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The Effect of Rewards on Employee Performance with Employee Engagement as an Intervening Variable in Indonesian Pharmaceutical Companies

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ABSTRACT

Employee performance has a major contribution to organizational effectiveness. There are several factors that possibly improve employee performance including rewards and employee engagement. The purpose of this study is to determine the effect of financial and non-financial rewards on employee performance with employee engagement as an intervening variable. This study conducted on leading pharmaceutical companies in Indonesia. Data collection using questionnaires, the distribution using disproportionate stratified random sampling technique. Data analysis uses path analysis. The results show that both forms of rewards and employee engagement significantly influence employee performance simultaneously and partially. There is an influence of employee engagement in mediating the relationship of financial rewards on employee performance as well as the relationship between non-financial reward on employee performance.

Keywords: Employee Engagement, Employee Performance, Financial Rewards, Non-Financial Rewards.

Introduction

Human resources are one of key factors to the survival of an organization. Nowdays, human resources are better known as *Human Capital* which must be guarded and taken care of so that the company has a long time or survival. Therefor beneficial mutually relationship is needed for both employees and the company. The relationship will have an impact on improving the performance of employees which the end result will affect the performance of the company. Gibson *et al.* (2012) stated that organizational performance depends on the performance of its employees, or in other words employee performance will contribute to organizational performance. According to Akhyadi & Kaswan (2015, pp 5), human resource management has a great contribution for the succesness of an organization. The increasing number of organizations in Indonesia in particular, makes the competition between companies increasingly tight. So, the greater company performances are needed in order to compete with other companies. This makes the company requires employees in the company to have high performance.

Improved performance is done through various ways among others by providing feedback or appreciation from the company. Qureshi et al (2010) argued that rewards are more effective for improving employee performance. This argument was supported by the results of research by Sajuyigbe *et al*. (2013) which stated that reward dimensions have a significant effect on employees' performance. The forms of Reward are varied, including financial rewards and non-financial rewards. Based on previous studies, Ryan in Qureshi *et al.* (2010) indicated that non-monetary types of rewards can be meaningful to employees and can improve employee's performance. On the other hands, Luthans (2000) highlights two types of rewards which are financial (extrinsic) and non-financial (intrinsic) rewards and both can be utilized positively to enhance employee performance.

Aside from being done with giving employee the feedback through rewards, improving employee performance can also be done through improving relations between employees and company which is known as employee engagement. Study conducted by Anitha (2014) has shown that there is a strong significant relationship between employee engagement and employee performance, so that if employee engagement is high, then employee performance in the company will also be high. This is supported by Demerouti & Cropanzano (2010) in their study which concluded that engagement can lead to enhanced performance as a result of a number of mechanisms. Their conclusions are supported by a growing number of studies demonstrating a positive relationship between engagement and individual performance. Xanthopoulou *et al.* (2008) and Berdakar & Pandita (2014) also argued that organizations must actively meet employee expectations to build *engagement* with employees in the organization, which has an effect on

employee performance and has a direct influence on organizational performance, and the way to have high employee engagement, one of the driving factors is rewards. Several previous studies has mentioned that motivational factors such as financial rewards, job characteristics, career development, *recognition*, management and *work-life balance* provide positive and significant results in increasing *engagement as* well as retention of employees in a company (Aguenza & Som, 2012) and rewards and recognition as a construct has been found to be a strong predictor of employee engagement, even though it is a stronger predictor of normative commitment (Srivastava, 2016).

This research was conducted at one of the pharmaceutical companies in Indonesia which has 1,098 employees. Based on the results of an interview with Human Capital Supervisor is can be concluded that the employees at the company had performed well, this was indicated by company achievement as the five largest pharmaceutical producers in Indonesia and is in the top fifteen whose medicines are recommended in prescription by doctors throughout Indonesia. The performance evaluation at this pharmaceutical company is done annually and is done at the end of the year by supervisors to their subordinates directly. The performance of each employee is assessed through individual performance scores (NKI) where the final results will be collected to the HR department. It is intended that the results of the employee's performance appraisal will be used as a determinant of the employee's position in the company, and will determine the continuity of the employee's contract as well as the promotion or transfer of the employee. Performance appraisal in organizations is also used as a benchmark for giving Reward to employees. The criteria for employee performance values are divided into five levels: outstanding, good, improvement needed, unsatisfactory, and not rated.

The pharmaceutical company gives reward to every employee based on the results of the performance appraisal and it is given in the form of salaries, bonuses, benefits, and facilities such as office pickup, official residence, and etc. This is used as an engagement between the employee and the pharmaceutical company. The reward above is justified by employees who work at the pharmaceutical company. Based on the interviews with three employees of one of the pharmaceutical companies in Indonesia, it is stated that although the company had given rewards in accordance with the work provided, the compensation and bonuses that given to the employees were felt to be insufficient to fulfil the daily needs of employees because compensation and bonuses provided are only limited to the minimum wage and considered to be less competitive with other pharmaceutical companies in Indonesia.

In addition to the data above, the description of employee engagement in pharmaceutical companies shows that there is still a lack of engagement owned by the company, this can be seen from the attendance data or employee attendance in 2019 from January to March 2019 presented in the figure below:

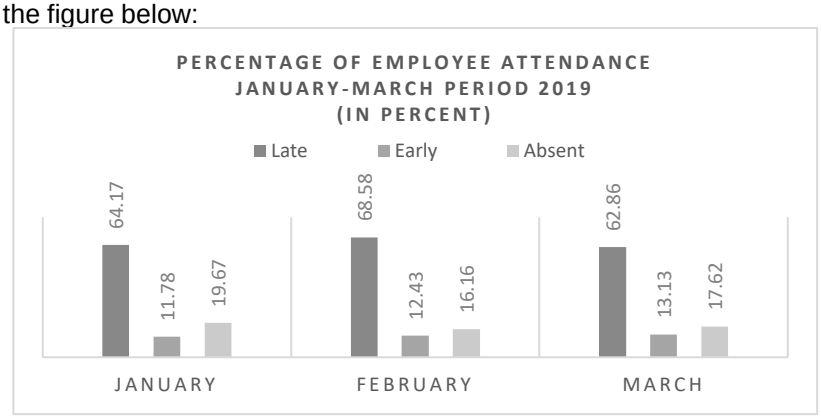

Figure 1. Pharmacy Company Employee Presence Data in Indonesia

Based on the employee presence data, it can be seen that the percentage of employees' absences in one of the leading pharmaceutical companies in Indonesia is have fluctuation. Based on these data it can be seen that, the late of employees over the three months is above 50% or with an average of 65.20%. The delay can be indicated as a sign that there is still a lack of enthusiasm for employees. The lack of enthusiasm can be driven by not achieving employee job satisfaction. Based on these data, the purpose of this study is to find out whether rewards have a significant effect on employee performance, to find out whether reward have a significant effect on *employee engagement,* and to find out whether *employee engagement* has a significant effect

on employee performance. Based on the research objectives, it can be described visualization of the research model as follows:

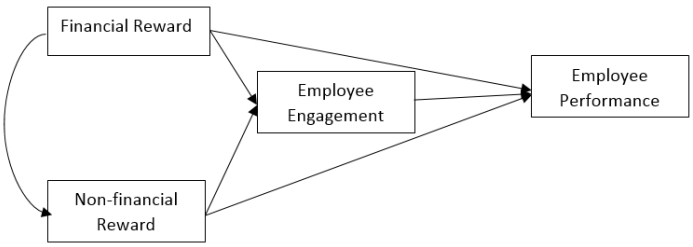

Figure 2 Visualization of Research Models

Based on the visualization of the research model, the following research hypotheses can be formulated:

H 1 : Financial Rewards has a significant effect on employee performance.
H 2 : Non-Financial Rewards has a significant effect on employee performance.
H 3 : Financial Rewards has a significant effect on *employee engagement.*
H 4 : Non-Financial Reward have a significant effect on *employee engagement.*
H 5 : *Employee engagement* has a significant effect on employee performance.

Method

The method used in this study is a quantitative method with a causal and explorative approach. The sampling technique used in this study was Disproportionate Stratified Random Sampling by distributing questionnaires with a sample of 91 respondents, calculated by the Slovin formula with a 100% return rate. Financial reward was assessed by compensation rate and protection programs. Non-financial rewards are measured through the dimensions of work and the work environment. Employee performance is measured through the dimensions of quality, quantity, accuracy, time, cost effectiveness, supervisory needs and interpersonal influence. Employee engagement is measured through the dimensions of vigor, absorption, and dedication. Data analysis in this study uses path analysis.

Results

The results of the validity and reliability test shown that from 48 questionnaire items distributed to the respondents there were eight invalid items, the reduction was carried out so that 40 statements were valid and reliable. Data processed using IBM Software (SPSS) Statisctic Version 22 for Windows. Based on the classical assumption test, the results indicate that data is normal, there is no multicollienarity, and there is no autocorrelation, so path analysis can be performed on this research model.

1. Simultaneous Test (F Test)

The F test basically shows whether all independent variables included in the model have a joint influence on the dependent variable. The results of the F test can be seen from the table below:

Table 1. Regression Output of Simultaneous Test

ANOVA [a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4345,685	3	1448,562	80,401	.000 [b]
	Residual	1567,446	87	18,017		
	Total	5913,131	90			

Based on the table above it can be seen that the F calculated from the results of data processing has a value of 80,401. When compared with the F value of the 0.05 significance table which has a value of 2.71, the calculated F value is greater than the F table value. This shows that H 0 is rejected. When viewed from the significance test, the results of data processing have a significance value / probability value of 0,000. When compared with the decision rule with alpha 0.05, the significance value has a smaller value than the alpha value. This shows that H 0 is rejected. Based on the results of F test and significance, both stated that H 0 is rejected, so it

can be concluded that the Financial and Non-Financial Reward and Employee Engagement have positive effect on employee performance simultaneously.

2. Partial Test (t test)

The t test basically shows whether each independent variable or independent variable entered in the model has an influence on the dependent variable. The partial test results in this study will be seen based on the hypotheses that have been formulated previously, as follows:

H_1 : Financial Rewards has a significant effect on employee performance.

The partial test results (t test) regarding the effect of Financial Reward on Employee Performance are as follows:

Table 2. Regression Output of Partial Test (Relation between Financial Reward and Employee Performance)

Coefficients [a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	15,859	2,400		6,607	.000
x1	1,183	.125	707	9,432	.000

Based on the table above, it can be seen that the value of t calculated of variable financial rewards to employee performance have the value of 9.432 with a significance value of 0.000. When compared between the calculated t value with t table, which is 9,432 with 1,98761, the calculated t value is greater than the t table value. It can be concluded that H_0 is rejected. In addition to the t test, a significance test was also conducted. When compared between the significance value / probability value with an alpha value of 0.000 with 0.05, the significance value is smaller than the alpha value. It is can be concluded that H_0 is rejected. From the two tests, it can be concluded that the variable financial rewards significantly influence employee performance.

H_2 : Non-Financial Rewards has a significant effect on employee performance.

Partial test results (t test) regarding the effect of Non-financial Rewards on Employee Performance are as follows:

Table 3. Regression Output of Partial Test (Relation between Non-financial Reward and Employee Performance)

Coefficients [a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	10,663	2,406		4,431	.000
x2	1,433	.124	.775	11,559	.000

According to the table above, it can be seen that the value of t calculated of variable non-financial rewards to employee performance have the value of 11.559 with a significance value of 0.000. When compared between the calculated t value with t table, which is 11.559 with 1.98761, then the calculated t value is greater than the t table value. It is can be conclude that H_0 is rejected. In addition to the t test, a significance test was also carried out. When compared between the significance value / probability value with an alpha value of 0.000 with 0.05, the significance value is smaller than the alpha value. It can be concluded that H_0 is rejected. From the two tests, it can be concluded that the non-financial rewards variable has a significant effect on employee performance.

H_3 : Financial Rewards has a significant effect on *employee engagement.*

The partial test results (t test) regarding the effect of Financial Reward on Employee Engagement are as follows:

Table 3. Regression Output of Partial Test (Relation between Financial Reward and Employee Engagement)

Coefficients [a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	12,903	2,439		5,291	.000
x1	1,176	.127	699	9,230	.000

a. Dependent Variable: z

According to the table above it can be seen that the value of t arithmetic variable financial reward on employee engagement have the value of 9.230 with a significance value of 0.000. When compared between the calculated t value with t table, which is 9.230 with 1.98761, the calculated t value is greater than the t table value. It can be concluded that H_0 is rejected. In addition to the t test, a significance test was also carried out. When compared between the significance value / probability value with an alpha value of 0.000 with 0.05, the significance value is smaller than the alpha value. It can be concluded that H_0 is rejected. From the two tests, it can be concluded that the variable financial rewards has a significant effect on employee engagement.

H_4: Non-Financial Reward have a significant effect on *employee engagement.*

The results of the partial test (t test) regarding the effect of Non-financial Reward on Employee Engagement are as follows:

Table 4. Regression Output of Partial Test (Relation between Non-financial Reward and Employee Engagement)

Coefficients [a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	5949	2,193		2,712	.008
x2	1,518	.113	.818	13,435	.000

Based on the table on the previous page about the results of the partial test (t test) regarding the effect of Non-financial Reward on Employee Engagement, it can be seen that the non-financial value variable t calculated on employee engagement has a value of 13,435 with a significance value of 0,000. When compared between the calculated t value with t table, which is 13,435 with 1,98761, then the calculated t value is greater than the t table value. It can be concluded that H_0 is rejected. In addition to the t test, a significance test was also carried out. When compared between the significance value / probability value with an alpha value of 0.000 with 0.05, the significance value is smaller than the alpha value. This shows that H_0 is rejected. From the two tests, it can be concluded that the non-financial rewards variable has a significant effect on employee engagement.

H_5: *Employee engagement* has a significant effect on employee performance.

Partial test results (t test) regarding the effect of Employee Engagement on Employee Performance are as follows:

Table 2. Regression Output of Partial Test (Relation between Employee Engagement and Employee Performance)

Coefficients [a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	8,507	2,056		4,137	.000
z	.850	.058	.842	14233	.000

Based on the table above it can be seen that the t calculated of the variable employee engagement on employee performance has a value of 13,491 with a significance value of 0,000. When compared to the calculated t value with t table, which is 14,723 with 1,987 61, the value of t hit is greater than the value of t table. It can be concluded that H_0 is rejected. In addition to the t test, a significance test was also carried out. When compared between the significance value / probability value with an alpha value of 0.000 with 0.05, the significance value is smaller than the alpha value. This shows that H_0 is rejected. From the two tests, it can be concluded that the employee engagement variable has a significant effect on employee performance.

The correlation value of the relationship of the variables in this study the interpretation of the correlation coefficient according to Sugiyono (2017, pp 216):

Table 6. Correlation Output

Variable	R	R^2	Conclusion
Financial Reward for Non-Financial Reward	0767	0.589	Strong Relationship
Financial Reward for Employee Performance	0707	0.500	Strong Relationship
Non-financial Rewards for Employee Performance	0.775	0600	Strong Relationship
Financial Award for *Employee Engagement*	0.699	0.489	Strong Relationship
Non-financial Reward for *Employee Engagement*	0820	0.672	Very Strong Relationship
Employee Engagement on Employee Performance	0835	0.698	Very Strong Relationship
Financial and Non-financial Reward and *Employee Engagement* for Employee Performance	0857	0.735	Very Strong Relationship

From the table of the correlation test results above, it can be concluded as follows:

1. Non-Financial Reward is influenced by financial award in the amount of 58.9% with a strong relationship.
2. Employee performance is influenced by financial reward in the amount of 50% with a strong relationship.
3. Employee performance is influenced by financial reward in the amount of 60% with strong relationships.
4. Employee Engagement is influenced by financial reward in the amount of 48.9% with a strong relationship.
5. Employee Engagement is influenced by non-financial reward in the amount of 67.2% with a very strong relationship.
6. Employee Performance is influenced by Employee Engagement in the amount of 69.8% with a very strong relationship.
7. Employee performance is influenced by financial and non-financial reward and employee engagement in the amount of 73.5% with a very strong relationship.

In the path analysis Sobel Test is done by testing the strength of the indirect effect of independent variables (X) to the dependent variable (Y) through intervening variables (Z). From the results of the Sobel Test it can be concluded that z statistics on the effect of employee engagement in mediating the relationship of financial rewards to employee performance by 6.2566, when compared with the z value of absolute table 1.96, the value of statistical z is greater or in other words employee engagement mediating the relationship between financial rewards to employee performance. The result of the sobel test on the effect of employee engagement in mediating the relationship of non-financial rewards to employee performance has a statistical z value of 6.0349, when compared with the z value of absolute tables 1.96, it has a greater value or in other words employee engagement has an effect in mediating the relationship between rewards non-financial performance of employees.

Based on the results of path analysis the amount of the value of direct and indirect relationships can be obtained from the relationship of these variables and its is described in the path analysis as follows:

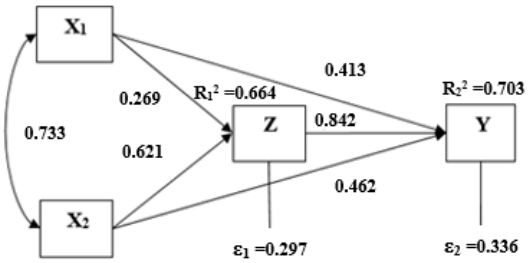

Figure 3. Structural Correlation Model

The direct and indirect effects calculations are summarized in the table below:

1. The Effect of Financial and Non-Financial Reward on Employee Engagement

Table 7. Regression Output of Path Analysis (The Effect of Financial and Non-Financial Reward on Employee Engagement)

Variable	Direct Influence	Indirect Effects		Total Influence
		X_1	X_2	
X_1	0.072		0.122	0.195
X_2	0.386	0.122		0.508
Total	0.458	0.122	0.122	0703

Based on the table above, it can be seen that the direct effect of Financial Reward (X_1) on Employee Engagement (Z) is 0.072 or 7.2%. While the indirect effect of Financial Reward (X_1) on Employee Engagement (Z) of 0.122 or 12.2%. Based on the direct or indirect influence of Financial Reward (X_1) on Employee Performance (Y), the total influence is equal to 0.195 or 19.5%. From table 4.26 it can be seen the amount of the direct influence of Non-Financial Reward (X_2) on Employee Engagement (Z) is equal to 0.386 or 38.6%. While the indirect effect of Non-financial Reward (X_2) on Employee Performance (Y) is 0.122 or 12.2%. Based on the direct and indirect influence of Financial Reward (X_1) on Employee Performance (Y), the total effect is 0.508 or 50.8%. Both financial and non-financial rewards can influence employee performance by 0.703 or 70.3% and the remaind by 0.297 or 29.7% is influenced by other factors not examined in this study.

2. The Effect of Employee Engagement on Employee Performance

Table 8. Regression Output of Path Analysis (he Effect of Employee Engagement on Employee Performance)

Variable	Direct Influence	Indirect Effects	Total Influence
Z	0709		0709

Based on the table above, it can be seen that the direct effect between Employee Engagement (Z) on Employee Performance (Y) has a value of 0.709 or 70.9%. The direct effect on the relationship between these two variables is the total value of the effect of Employee Engagement (Z) on Employee Performance (Y), because in the relationship between these variables, there is no indirect effect from other variables.

3. The Effect of Financial and Non-Financial Reward on Employee Performance

Table 8. Regression Output of Path Analysis (The Effect of Financial and Non-Financial Reward on Employee Performance)

Variable	Direct Influence	Indirect Effects		Total Influence
		X_1	X_2	
X_1	0.171		0.140	0.310
X_2	0.213	0.140		0.353
Total	0.384	0.140	0.140	0.664

Based on the table above, it can be seen that the direct effect of Financial Reward (X_1) on Employee Performance (Y) is 0.171 or 17.1%. While the indirect effect of Financial Reward (X_1) on Employee Performance (Y) is 0.140 or 14%. Based on the direct or indirect influence of

Financial Reward (X_1) on Employee Performance (Y), the total influence is equal to 0.310 or 31%. From table 4.28 it can be seen the magnitude of the direct influence of Non-financial Reward (X_2) on Employee Performance (Y) that is equal to 0.213 or 21.3%. While the indirect effect of Non-financial Reward (X_2) on Employee Performance (Y) is 0.140 or 14%. Based on the direct or indirect influence of Financial Reward (X_1) on Employee Performance (Y), the total influence is equal to 0.353 or 35.3%. Both financial and non-financial rewards can influence employee performance by 0.664 or 66.4% and the remaind by 0.336 or 33.6% is influenced by other factors not examined in this study.

Discussion and Conclusions

Based on the results of this study it can be conclude that reward, both financial and non-financial reward, and employee engagement significantly influence employee performance. This study complements previous studies namely research from Qureshi et al (2010) which states that there is a direct relationship between work bonuses (financial rewards) on employee performance and non-monetary rewards, which is very meaningful for employees by providing motivation and influencing employee performance improvement. As well as previous studied has shown that employee engagement is a key driver of high employee performance (Anitha, 2014) and employee engagement has a connection to performance (Gruman & Saks, 2011). In this study, there is a mediating effect of the employee engagement variable between rewards, both financial and non-financial, to employee performance. The results also shown that financial and non-financial reward affect employee engagement. This result is in line with Bakker & Demerouti research (2007) which states that financial rewards can act as potential predictors on employee engagement and study conducted by Saks (2006) which explained that the organizational productivity and employee job engagement depended upon employee happiness and wellbeing at the work place. Anitha (2014) also mentioned that one of the antecedents of employee engagement rewards.

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