose of this examination is to determine whether the cross-loading values are higher than those of different latent variables, to determine which indicators have a strong relationship with the construct. The table below illustrates the cross-loading results from the validity assessment:

Table 8. *Discriminant Validity*

	Employee Performance_(Y)	Competence_(X2)	Punishment_(Z)	Reward_(X1)
X1.1	0.770	0.826	0.788	**0.902**
X1.2	0.797	0.681	0.766	**0.800**
X1.3	0.727	0.714	0.705	**0.849**
X1.4	0.670	0.722	0.660	**0.855**
X1.5	0.708	0.795	0.716	**0.830**
X2.1	0.695	**0.770**	0.669	0.699
X2.2	0.690	**0.758**	0.692	0.625
X2.3	0.696	**0.857**	0.711	0.745
X2.4	0.737	**0.886**	0.762	0.796
X2.5	0.792	**0.856**	0.718	0.795
X2.6	0.737	**0.854**	0.764	0.736
Y.1	**0.825**	0.736	0.769	0.706
Y.2	**0.865**	0.732	0.796	0.734
Y.3	**0.803**	0.730	0.744	0.731
Y.4	**0.821**	0.716	0.748	0.745
Y.5	**0.855**	0.723	0.715	0.710
Z.1	0.768	0.827	**0.880**	0.789
Z.2	0.827	0.755	**0.884**	0.774
Z.3	0.737	0.696	**0.822**	0.720
Z.4	0.732	0.786	**0.839**	0.751
Z.5	0.760	0.650	**0.802**	0.659
Z.6	0.761	0.662	**0.836**	0.660

Source :Smart PLS3.3.3

According to Table 3, each indicator shows the highest loading value on the construct it assesses compared to other constructs. This indicates that the indicator can effectively differentiate between the variables of Reward (X1), Competence (X2), Punishment (Z), and Employee Performance (Y). Therefore, the results of the discriminant validity test are confirmed to be met, which ensures that each construct is distinct and does not overlap in its measurement.

Composite reliability

In a composite reliability evaluation, the reliability value of each variable is examined. A variable is considered reliable if its value exceeds 0.60. Conversely, if its value is below 0.60 but remains above 0.7, it is classified as unreliable. Various criteria are used to evaluate the reliability and validity of a study, including Coranbach's alpha value, composite reliability, and AVE value, as illustrated in the following table:

Table 9. ***Construct Reliability and Validity***

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	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Employee Performance_(Y)	**0.890**	**0.920**	**0.696**
Competence_(X2)	**0.910**	**0.931**	**0.691**
Punishment_(Z)	**0.919**	**0.937**	**0.713**
Reward_(X1)	**0.902**	**0.927**	**0.719**

Source :Smart PLS3.3.3

According to Table 4 each construct achieved a Cronbach's Alpha and Composite Reliability score exceeding 0.70, indicating that the research tool is reliable. Furthermore, the AVE for each variable exceeded 0.50, confirming the requirements for convergent validity. Thus, the constructs of Reward (X1), Competence (X2), Punishment (Z), and Employee Performance (Y) are considered valid and reliable.

***Inner Model* Analysis**

Internal models are evaluated to verify the robustness and accuracy of the baseline model. Various indicators can be used to determine the stages of the primary model evaluation process, including:

Coefficient Determination (R2)

From the analysis carried out use SmartPLS 3.0, R-Square value is determined as following :

Table 10. R Square Results

	R Square	Adjusted R Square
Employee Performance_(Y)	0.860	0.856
Punishment_(Z)	0.793	0.788

Source :Smart PLS3.3.3

According to Table , the R-squared value for the Employee Performance (Y) variable is 0.860, indicating that 86.0% of the differences in employee performance can be explained by the independent variables in the model, while the remaining 14.0% is caused by external

factors. On the other hand, the Punishment (Z) variable has an R-squared value of 0.793, indicating that 79.3% of its variation is influenced by the variables studied. The adjusted R-squared value, which is similar to the R-squared, indicates that the model has strong and consistent explanatory power.

Hypothesis Testing

Once the internal model is established, the next step is to analyze the relationship between the inactive constructs and the hypotheses in this scenario. This analysis is performed by evaluating the T statistic and P value. The test checks whether the T statistic exceeds 1.96 and whether the P value is below 0.05. The following are the findings of the direct impact path coefficients.

Table 11. Direct Hypothesis Results

	Original Sample (O)	T Statistics (| O/STDEV |)	P Values	Results
Competence_(X2) -> Employee Performance_(Y)	0.227	2,152	**0.016**	**Accepted**
Competency_(X2) -> Punishment_(Z)	0.481	5,119	**0,000**	**Accepted**
Punishment_(Z) -> Employee Performance_(Y)	0.511	6,625	**0,000**	**Accepted**
Reward_(X1) -> Employee Performance_(Y)	0.229	2,617	**0.005**	**Accepted**
Reward_(X1) -> Punishment_(Z)	0.436	4,609	**0,000**	**Accepted**

Source :Smart PLS3.3.3

1. Impact of Awards (X1) on Employee Performance (Y)

The test results show that rewards have a positive and significant influence on employee performance, as evidenced by a coefficient of 0.229, a T statistic of 2.617, and a p-value of 0.005. This indicates that providing appropriate rewards can improve employee performance, thus supporting the hypothesis.

2. The Influence of Competence (X2) on Employee Performance (Y)

The test results show that competence has a positive and significant effect on employee performance, with a coefficient of 0.227, a T-statistic of 2.152 (greater than 1.96), and a p-value of 0.016 (less than 0.05). Therefore, the hypothesis that competence influences employee performance is proven correct.

3. Impact of Rewards (X1) on Punishments (Z)

The analysis results show that rewards have a positive and significant impact on punishment, with a coefficient of 0.436, a T-statistic of 4.609, and a p-value of 0.000. This finding implies that the reward system within the organization is related to observed punishment practices. Therefore, the hypothesis is accepted.

4. The Influence of Competence (X2) on Punishment (Z)

The analysis results show that competence has a positive and significant effect on punishment, with a coefficient of 0.481, a T-statistic of 5.119, and a p-value of 0.000. This indicates that higher employee competence leads to more focused punishment implementation within the organization. Consequently, the hypothesis was proven correct.

5 Impact of Punishment (Z) on Employee Performance (Y)

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The test shows that punishment has a significant and positive effect on employee performance, as indicated by a coefficient value of 0.511, a T statistic of 6.625, and a p-value of 0.000. These results indicate that when punishment is applied correctly, it can improve employee performance. Therefore, the hypothesis is supported.

Table 12. Results of Indirect Hypothesis

	Original Sample (O)	T Statistics (| O/STDEV |)	P Values	Results
Competence_(X2) -> Punishment_(Z) -> Employee Performance_(Y)	0.246	3,470	**0,000**	**Accepted**
Reward_(X1) -> Punishment_(Z) -> Employee Performance_(Y)	0.223	4,444	**0,000**	**Accepted**

Source :Smart PLS3.3.3

1. The Effect of Rewards (X1) on Employee Performance (Y) through Punishment (Z)

The analysis results show that rewards have a positive and significant effect on employee performance through punishment, with a coefficient value of 0.223, a T statistic of 4.444, and a p-value of 0.000. These results indicate that punishment mediates how rewards affect employee performance. Therefore, the hypothesis is accepted.

2.The Influence of Competence (X2) on Employee Performance (Y) through Punishment (Z)

The findings from the indirect effect test indicate that competence has a positive and significant effect on employee performance through punishment, with a coefficient value of 0.246, a T-statistic of 3.470 (greater than 1.96), and a p-value of 0.000 (less than 0.05). This indicates that punishment acts as a mediating factor in the relationship between competence and employee performance. Consequently, the hypothesis is accepted.

Conclusion

After collecting and interpreting the results, the conclusions of this study are as follows:

1. Competence has been proven to positively and significantly influence employee performance improvement, meaning that as employee competence increases, their performance also increases.
2. Competence positively influences punishment, indicating that employee competency levels correlate with the appropriateness and effectiveness of how punishment is administered within the company.
3. Punishment plays an important role in improving employee performance, especially when implemented fairly, consistently, and in accordance with applicable regulations.
4. Rewards positively influence employee performance, indicating that appropriate rewards can motivate better performance.
5. Rewards influence punishment, indicating a relationship between reward practices and disciplinary actions taken by organizations.

6. Punishment can mediate the impact of competence on employee performance, meaning that strong competence will optimally improve performance when supported by effective punishment implementation.
7. Punishment serves as a mediator for the effects of rewards on employee performance, suggesting that rewards are more effective in improving performance when aligned with a clear and organized punishment framework.

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