

MAPPING IDEA & LITERATURE FORMAT | RESEARCH ARTICLE

The Influence of Reward, Punishment, and Work Motivation on Employee Performance at MSMEs Palopo

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ABSTRACT

This study aims to analyze the influence of reward and punishment as well as work motivation on employee performance in Micro, Small, and Medium Enterprises (MSMEs) in the City of Palopo. This research uses a quantitative approach with the entire population of MSMEs employees in the City of Palopo. Primary data were collected thru questionnaires from 134 respondents selected using purposive sampling techniques, while secondary data were obtained from relevant literature studies. Data analysis was conducted using the covariance-based Structural Equation Modeling (SEM) method with the assistance of IBM SPSS AMOS version 22 and IBM SPSS Statistics version 22 software. The research results show that reward and punishment have a negative and insignificant effect on employee performance. Work motivation has also not been proven to have a significant direct effect on employee performance. However, punishment has been proven to have a positive and significant effect on work motivation, while reward has a negative and insignificant effect on work motivation. Work motivation has been shown to significantly mediate the effect of reward and punishment on employee performance. These findings underscore the important role of work motivation as a key mechanism in bridging reward and punishment policies toward improving employee performance. Therefore, proper management of rewards and punishments should focus on efforts to build work motivation so that the performance of MSMEs employees in Palopo City can improve sustainably.

Keywords: Reward, Punishment, Work Motivation, Employee Performance.

I. Introduction

Human resources are one of the most important and inseparable factors in a business venture. Human resources are essentially the workforce employed in a business or company to carry out the four management functions (planning, organizing, directing, controlling) in order to achieve business or company goals effectively and efficiently (Terry, G. 2024) as stated in the research (Sri Nova Deltu, 2024). The presence of Micro, Small, and Medium Enterprises (MSMEs) in developing countries can be said to be the backbone of a country's economy. Although all these MSMEs have some dependencies, in reality, they can compete with other companies (Rahmad Firdaus et al., 2023). Micro, Small, and Medium Enterprises (MSMEs) play a significant role in the Indonesian economy. MSMEs play an important role in creating jobs, boosting economic

growth, and reducing poverty levels. In Indonesia, UMKM play a very important role, absorbing 97% of the workforce and contributing 60% of the total Gross Domestic Product (GDP) (Laraswati et al., 2024).

As an important asset, it is necessary to maintain employee performance to keep it at its peak. One way to maintain good employee performance is to establish a strategy that balances expected contributions with what is given (Ismah et al., 2023). One way to do this is by increasing human work motivation. Work motivation is a drive or enthusiasm that arises within an individual or others to carry out their work activities consciously and enthusiastically to achieve a specific target, as stated by Khoeriyah in the research (Rizky Wahyu et al., 2023). Motivation becomes the driving force for work. The quality of a person's performance can be influenced by how strong their motivation is. People work because of a driving force, for example, to meet their daily living needs (Mentang & Ekonomi, 2021). Generally, to provide for oneself or one's family. The need to earn money to meet living expenses is what motivates people to work. Therefore, there is a close relationship between motivation and a person's performance. An employee's motivation is directly proportional to their performance. So, it can be interpreted that a person's performance is greatly influenced by motivation. When employee motivation is high, performance can also improve (Mentang & Ekonomi, 2021). A common method used to motivate employees is by providing rewards and punishments, which can improve work performance (Rizky Wahyu et al., 2023).

Reward and punishment are two opposing words, yet they are interconnected; both motivate employees to improve their work quality (Prahastyorini & Aryati, 2024). Reward and punishment are very important in motivating employee performance. Because through rewards and punishments, employees will become more qualified and responsible for the tasks assigned to them (Pramesti et al., 2019). According to Nugroho in Koencoro, reward is a prize, gift, recognition, or compensation aimed at encouraging someone to work even harder to improve and enhance their achieved performance. Connie Chairunnisa, (2020). Desrianti's punishment is one way to reduce undesirable behavior by applying unpleasant consequences to that behavior (Arifin et al., 2022). Employee performance is the main asset in every business unit, including MSMEs (Micro, Small, and Medium Enterprises), in achieving their goals. Therefore, MSMEs leaders or owners must pay attention to their employees' performance (Liana & Neva Denjayanti, 2022). The attitude displayed by each individual is a tangible manifestation of their work output, aligned with their tasks and roles within the organization. High performance achievement will provide satisfaction to individuals, motivating them to always strive for high performance in their work (Caesar et al., 2023).

Employee performance is one of the key factors in the success of MSMEs, particularly in Palopo City, which has historically faced challenges of high competition and limited human resources. This research emerged because there is still little attention given to the application of reward and punishment systems and understanding of work motivation within the MSMEs context. Additionally, Palopo City, as the research location, has social, economic, and cultural conditions that differ from those of large companies. This means that the effectiveness of reward and punishment methods, as well as increasing work motivation, may vary. Large companies have adequate resources, so employee performance is more measurable and standardized due to clear task division and a complex organizational structure, leading to more consistent productivity and performance, and a focus on a specific area of work. Meanwhile, MSMEs do not yet have a strong governance system due to the number of human resources within them. An UMKM employee must have the ability to perform various types of work due to limited resources (Dr. Meylani Tuti, 2024). Therefore, a reward system or punishment system that is successfully implemented in large companies may not always work when applied to MSMEs, because of the different characteristics of society and work culture.

Many previous studies only examined the relationship between one or two variables. Previous researchers found that rewards and punishments significantly affect employee performance (Amri, 2019). Then, researchers (Wijaya et al. 2024) found that work motivation significantly affects employee performance. Therefore, the influence of all three variables simultaneously on employee performance has not been comprehensively discussed. Therefore, this research was conducted to fill this gap by comprehensively analyzing how the provision of rewards, punishments, and work motivation affects the performance of UMKM employees in Palopo. The research question in this study is to determine the influence of reward and

punishment and work motivation on the performance of employees at Palopo MSMEs. Therefore, this study aims to determine the influence of reward and punishment and work motivation on employee performance at Palopo MSMEs. This research is expected to provide insights into how these factors contribute to improving employee productivity and performance.

II. Literature Review and Hypothesis Development

2.1. Theoretical Basis

The theoretical foundation of this research uses the Reinforcement Theory proposed by B.F. Skinner (1953) in his work *Science and Human Behavior*. This theory explains that individual behavior is influenced by the consequences of their actions, where the provision of rewards as positive reinforcement will increase the likelihood of that behavior being repeated, while punishment as a form of penalty will decrease the frequency of undesirable behavior. Skinner emphasized that reinforcement as an external stimulus plays an important role in directing and shaping employee work behavior. This research is also supported by Expectancy Theory proposed by Victor Vroom (1964) to strengthen the explanation regarding the motivational mechanisms that bridge the influence of reward and punishment on employee performance. This theory states that individual motivation is determined by a combination of three main components: expectancy, instrumentality, and valence. Individuals will be motivated if they believe that the effort they put in will result in good performance (expectancy), that this performance will be followed by a reward (instrumentality), and that the reward received has value or meaning for the individual (valence). Thus, the effectiveness of rewards and punishments in improving employee performance is not only determined by the presence of reinforcement itself but also by how employees perceive the relationship between effort, performance, and the consequences received. Work motivation is an internal drive that influences the intensity, direction, and persistence of employees in carrying out their tasks, thereby directly impacting the performance produced. By integrating Reinforcement Theory and Expectancy Theory, this research aims to analyze the impact of reward and punishment on employee performance with work motivation as a mediating variable in SMEs in Palopo City.

2.2. Reward

According to (Rohiyah et al., 2020), reward can be defined as a form of appreciation or compensation given to individuals for their success in achieving desired goals (Herawati et al., 2023). The provision of rewards aims to motivate employees to remain enthusiastic in their work and continue striving to achieve the targets set by the company (Agustin, 2020). (Nompo & Pandowo 2020) Express that reward is a form of gift, recognition, or compensation given with the aim of encouraging someone to be more enthusiastic in improving or enhancing the performance they have achieved. This is in line with the research by Ramadanita et al. (2021), which states that rewards are one of the strategies to improve individual performance, both in terms of productivity, creativity, responsibility, and employee job satisfaction. According to Sri Nova Deltu et al. (2024), rewards have been proven to significantly impact employee performance. Rewards can be an effective motivation to enhance employee performance in MSMEs. The provision of rewards encourages employees' work spirit and creativity, thereby maximizing performance. In line with the research (Widya Asih et al., 2023), reward is a form of recognition or compensation aimed at motivating individuals to enhance their work efforts so that the performance achieved can continue to improve. Thus, if rewards are given fairly and evenly to MSMEs in Palopo, employee work motivation will increase, and vice versa. The indicators used according to (Tutik et al., 2021) and (Utami et al., 2024) are 1. Salary 2. Bonus 3. Welfare. Based on the development of theory and previous research, the hypothesis is formulated as follows.

H1: reward has a positive and significant effect on employee performance in palopo umkm.

H2 : reward has a positive and significant effect on work motivation.

2.3. Punishment

According to (Mangkunegara 2013), punishment is the threat of punishment aimed at improving the performance of offending employees, maintaining existing regulations, and teaching a lesson to offenders. While (Fahmi 2017) explains that punishment is the sanction received by an employee due to their inability to perform or carry out work as instructed by their superiors (Andy Pratama & Putri Handayani, 2022). Punishment is the threat of punishment aimed at correcting offending employees, maintaining applicable regulations, and teaching a lesson to offenders" (Wahyuni et al., 2022). When punishment is applied appropriately, employees become more aware of the consequences of their actions, thereby fostering a strong culture of discipline (Kahono et al., n.d.). According to (Meiliana Putri Dewi et al., 2025), punishment has a positive effect on employee performance. This is in line with (Dymastara & Onsardi, 2020), which proves that punishment significantly affects employee performance. Consistent and good punishment for employees will motivate them to improve their shortcomings and weaknesses, leading to increased employee performance due to the deterrent effect. However, if excessive, it can decrease employee performance. According to (Lestari et. al., 2023) Punishment has a positive effect on work motivation. In line with (Pradnyani et al., 2020), punishment is a negative aspect, but when given appropriately and wisely, it can serve as a stimulus for employes to enhance their work motivation. The findings of this study are supported by (Sari 2014) who stated that the presence of punishment is expected to guide/educate employes toward positive behavior and encourage work motivation. The indicators used according to (Aulia et.al., 2024) and (Tutik et.al., 2021) are: 1. Minimizing errors 2. Light punishment 3. Heavy punishment. Based on previous theory development and research, the following hypothesis is formulated.

H3: Punishment has a positive and significant effect on employee performance in Palopo UMKM.

H4: Punishment has a positive and significant effect on work motivation

2.4. Work Motivation

Motivation according to (Uno 2021) is a basic drive that can move someone to behave. Work motivation is a condition that encourages or causes someone to engage in an activity consciously (Sabir et al., 2023). (Shofwani & Hariyadi, 2019) explain that motivation is an internal drive in the form of effort and desire within an individual that moves, energizes, and directs a person's behavior to perform tasks optimally within their work environment (Adinda Khansa Khairunnisa, 2024). According to (Ismartaya et. al., 2024), work motivation significantly affects employe performance. In line with (Ridwan Prasetya et. al., 2024), the application of work motivation in SMEs is an important effort in improving employe performance. Motivated employes generally have more optimal performance, actively contribute, and are committed to achieving the set goals. The indicators used according to (Tanuwibowo et.al.,2015) and (Andi Irfan et.al.,2023) are: 1. Level of job and work environment satisfaction, 2. Responsibility, 3. Driving force. Based on the development of theory and previous research, the hypothesis is formulated as follows.

H5: Work motivation has a positive and significant effect on employee performance in Palopo UMKM.

2.5. Employee Performance

According to (Rivai and Basri 2005), performance is the overall result or level of success of a person during a specific period in carrying out tasks compared to predetermined and mutually agreed-upon work standards, targets, or criteria. In short, it can be concluded that, as in the research by (Yanuar et al. 2019),

employee performance is related to the results of tasks completed by the employee themselves. Employee performance is defined as the degree to which an individual successfully achieves organizational standards and goals (Putro & Suharyati, 2025). (Steven & Prasetyo, 2020) Employee performance is the result of work achieved by an individual or group of people within an organization, both qualitatively and quantitatively, in accordance with their respective authorities, tasks, and responsibilities, in an effort to legally, lawfully, and ethically achieve the goals of the organization in question. Performance results from an employee carrying out assigned tasks to achieve desired work targets. According to (Mangkunegara 2010), there are 3 factors that influence performance: (1) individual factors: a person's abilities, skills, family background, work experience, and social and demographic level; (2) psychological factors: perception, roles, attitudes, personality, motivation, and job satisfaction; and organizational factors: organizational structure, job design, leadership, and reward system in the research (Almaududi et al., 2021). The indicators used according to (Rayyan et.al., 2021) and (Rizki Amalia Putri et al., 2023) are: 1. Work quality, 2. Cooperation, 3. Punctuality, 4. Attendance.

III. RESEARCH METHOD

This research uses a quantitative approach by utilizing primary and secondary data. Primary data were obtained thru the distribution of questionnaires to MSME employees as respondents, while secondary data were obtained thru literature studies including books, journal articles, and relevant research reports. This study aims to analyze the influence of reward and punishment on employee performance with work motivation as a mediating variable in SMEs in Palopo City. The research model is presented in Figure 1 to provide a conceptual overview of the relationships between the variables being studied.

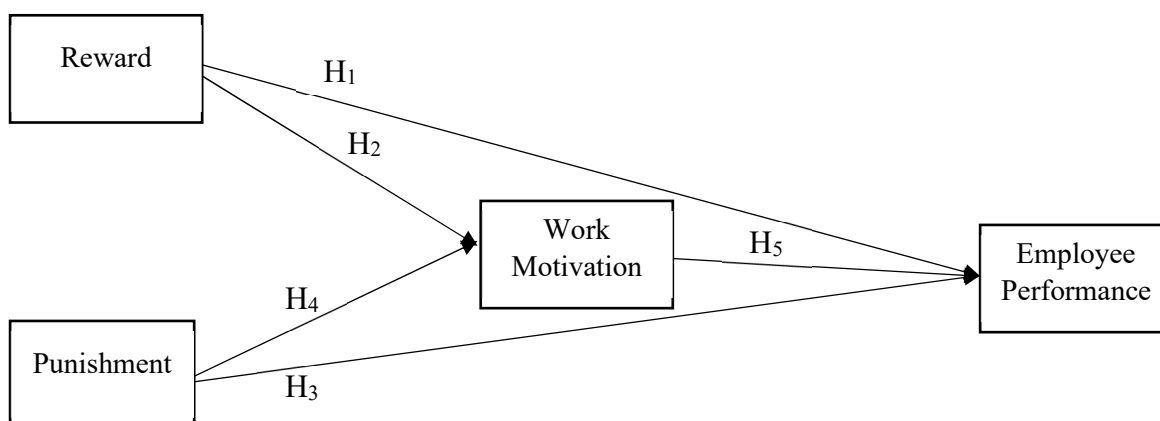


Figure 1. Research Method

The data collection process was carried out by designing a questionnaire based on indicators developed from theoretical foundations and empirical findings of previous research, thereby ensuring the originality of the research in model development, variable combinations, and the context of the research object. Each latent variable (reward, punishment, work motivation, and employee performance) is operationalized into three to four indicators that represent the conceptual dimensions of each variable. Statement items are systematically arranged according to the operational definition of the variables and measured using a 5-point Likert scale (1 = strongly disagree to 5 = strongly agree). The questionnaire was distributed online to MSME employees as respondents.

The sampling technique used is purposive sampling, with the criteria that respondents are active employees of MSMEs who have a minimum work period of 3 months and are willing to voluntarily fill out the questionnaire. Before filling out the questionnaire, respondents were given an explanation of the research objectives, participants' rights, and assurance that participation is voluntary and anonymous. Respondents are asked to provide informed consent as a form of willingness to participate in the research. All collected data

is kept confidential and used solely for academic purposes. The determination of the sample size in this study refers to the recommendations of Hair et al. (2019), which suggest a sample size of 5–10 times the number of indicators in the SEM model. With a total of 13 indicators used to measure the variables of reward, punishment, work motivation, and employe performance, the sample requirement falls within the range of 80–150 respondents. This study involved 134 respondents from MSME employes, thus meeting and exceeding the minimum sample size adequacy. Additionally, Kline (2016) states that for a simple SEM model, a sample size of 100–200 respondents is still considered adequate. Thus, the sample size in this study can be considered methodologically adequate.

Before the analysis is conducted, the research instrument is tested for reliability and validity to ensure measurement consistency and accuracy. The reliability test is conducted to assess the internal consistency between items within a single construct, while the validity test is conducted to ensure that the indicators can accurately measure the intended latent variable. Data were analyzed using the Structural Equation Modeling (SEM) method because this method allows researchers to simultaneously test complex relationships between latent variables, including direct and indirect effects. The analysis procedure includes testing data assumptions, model estimation, goodness of fit evaluation, and path influence testing between variables. With this approach, the structural relationships in the research model can be analyzed comprehensively and systematically.

IV. Result and Discussion

The data obtained has several characteristics based on gender, age range, and length of service, as presented in

Table 1. Respondent Characteristics

Demographic Items	Frequency	Percentage (%)
Gender		
Male	43	32.1
Famale	91	67.9
Age Range		
17-20	23	17.2
21-25	50	36.2
26-30	21	15.7
31-35	29	21.6
36-40	11	8
Length of work		
3-6 Month	51	37
1-2 Years	28	20.3
2-3 Years	33	24.6
>4 Years	22	16.4

Table 1 shows that the majority of respondents are female (67.9%), most respondents are in the vulnerable age group (36.2%), and most respondents have been working for a long time (37%). The measurement model testing involves examining the relationship between indicators and latent variables. This integrated approach allows for the testing of measurement errors as part of SEM and enables factor analysis and hypothesis testing simultaneously. The probability levels obtained in the measurement model test meet the criteria for quantitative research.

Table 2. Measurement test results

Variables Item Scales	MLE estimates factor loading/ measurement error		Square multiple correlation (SMC)	Cronbach's α	Composite reliability (CR)	Average of variance extracted (AVE)
Reward				0.818	0.818	0.533
RD1	0.565	0,681	0,319			
RD2	0.532	0,717	0,283			
RD3	0.675	0,544	0,456			
RD4	0.668	0,554	0,446			
RD5	0.689	0,525	0,475			
RD6	0.787	0,381	0,619			
Punishment				0.865	0.814	0.846
PM1	0.669	0,552	0,448			
PM2	0.653	0,574	0,426			
PM3	0.792	0,373	0,627			
PM4	0.821	0,326	0,674			
PM5	0.786	0,382	0,618			
PM6	0.648	0,580	0,420			
Work Motivation				0.909	0.875	0.754
MK1	0.614	0,623	0,377			
MK2	0.800	0,360	0,640			
MK3	0.794	0,370	0,630			
MK4	0.716	0,487	0,513			
MK5	0.819	0,329	0,671			
MK6	0.663	0,560	0,440			
MK7	0.861	0,259	0,741			
MK8	0.741	0,451	0,549			
Employee Performance				0.923	0.648	0.805
KK1	0.770	0,593	0,593			
KK2	0.761	0,579	0,579			
KK3	0.665	0,442	0,442			
KK4	0.811	0,658	0,658			
KK5	0.814	0,663	0,663			
KK6	0.770	0,593	0,593			
KK7	0.799	0,638	0,638			
KK8	0.830	0,689	0,689			

Note. $X^2/df = 3,575$ Chi-Square = 1233,435 Prob = .000, DF= 345, The Minimum SamLSe Discrepancy Function (CMIN/DF) = 3.575, Goodness-of-Fit Index GFI = 0.615, NFI = 0.649 IFI = 0.720 Comparative Fit Index (CFI) = 0.717, and Root Mean Square Error of Approximation (RMSEA) = 0.139

Significant at*: $p < 0.05$, **: $p < 0.01$ *** : $p < 0.001$

The measurement model is evaluated to ensure the validity and reliability of the construct thru factor loading, Cronbach's Alpha, Composite Reliability (CR), and Average Variance Extracted (AVE) values. The measurement model is evaluated to ensure the validity and reliability of the construct thru factor loading, Cronbach's Alpha, Composite Reliability (CR), and Average Variance Extracted (AVE). The test results show that all indicators have a factor loading value ≥ 0.50 . The Cronbach's Alpha value ranges from 0.818 to 0.923, while the Composite Reliability (CR) value ranges from 0.805 to 0.857, exceeding the minimum threshold of 0.70, indicating that the construct has good internal consistency. The Average Variance Extracted (AVE) value shows adequate results, ranging from 0.533 to 0.846, all of which have exceeded the minimum threshold of 0.50. This indicates that each construct has good convergent validity because it can explain more than 50% of the variance of its indicators. Thus, the indicators on the variables of reward, punishment, work motivation, and employe performance are suitable for use in Structural Equation Modeling (SEM) analysis, and the measurement model demonstrates adequate reliability and validity to support structural model analysis.

4.1. The results of the structural model test can be seen in Figure 2

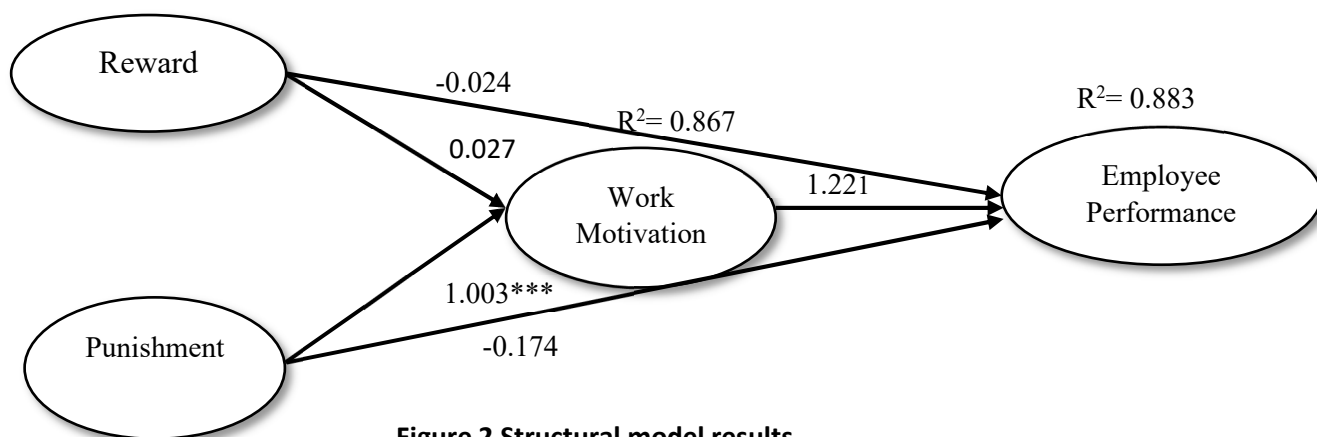


Figure 2 Structural model results

Note. $\chi^2/df = 3.575$, GFI = 0.615, NFI = 0.649, CFI = 0.717, IFI = 0.720, RMSEA = 0.139 Significant at *: $p < 0.05$, **: $p < 0.01$, ***: $p < 0.001$

The coefficient of determination (R^2) is used to assess the extent to which independent variables in the structural model can explain the variance of the dependent variable. Referring to Hair et al. (2017), an R^2 value of 0.25 is categorized as weak, 0.50 as moderate, and 0.75 as substantial. The model estimation results show that the R^2 value for Work Motivation is 0.867, and for employee performance, it is 0.883. These high R^2 values fall into the substantial category, thus it can be concluded that the structural model has a very strong explanatory power. Specifically, 86.7% of the variation in work motivation among MSME employees in Palopo City can be explained by the variables of reward and punishment, while 88.3% of the variation in employee performance can be simultaneously explained by reward, punishment, and work motivation. This shows that the constructs in the model (reward, punishment, and work motivation) significantly contribute to explaining employee behavior and performance.

The structural model was evaluated using several Goodness-of-Fit (GOF) indices. The test results showed a CMIN/DF value of 3.575, which is still within the tolerance limits for social research, although it has not yet reached the ideal criteria. Other fit indices showed values of GFI = 0.615, NFI = 0.649, CFI = 0.717, IFI = 0.720, and RMSEA = 0.139. Overall, these values indicate that the model fit does not fully meet the ideal criteria and can only be categorized as marginally acceptable. because several indices such as GFI and NFI are below the recommended threshold values and the RMSEA value is relatively high, model fit evaluation does not rely solely on one index. It should be noted that the chi-square statistic is known to be sensitive to sample size, so the interpretation of model fit needs to consider a combination of absolute and incremental indices. Referring

to Hair et al. (2019), models with CFI and IFI values approaching the recommended thresholds can still be considered adequate in the context of social and behavioral research. Based on this consideration, the research model demonstrates a sufficiently adequate fit and is suitable for further analysis using SEM, with careful interpretation of the results.

The indirect effects were tested, and the results are presented in 3

Table 3. Results of Indirect Effect Test

Indirect Path (Mediation)	Effect	BootSE	BootLLCI	BootULCI	Remark
mRD → mMK → mKK	0.7330	0.1272	0.4896	0.9822	<i>Significant</i>
mPM → mMK → mKK	0.7869	0.1371	0.5392	1.0792	<i>Significant</i>

The results in Table 3 show that work motivation (mMK) significantly mediates the influence of reward (mRD) and punishment (mPM) on employee performance (mKK). The indirect effect of reward thru work motivation is 0.7330 (BootLLCI = 0.4896; BootULCI = 0.9822), while the indirect effect of punishment thru work motivation is 0.7869 (BootLLCI = 0.5392; BootULCI = 1.0792). Both indirect effects are significant because the bootstrap confidence intervals do not include the value zero. This indicates that work motivation plays an important role in strengthening the influence of reward and punishment on employee performance in SMEs in the City of Palopo.

4.2. The influence of rewards on employee performance (H1)

The results of this study indicate that rewards have a negative and insignificant effect on employee performance (-0.024; $p > 0.05$), thus hypothesis 1 is not supported. These findings indicate that the provision of rewards to SMEs in Palopo City has not yet been able to directly improve employee performance. This is because the form of reward given is still simple, limited to small incentives or non-financial awards, thus having less impact on employees. Therefore, even tho rewards are still given, they do not affect the improvement of their performance. These findings are in line with the research of Syamsul Yahya et al. (2023), which states that rewards do not affect employee performance because the reward system is less effective in promoting motivation and productive work behavior. However, these results differ from the findings of Yuyuk Liana et al. (2022), which show that rewards have a positive impact on employee performance. These differing findings indicate that the impact of rewards on performance is contextual and heavily influenced by organizational characteristics and the quality of the reward system implemented. These differing findings indicate that the impact of rewards on performance is contextual and heavily influenced by the quality of the reward system design and organizational characteristics. In organizations with structured, transparent, and performance-based reward systems, rewards tend to function as effective positive reinforcers. In contrast, in SMEs in Palopo City, resource limitations and an underdeveloped management system mean that rewards are not designed as strategic behavioral reinforcement instruments, making them less effective in driving performance. This emphasizes that rewards will effectively influence employee behavior and performance if they hold meaningful value for individuals, are given consistently, and are perceived to have a clear connection between the effort exerted, the performance achieved, and the consequences received.

4.3. The Indirect Influence of Rewards on Employee Performance Thru Work Motivation

Furthermore, the indirect effect test showed that Reward significantly affects employee performance thru work motivation, with an indirect effect value of 0.7330. This indicates that even tho the direct effect of reward on employee performance is not significant, reward still has an important positive impact by increasing work motivation. Reward is able to increase work motivation, which then triggers improved

performance, effectively bridging the relationship between reward and performance outcomes thru this indirect path.

4.4. The influence of rewards on work motivation (H2)

The results of this study indicate that rewards have a positive but not significant effect on work motivation (0.027; $p > 0.05$), thus hypothesis 2 is not proven. This indicates that although rewards tend to increase work motivation, their influence is not strong enough to significantly boost motivation, likely due to employees' perception that the rewards given are still limited and not commensurate with the workload received. These findings differ from the research results of Tomi Putra et al. (2020), which state that rewards significantly influence work motivation because the designed reward system can encourage employee work spirit and performance. However, these findings align with the results of Yulianita Lubis et al. (2022), which show that the reward system does not significantly affect work motivation. The difference in findings indicates that the effectiveness of rewards in enhancing work motivation is greatly influenced by the quality and fairness of the reward system implemented.

4.5. The influence of Punishment on Employee performance (H3)

The research results show that punishment has a negative and insignificant effect on employee performance (-0.174; $p > 0.05$), thus hypothesis 3 is not proven. These findings indicate that the application of punishment in SMEs in Palopo City has not yet been able to contribute positively to the improvement of employee performance. Punishment tends to be perceived as a form of pressure that emphasizes the creation of fear, so when employees receive punishment, they experience stress and psychological tension that actually hinders work performance. These results are in line with the research by Sabetheo HW Artha Febriana (2024), which states that punishment does not significantly affect employee performance because the sanctions applied have not been effective in encouraging performance improvement. However, these findings differ from the research by Nabila Lazuardi et al. (2025), which found that punishment significantly affects employee performance. These differing results indicate that the effectiveness of punishment highly depends on the work culture and its application; punishment that is educational, fair, and consistent tends to function as a constructive behavior control mechanism, whereas punishment that is repressive and coercive has the potential to decrease employee performance.

4.6. The Indirect Influence Punishment on Employee Performance Thru Work Motivation

Furthermore, the indirect effect test showed that Punishment significantly affects employee performance thru Work Motivation, with an indirect effect value of 1.105. This indicates that although the direct effect of Punishment on employee performance is not strong, its presence still has an impact that can trigger an increase in work motivation. This means that when punishment is administered correctly, employees will be encouraged to improve their behavior and increase discipline, leading to motivation to work better. Work motivation acts as a bridge that transforms punishment into a driver for employees to improve their performance.

4.7. The influence Punishment on Work motivation (H4)

The research results from hypothesis 4 were proven, where punishment has a positive and significant effect on work motivation literacy (1.003, $p < 0.001$). This indicates that the application of punishment is able to significantly increase employee work motivation. Punishment serves as a motivator for employees to avoid undesirable behavior and improve their performance. When administered fairly and consistently, punishment not only acts as a disciplinary control but also boosts employee morale and commitment, thereby increasing

their motivation. This finding is consistent with research (Sidik et al., 2023) showing that punishment has a significant and positive effect on motivation, meaning the higher the punishment received by employees, the higher their motivation to work. And in research (Akbar et al., 2023), punishment has a positive effect on employee work motivation.

4.8. The influence Work motivation on Employee performance (H5)

The research results show that work motivation has a positive but not significant effect on employee performance ($\beta = 1.221$; $p > 0.05$), thus hypothesis 5 is not proven. This indicates that although employees have good work motivation, that motivation has not yet been able to provide a significant improvement in employee performance. Flexible working conditions, limited capital, and the dual roles of employees in handling various operational tasks cause work motivation not to always result in measurable productivity increases. This finding differs from the research results of Gajali & Nugraeni (2024), which show that motivation has a positive and significant impact on employee performance, where motivated employees tend to have a strong internal drive to achieve work targets. However, it aligns with the findings of Satria Yudha Pratama & Mirzam Arqy Ahmadi (2024), who found that motivation actually has a negative impact on performance. These differing findings indicate that the impact of motivation on performance is highly contextual and influenced by the characteristics of the work environment, performance management systems, and organizational support; in SMEs with limited resources and unstructured work systems, individual motivation may not necessarily be effectively converted into higher performance.

V. Conclusion

This study concludes that rewards have a negative and insignificant impact on employee performance, and punishment also does not have a positive and significant impact on employee performance. However, rewards and punishment still play an indirect role thru work motivation, where rewards motivate employees to achieve targets, and punishment serves as a reminder and discipline control to prevent employees from making mistakes, improve behavior, and enhance work quality. Furthermore, work motivation has a positive but insignificant impact on employee performance. This means that the higher the work motivation of employees, the more likely they are to improve their performance, but the increase is not significant enough to be declared significant. This condition is caused by the characteristics of SMEs, where employees often face resource limitations, dual roles in their work, and flexible work systems, so existing motivation is not fully able to translate into optimal performance.

The results of this study reinforce the Reinforcement Theory proposed by B.F. Skinner as an effective framework for understanding the influence of reward and punishment on employee performance thru the mediation of work motivation. The provision of rewards and the application of punishment play a role in shaping employee work behavior thru positive reinforcement and the control of undesirable behavior, which in turn affects the level of performance achieved. Additionally, the findings of this study are also in line with the Expectancy Theory proposed by Victor Vroom, which emphasizes that the effectiveness of rewards and punishments in improving performance is greatly influenced by employees' perceptions of the relationship between effort, performance, and the consequences received. Work motivation has proven to play a key role as a mediator bridging the influence of reward and punishment on employee performance. External reinforcement will be more effective if it can enhance the internal drive of employees in their work, thereby impacting performance improvement in the context of MSMEs in Palopo City.

The research results show that the provision of rewards and punishments in SMEs in Palopo City has not yet had a significant direct impact on employee performance, so the performance management system needs to be directed more toward strategies that can foster and strengthen work motivation as the main connecting mechanism. Therefore, MSME actors need to develop a more varied, fair, and performance-based reward system—both in financial and non-financial forms—so that it is more meaningful for employees and

can encourage increased motivation and performance. . The research findings also emphasize the importance of work motivation as a bridge connecting reward and punishment with performance, so MSME owners need to create a conducive, supportive work environment that allows for development. Collaboration between business owners and employees in designing a transparent and mutually agreed-upon reward system and disciplinary rules is expected to enhance the acceptance of managerial policies, strengthen internal motivation, and ultimately optimize employee performance, even tho SMEs face resource limitations. This study has limitations in its sample size, which only involves SMEs in the city of Palopo, so the findings cannot be fully generalized to SMEs in other regions with different characteristics. Additionally, the limitations of time and resources have prevented this research from thoroughly analyzing the changes in the influence of rewards, punishments, and work motivation on employee performance over time. Therefore, it is recommended that future research expand the scope and number of respondents to enhance the generalizability of the findings, as well as include other relevant variables such as leadership, job satisfaction, and work culture to make the research model more comprehensive.

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