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Research article

Analysis of the Role of Monetary and Non-Monetary Rewards on Employee Performance: Mediating Role of Employee Motivation

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Abstract

This study examines the effects of monetary and non-monetary rewards on employee motivation and performance within the Directorate General of Taxes in Indonesia, with particular attention to the mediating role of employee motivation. Unlike studies that treat rewards as a single construct, this study analyzes monetary and non-monetary rewards as distinct variables. Data were collected through questionnaires administered to employees at one regional office of the Directorate General of Taxes. A total of 164 responses were obtained and analyzed using partial least squares structural equation modeling (PLS-SEM) with SmartPLS. The findings indicate that monetary rewards and employee motivation have positive and significant effects on employee performance, whereas non-monetary rewards have a negative and significant direct effect. Both monetary and non-monetary rewards positively influence employee motivation, which also positively mediates the relationships between both types of rewards and employee performance. The negative direct effect and positive indirect effect of non-monetary rewards indicate competitive mediation. These findings suggest that although non-monetary rewards may enhance performance indirectly by strengthening employee motivation, their negative direct relationship with performance warrants further investigation. From the perspective of Vroom's Expectancy Theory, employees' perceptions of the instrumentality and valence of non-monetary rewards may help explain this pattern, although these mechanisms require further empirical examination. This study contributes to public-sector human resource management by demonstrating the importance of distinguishing between monetary and non-monetary rewards when designing reward systems. The findings also highlight the need for public-sector managers and policymakers to evaluate the perceived fairness, relevance, and effectiveness of reward practices to support employee motivation and performance.

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1. Introduction

Employee performance is a critical element in achieving organizational success. According to (Darvishmotevali & Ali, 2020), performance is the ability of employees to meet organizational expectations and complete assigned tasks both in behavior and outcomes. Performance not only reflects the employee's knowledge and skills but also embodies their behavior and ethical values, which directly or indirectly contribute to the organization's overall performance (Darvishmotevali & Ali, 2020). As a result, managers continually seek strategies to enhance employee performance and productivity to maintain a competitive advantage (Chi et al., 2023). Within public administration scholarship, employee performance is closely connected to the capacity of public organisations to deliver services and achieve organisational objectives. Unlike private-sector organisations, public-sector organisations operate within institutional arrangements characterised by public accountability, formal administrative procedures, resource constraints, and broader societal responsibilities. These characteristics make human resource management in the public sector an important area of inquiry, particularly in understanding how reward practices can influence employee motivation and performance. From this perspective, rewards should not be viewed solely as administrative instruments for compensating employees, but also as part of broader reward governance through which public organisations seek to recognise employee contributions, sustain motivation, and support performance.

Employee motivation plays a pivotal role in shaping individual performance outcomes. According to the Job Characteristics Model, motivation arises from three psychological states: experiencing meaningfulness at work, feeling responsible for work outcomes, and understanding the results of work activities (Bashir et al., 2020). Motivation plays a pivotal role in. It serves as a critical driver of employee output and contributes significantly to fulfilling organizational objectives (Makhamreh et al., 2022). Hierarchy of Needs (Maslow ,1943) provides a useful framework for understanding how employees' personal needs—from basic physiological requirements to self-actualization—affect their motivation to perform. Complementing this, Expectancy Theory (Vroom, 1964)) emphasizes that employees tend to be motivated when they perceive a clear link between their efforts and the attainment of valued outcomes, which can include both monetary and non-monetary rewards (Merchant & Van der Stede, 2017).

Herzberg's Two-Factor Theory provides a useful theoretical lens for distinguishing the motivational implications of different reward practices. Two-Factor Theory (Herzberg et al., 1993) further divides motivators into two categories: motivator factors, which increase job satisfaction and intrinsic motivation, and hygiene factors, which prevent dissatisfaction but do not necessarily boost motivation (Manivanan, 2021). Leaders often use reward systems to encourage desirable performance. Rewards can influence employees' intrinsic and extrinsic motivation by shaping their perceptions of the causes of their actions (Deci et al., 2017).

Studies show a strong relationship between rewards and employee motivation, where rewards are used to control, motivate, and improve performance (Alharbi & Javed, 2021; Merchant & Van der Stede, 2017).

Organizations typically offer both monetary rewards (e.g., bonuses, allowances, profit-sharing) and non-monetary rewards (e.g., recognition, participation in decision-making, career development opportunities). Both types of rewards are essential since employees universally appreciate financial compensation but also highly value non-financial benefits that satisfy personal and professional growth needs (Chi et al., 2023; Merchant & Van der Stede, 2017). An effective reward system should strategically align with organizational goals and provide meaningful incentives that motivate employees to achieve and exceed performance targets. Ultimately, optimizing employee motivation and reward systems is essential for improving both individual and organizational performance. An effective reward system should strategically align with organizational goals by providing monetary and non-monetary incentives that stimulate employees' motivation and willingness to exert greater effort. Monetary rewards can strengthen extrinsic motivation by linking performance with tangible economic benefits, whereas non-monetary rewards can influence motivation by fulfilling employees' needs for recognition, autonomy, competence, and professional growth. Through these motivational mechanisms, employees may demonstrate greater effort, persistence, engagement, and commitment to their tasks, which can ultimately translate into improved individual and organizational performance. Thus, employee motivation serves as an important mechanism through which monetary and non-monetary rewards can influence employee performance. Leaders must carefully design and balance monetary and non-monetary rewards to effectively drive employee engagement, satisfaction, and productivity.

The Directorate General of Taxes (DGT) operates as a governmental agency under the authority of Indonesia's Ministry of Finance, that plays a vital role in supporting state revenue through tax management. Over the past three years, DGT has consistently exceeded its tax revenue targets; however, challenges remain in fully achieving the established Key Performance Indicators (KPIs). One of the regional offices, namely the Regional Office of DGT for South Sumatra and the Bangka Belitung Islands (Kantor Wilayah DJP Sumatera Selatan dan Kepulauan Bangka Belitung), experienced a decline in Organizational Performance Value in 2023. In 2023, the Regional Office of the Directorate General of Taxes (DJP) for South Sumatra and the Bangka Belitung Islands recorded one Key Performance Indicator (KPI) classified as red status, namely the percentage of tax revenue realization from Material Compliance Testing (PKM) activities. Although DGT has implemented an integrated approach involving both monetary and non-monetary reward systems, these efforts have not yet produced optimal results in enhancing employee motivation and performance. Adjustments in the provision of rewards tailored to align with individual needs and motivational preferences at the regional level are essential to ensure the system's effectiveness. The purpose of this research is to examine the association between the reward system, employee motivation, and performance

within the Regional Office of DGT for South Sumatra and the Bangka Belitung Islands, considering the unique characteristics of the region, which includes several KP2KP (Kantor Penyuluhan, Pelayananan, dan Konsultasi Perpajakan) units and a diverse employee profile.

Previous studies have extensively examined and categorized rewards into monetary and non-monetary forms, as demonstrated in the works of (Abubakar et al. 2020), (Faith Kerubo & Thomas, 2022), (Luchivisi et al. 2021), (Maharvi, 2022), (Mashenene & Tieng'o, 2023), (Okpebholo & Sheikh, 2020), (Raman & Kumari, 2022), and (Sureephong & Dahlan, 2020). However, despite the growing body of literature, limited research has focused on investigating the integrated influence of reward systems as a whole. Most of the existing studies have tended to examine monetary and non-monetary rewards in isolation, without providing a comprehensive analysis of both types of rewards. This gap is crucial to address, as organizations must be able to determine which forms of rewards can deliver the strongest motivational impact in the most effective manner (Merchant & Van der Stede, 2017). Previous studies have reported inconsistent findings regarding the effects of rewards on employee outcomes. Furthermore, the motivational effects derived from various forms of rewards may significantly vary depending on individual circumstances (Merchant & Van der Stede, 2017). Previous study has focused on reward practices within private-sector organisations, with comparatively limited attention given to public organisations. Therefore, this study focuses on the public-sector context to examine how monetary and non-monetary rewards are applied within public organisations.

This research aims to yield meaningful contributions to both academic and practical domains. From an academic perspective, this research is anticipated to enrich the body of knowledge in the field of management control systems, particularly concerning reward systems. The findings are intended to shed meaningful light on into the design of optimal and effective reward systems that can support the achievement of organizational objectives. Furthermore, the outcomes are expected to inspire improvements in more comprehensive and in-depth empirical research related to the reward systems implemented by organizations.

From a practical standpoint, it is projected that the findings will provide significant benefits for the Directorate General of Taxes (DJP). The findings may offer a deeper understanding of the optimal and most effective reward systems in enhancing employee performance. Additionally, this research may serve as a valuable reference in establishing management control systems that consider individual employee conditions, providing useful input for refining and optimizing the existing reward mechanisms. For policymakers, this research may support evidence-based policymaking aimed at enhancing institutional performance regarding employee welfare. This study is situated within the field of public administration, where effective management of public employees is essential for strengthening organizational performance and the delivery of public services. Within public-sector human resource management, the study focuses on how monetary and non-monetary rewards can influence

employee motivation and performance.

2. Literature Review and Hypothesis Development

2.1 Monetary Reward and Employee Performance

Monetary reward serves as a critical factor in improving employee performance. Drawing from Maslow's theory, the satisfaction of physiological and security needs, such as through adequate salary, allowances, and bonuses, is essential to motivate employees and ensure their well-being (Maslow, 1943; Vansteenkiste et al., 2020). (Herzberg et al. 1993) also emphasized that monetary compensation is a fundamental hygiene factor that can prevent employee dissatisfaction. Furthermore, expectancy theory (Vroom, 1964)) supports the idea that employees are highly motivated when there is a clear link between performance and the rewards they value. Empirical studies by (Abubakar et al. 2020), (Tumusime & Mulyungi, 2021), and (Aidi et al. 2023) consistently demonstrate that monetary rewards significantly influence employee performance. These findings affirm that financial incentives, such as salaries, bonuses, and benefits, are critical drivers of employee performance, making reward systems a vital element of organizational success. Accordingly, the study advances the following hypothesis:

H_1: Monetary rewards positively affect employee performance.

2.2 Non-monetary Reward and Employee Performance

Non-financial incentives contribute meaningfully to employee performance by addressing advanced psychological needs such as esteem and self-actualization, as explained by (Maslow , 1943) and (Hopper, 2020). These rewards, including recognition, career development opportunities, flexible working hours, and participation in decision-making, align with Herzberg's motivator factors that foster intrinsic motivation (Herzberg et al., 1993). According to expectancy theory (Vroom, 1964), non-monetary rewards can effectively motivate employees when they believe their performance will be recognized and rewarded. Studies by (Abubakar et al. 2020), (Maharvi, 2022), (Mashenene & Tieng'o, 2023), (Faith Kerubo & Thomas, 2022), and (Sureephong & Dahlan, 2020) consistently show that non-monetary rewards positively influence employee performance. Accordingly, the study advances the following initial hypothesis:

H_2: Non-monetary rewards positively affect employee performance.

2.3 Monetary Reward and Employee Motivation

Monetary rewards serve as a fundamental mechanism for fulfilling employees' basic needs, as outlined in Hierarchy of Needs (Maslow,1943), particularly the physiological needs essential for human survival (Jung & Lee, 2023). According to Herzberg et al. (1993), monetary rewards

also serve as hygiene factors that help prevent employee dissatisfaction and maintain motivation. Expectancy Theory (Vroom, 1964) further supports that monetary rewards influence motivation when employees believe their efforts will lead to valuable outcomes. Supporting this, (Matloob et al. 2021) reported a positive correlation between financial reward and levels of motivation and commitment. Based on these theories and previous research, it is hypothesized that:

H_3: Monetary reward positively affect employee motivation.

2.4 Non-monetary Reward and Employee Motivation

Non-monetary rewards can significantly influence employee motivation by fulfilling advanced needs such as esteem and self-actualization (Hopper, 2020; Maslow, 1943). According to (Herzberg et al. 1993), non-monetary rewards like recognition, responsibility, and opportunities for growth act as internal drivers that contribute to greater satisfaction at work. Expectancy Theory (Vroom, 1964) also supports that non-monetary rewards fulfill instrumentality, where employees believe their good performance will lead to meaningful rewards. Supporting evidence from (Matloob et al. 2021), (Paneru & Bhandari,2022), and Uzair & Mehmood (2021) consistently shows that non-monetary rewards positively affect employee motivation. Based on these theories and previous research, it is hypothesized that:

H_4: Non-monetary rewards positively affect employee motivation.

2.5 Employee Motivation and Employee Performance

The presence of motivation strongly directs the actions of individuals (Herzberg et al., 1993; Maslow, 1943; Vroom, 1964). According to (Herzberg et al. 1993), motivators such as recognition and growth opportunities drive intrinsic satisfaction and improve performance. Effective motivation strategies can enhance employee participation, productivity, and organizational competitiveness (Marewo, 2020). Several studies consistently reveal positive association between motivation and employee performance, as demonstrated by (Munandar et al. 2022), (Hasica et al. 2023), (Mulyeni et al. 2023), (Sudjatmoko & Rusilowati ,2022), (Arsindi et al. 2022), and (Fauziah et al. 2020). Based on these findings, the following hypothesis for empirical testing is:

H_5: Employee motivation positively affect employee performance.

2.6 Mediating Role of Employee Motivation in the Effect of Monetary Reward on Employee Performance

Employee motivation serves as a critical driver for attaining organizational objectives and considered essential in human resource management (Makhamreh et al., 2022; Marewo, 2020). Prior research has demonstrated evidence of rewards can improve employee

performance through the mediation of motivation (Liana et al., 2024; Muliani et al., 2017; Nurjiasih & Sudarnaya, 2023). (Matloob et al. 2021) also found that monetary rewards positively influence motivation, while motivation itself significantly affects performance (Arsindi et al., 2022; Fauziah et al., 2020; Hasica et al., 2023; Mulyeni et al., 2023; Munandar et al., 2022). Other studies (Forson et al., 2021; Ghaney & Rodzalan, 2022; Kumari et al., 2021; Lestari et al., 2022; Muleta, 2020; Ramadan Wardiansyah et al., 2024) consistently confirm a constructive association between employee motivation and job performance. Based on these findings, the sixth hypothesis of this study is proposed as follows:
H_6: Employee motivation positively mediates the effect of monetary reward on employee performance.

2.7 Mediating Role of Employee Motivation in the Effect of Non-monetary Reward on Employee Performance

Motivation influences individual behavior (Herzberg et al., 1993; Maslow, 1943; Vroom, 1964). Prior studies have shown that non-monetary rewards significantly impact employee motivation (Matloob et al., 2021; Paneru & Bhandari, 2022; Uzair & Mehmood, 2021). Non-monetary rewards such as job security, recognition, flexible work conditions, and challenging tasks are strong predictors of motivation.

(Maharvi, 2022) found that employee motivation significantly mediates the effect of non-monetary rewards on performance. Similar results were reported by (Nurjiasih & Sudarnaya , 2023), (Muliani et al. 2017), and (Liana et al.2024), who concluded that the influence of rewards on employee performance is positively channeled through motivation. Furthermore, many studies (Arsindi et al., 2022; Fauziah et al., 2020; Forson et al., 2021; Ghaney & Rodzalan, 2022; Hasica et al., 2023; Kumari et al., 2021; Lestari et al., 2022; Muleta, 2020; Mulyeni et al., 2023; Munandar et al., 2022; Ramadan Wardiansyah et al., 2024; Sudjatmoko & Rusilowati, 2022) consistently confirm that motivation significantly improves employee performance. Based on these findings, the seventh hypothesis in this study is as follows:
H_7: Employee motivation positively mediates the effect of non-monetary reward on employee performance.

3. Method

Quantitative methods, particularly inferential statistics, are utilized in this study. The inferential statistical method used in this study is Partial Least Square-Structural Equation Modeling (PLS-SEM), processed using SMARTPLS version 4.0.9.9. Partial Least Squares Structural Equation Modeling (PLS-SEM) was selected as the analytical approach for several reasons. First, PLS-SEM does not require multivariate normally distributed data, as it relies on a non-parametric bootstrapping procedure to estimate the stability and significance of model parameters. Second, PLS-SEM is suitable for relatively small sample sizes, making it appropriate for studies with limited observations. Third, unlike covariance-based SEM, which

primarily focuses on theory testing and model confirmation, PLS-SEM is particularly appropriate for predictive and exploratory research because it can be used to assess and explain the relationships among latent variables and their predictive relevance. Finally, PLS-SEM accommodates both reflective and formative measurement models, allowing researchers to analyse latent constructs operationalised through different types of indicators.The analysis includes outer model testing, which involves assessing convergent validity through factor loadings and Average Variance Extracted (AVE), discriminant validity using the Heterotrait-Monotrait Ratio (HTMT), and reliability testing through Composite Reliability and Cronbach's Alpha. Furthermore, inner model testing is conducted by evaluating R-square, effect size, and Standardized Root Mean Square Residual (SRMR). This research utilizes both primary and secondary data. Primary data are collected through the distribution of structured questionnaires to the research samples, using a five-point Likert scale (Sekaran & Bougie, 2016).

Although the research focuses on the Directorate General of Taxes as the organisational setting, data collection was conducted within one Regional Office and its subordinate vertical units, as a Regional Office represents an integrated organisational unit with diverse employee characteristics and working conditions. Accordingly, the Regional Office of the Directorate General of Taxes (DJP) of South Sumatra and the Bangka Belitung Islands was selected as the research setting. This selection was supported by several considerations, including the presence of one red Key Performance Indicator (KPI) in 2023 accompanied by a decline in the Organisation Performance Value, as well as relatively lower tax revenue performance in 2024, when the Regional Office ranked second-lowest in tax revenue performance among the relevant regional offices as of September 2024. In this context, reward practices and employee motivation are particularly relevant because they represent organisational mechanisms through which employees may be encouraged, recognised, and motivated to achieve performance objectives.Furthermore, the geographical scope of the Regional Office, which covers several islands surrounding Sumatra, provides variation in employees' working conditions and preferences. The Regional Office also oversees 13 Tax Service, Counseling, and Consulting Offices (KP2KP), with 8 of its 13 Tax Service Offices (KPP) having subordinate KP2KP units, representing approximately 61% of the KPPs within the regional office. The diversity of geographical locations and vertical organisational structures is expected to provide greater variation in employee characteristics and preferences, thereby supporting the investigation of monetary rewards, non-monetary rewards, employee motivation, and employee performance within the DJP organisational context.

In addition to the primary data collected through the questionnaire, this study also utilised secondary data to provide contextual information about the research setting and to support the interpretation of the empirical findings. The secondary data consisted of organisational performance information, including Key Performance Indicator (KPI) records, Organisation

Performance Value, and tax-revenue performance data for the Regional Office of the Directorate General of Taxes (DJP) of South Sumatra and the Bangka Belitung Islands. These data were obtained from official organisational records and relevant reports of the DJP and were used to describe the organisational performance context that motivated the selection of the research setting.

The monetary reward variable in this study was measured using several research items that have been previously applied to assess similar variables, as developed by (Noor et al. 2011) in (Manivanan, 2021) and (Matloob et al. 2021). The questionnaire items were further adapted to align with the specific context of reward distribution within the Regional Office of the Directorate General of Taxes (DJP) for South Sumatra and the Bangka Belitung Islands. Similarly, the non-monetary reward variable was measured using indicators adopted from the studies of (Noor et al. 2011) in (Al-Ameryeen, 2015), (Matloob et al. 2021), and (Hamzah & Matkhairuddin, 2023), with necessary contextual adjustments. The measurement of employee motivation was based on the indicators developed by (Perera, 2017), which categorize motivation into six levels: motivation achieved through achievement, recognition, responsibility, influence, personal growth, and financial rewards. Meanwhile, employee performance was measured using indicators derived from the Models of Job Perfomance by Viswesvaran & Ones (2000), which classifies performance into three primary dimensions: task performance, Organizational Citizenship Behavior (OCB), and counterproductive work behavior. These performance dimensions were further developed by (Al-Ameryeen, 2015) to provide a more comprehensive assessment framework.

4. Results and Discussion

The sample in this study consists of 164 employees from the Regional Office of the Directorate General of Taxes (DJP) in South Sumatra and the Bangka Belitung Islands. The questionnaire was distributed to employees within the Regional Office of the Directorate General of Taxes (DJP) of South Sumatra and the Bangka Belitung Islands, with respondents required to have a minimum of two years of work experience in the organisation. Data collection was conducted from 23 December 2024 to 15 January 2025 using a convenience sampling technique, which involves selecting members of the population who are readily accessible and willing to provide information (Sekaran & Bougie, 2016). The questionnaire was made available to all employees within the research setting, and participation was voluntary. Employees who voluntarily completed and submitted the questionnaire in full were included as respondents in the study.

The questionnaire was developed using a five-point Likert scale to measure the study variables and was administered through Google Forms to facilitate accessibility and ease of completion for the respondents. The questionnaire consisted of five sections. The first section provided an overview of the study, included the research permission letter from the Directorate General of Taxes, and assured respondents of the confidentiality of the information provided. The second section contained instructions for completing

the questionnaire, while the third section collected respondents' general demographic and employment characteristics, including work unit, age, gender, tenure, and current position. To ensure respondent confidentiality, no personally identifiable information, such as respondents' names, was collected. The fourth section constituted the main part of the questionnaire and contained measurement items related to monetary rewards, non-monetary rewards, employee motivation, and employee performance. The final section served as the closing section, expressing appreciation to respondents for their participation and willingness to complete the questionnaire.

The total number of collected responses satisfies the minimum threshold required for statistical analysis based on the Levels of Minimum Path Coefficients recommended by Hair et al. (2022), which suggests a minimum of 155 samples. The collected sample demonstrates a high level of adequacy, with a statistical power of 0.995.

In general, the respondents comprise 51% male and 49% female participants. Most participants involved in this study belong to late millennial employees, with 85 individuals (52%) falling within the age range of 25–30 years. Additionally, most respondents have a tenure of 5–10 years, accounting for 86 individuals or 52% of the total sample. Meanwhile, the least represented tenure group consists of employees with 30–40 years of service, totaling only four respondents.

Table 1. Respondent Profile

Characteristics	N	Percentage (%)
Gender		
Male	84	51
Female	80	49
Age		
<25 years	6	4
25-30 years	85	52
31-35 years	19	12
36-40 years	21	13
41-45 years	12	7
46-50 years	12	7
>50 years	9	5
Tenure		
<5 years	18	11
5-10 years	86	52
11-20 years	26	16
21-30 years	30	18
30-40 years	4	2

Source: Research Data, Processed by the Author

The structural model in this study consists of four variables: monetary reward and non-monetary reward as exogenous latent variables, and employee motivation and employee

performance as endogenous latent variables. This study does not include control variables or moderating variables. Additionally, employee motivation act as mediating variable. Subsequently, the questionnaire data were inputted into SMARTPLS for analysis. Prior to the structural analysis, both the inner model and outer model were evaluated to ensure both validity and reliability of the measurement and structural components.

In this study, monetary reward and non-monetary reward are specified as exogenous latent constructs and, based on their hypothesised relationships within the research model, function as independent variables that influence the endogenous constructs. Both constructs were measured using questionnaire items adapted from previous studies that have been employed to assess similar constructs, with items combined from several relevant sources and contextualised to reflect reward practices within the Regional Office of the Directorate General of Taxes (DJP) of South Sumatra and the Bangka Belitung Islands, without altering the substantive meaning of the original items. Employee motivation is specified as an endogenous latent construct that is influenced by monetary and non-monetary rewards and serves as a mediating variable in the proposed research model. The measurement of employee motivation was developed with reference to the motivation levels and indicators proposed by (Perera, 2017) with questionnaire items adapted from previously validated measures and contextualised to the research setting. Employee performance is also specified as an endogenous latent construct and the dependent variable in the research model, with its performance dimensions informed by (Viswesvaran & Ones, 2000), who conceptualise employee performance through task performance, Organizational Citizenship Behavior (OCB), and counterproductive work behavior. Following the subsequent classification proposed by (Al-Ameryeen, 2015), OCB is incorporated as a dimension of contextual performance, while counterproductive behavior is classified as adaptive performance. Accordingly, questionnaire items were developed based on these dimensions and adapted from measures used in previous studies to ensure that the indicators appropriately represent employee performance within the public-sector context of the DJP.

Based on the convergent validity testing conducted, three questionnaire items were found to have loading factor values below 0.6. Therefore, these items need to be excluded from the study to maintain data validity, ensuring that the indicators used have a sufficiently strong correlation with their respective constructs. The excluded questionnaire items in this study are MO2, MR8, and MR9. The MO2 item reads, "I enjoy being involved in innovative activities"; MR8 states, "When I am financially stable, I become more committed to the organization"; and MR9 states, "Receiving rewards that match my hard work is more attractive and motivating."

The evaluation results of the Average Variance Extracted (AVE) demonstrate that all four variables examined in this research have met the established criteria with AVE values greater than 0.5. This demonstrates that the indicators used in this study can be considered valid.

The HTMT value between Non-monetary Reward and Employee Motivation exceeds 0.90, indicating that discriminant validity between the two variables is not achieved. This may be due to highly correlated items between them. To address this, highly correlated items were identified using indicator correlation, based on the average correlation. The results show that items MO7, MO8, MO9, MO11, MO13, MO15, MO16, and MO17 are highly correlated with non-monetary reward. Therefore, these items were eliminated to achieve an HTMT ratio below

0.90. After the elimination of the relevant indicators, the HTMT ratio was recalculated. The HTMT value between Non-Monetary Rewards and Employee Motivation was below 0.90, satisfying the recommended threshold of 0.90 proposed by (Henseler et al. 2015). An HTMT value below 0.90 indicates that the constructs demonstrate adequate discriminant validity. Subsequently, reliability was assessed through Composite Reliability and Cronbach's Alpha, with both indicators surpassing the acceptable benchmark of 0.70, indicating that internal consistency reliability was achieved.

The employee performance construct yielded an adjusted R^2 value of 0.645, indicating that 64.5% of the variance in employee performance can be accounted for by the model's predictors. Meanwhile, the adjusted R-Square value for employee motivation is 0.685, suggesting that monetary and non-monetary rewards explain 68.5% of the variance in employee motivation.

The effect size test shows that monetary reward has a weak effect on employee performance (f^2 = 0.037) and a weak effect on employee motivation (f^2 = 0.068). Similarly, non-monetary reward has a weak effect on employee performance (f^2 = 0.047) but shows a strong effect on employee motivation (f^2 = 1.211). Employee motivation also has a strong effect on employee performance (f^2 = 0.719). All constructs have f^2 values above 0.02, indicating significant effects.

Meanwhile, the SRMR test results are used as the model's fit measure. The SRMR value of 0.089 indicates that the model has an acceptable level of fit (Hu & Bentler, 1999).

Following the evaluation of both the outer and inner models, several indicators were eliminated to maintain the validity and reliability of the research data. The items removed from the research model include MO2, MO7, MO8, MO9, MO11, MO13, MO15, MO16, MO17, MR8, and MR9. With the elimination of these items, the research model was refined and is presented as shown in Figure 1.

Figure 1. Measurement Model and Path Coefficient Estimation



Source: Research Data, Processed by the Author

Hypothesis testing in this study was performed by comparing the calculated statistical values against critical thresholds, where the threshold for a one-tailed test at a 5% significance level is 1.65 (Hair et al., 2022). A path coefficient is considered significant if the value exceeds 1.65 or if the p-value is less than 0.05. The outcomes of the hypothesis testing are summarized in Table 2.

Table 2. Hypothesis Testing Results

Hypothesis	Path Coefficient	T statistics	P values	Conclusion
Monetary reward has a positive influence on employee performance	0.139	2.473	0.007	Supported
Non-monetary reward has a positive influence on employee performance	-0.225	2.676	0.004	Rejected
Monetary reward has a positive influence on employee motivation	0.172	2.813	0.002	Supported
Non-monetary reward has a positive influence on employee motivation	0.725	14.425	p < 0.001	Supported
Employee motivation has a positive effect on employee performance	0.898	12.777	p < 0.001	Supported
Employee motivation positively mediates the effect of monetary reward on employee performance	0.154	2.736	0.003	Supported
Employee motivation positively mediates the effect of non-monetary reward on employee performance	0.651	9.469	p < 0.001	Supported

Source: Research Data, Processed by the Author

The PLS-SEM analysis in this study reveals that monetary rewards exert a positive and significant influence on employee performance, as evidenced by a path coefficient of 0.139, a t-statistic of 2.473 (greater than the 1.65 threshold), and a p-value of 0.007 (less than 0.05). These results support the hypothesis that monetary rewards such as salaries, bonuses, and performance allowances positively influence employee performance, aligning with previous studies by (Aidi et al.2023), (Tumusime & Mulyungi, 2021), and (Abubakar et al. 2020). This result aligns with the Two-Factor Motivation Theory (Herzberg et al., 1993) and Expectancy Theory (Vroom, 1964), which underscores the importance of financial reward as a critical factor in driving employee productivity.

The results indicate that non-monetary rewards have a statistically significant yet negative impact on employee performance, as reflected by a path coefficient of -0.225, a t-statistic of 2.676, and, a p-value of 0.004. This suggests that, contrary to expectations, certain forms of non-monetary rewards may adversely influence employee performance. This result rejects the hypothesis that non-monetary rewards positively affect employee performance. This finding suggests that the current non-monetary rewards, such as recognition, promotion, and feedback, may not meet employee expectations. Supported by Expectancy Theory (Vroom,1964), this negative effect likely stems from low instrumentality and valence, where employees feel the rewards are neither meaningful nor fairly aligned with their efforts. (Kohn,1993) further emphasizes that rewards can act as a double-edged sword—while intended to motivate, they may feel manipulative, creating pressure, or even demotivate employees when expectations are unmet or rewards are perceived as insufficient. This study supports the findings of (Astuti et al. 2018), who also found that rewards can have a significant negative effect on performance when the perceived value is low or the reward system is poorly implemented. However, these results contrast with (Mashenene & Tieng'o,2023), (Maharvi, 2022), (Faith Kerubo & Thomas, 2022), and (Sureephong & Dahlan,2020), who concluded that non-monetary rewards are effective in improving employee performance. These differences indicate that the effectiveness of non-monetary rewards can vary greatly depending on organizational context, reward quality, and employee expectations. A careful review and redesign of the current non-monetary reward system are necessary to ensure it aligns with employee needs and contributes positively to performance. While previous research has documented this unexpected negative relationship among private-sector employees, the present study examines and demonstrates whether a similar relationship exists among public-sector employees, thereby providing new context-specific evidence for public-sector human resource management.

Hypothesis testing confirms that monetary rewards exert a significant positive influence on employee motivation (path coefficient = 0.172; t = 2.813; p = 0.002), supporting H3. This finding aligns with Matloob et al. (2021), who found that financial rewards increase motivation and commitment. It also supports Hierarchy of Needs (Maslow, 1943) and (Herzberg et al.1993) Two-Factor Theory, which emphasize that salary fulfills basic needs and prevents dissatisfaction. According to Expectancy Theory (Vroom, 1964), the monetary rewards provided effectively meet expectancy, instrumentality, and valence, thus boosting motivation. In the Directorate General of Taxes, rewards such as salaries, bonuses, and allowances have proven effective in enhancing employee motivation. These findings emphasize the importance of well-structured monetary reward systems to foster higher motivation.

Result analysis shows that non-monetary reward significantly and positively affects employee motivation (path coefficient = 0.725; t = 14.425; p < 0.001), supporting H4. This is in line with (Matloob et al. 2021), (Paneru & Bhandari, 2022), (Uzair & Mehmood,2021), (Maharvi, 2022), and (Sureephong & Dahlan,2020), who emphasized that non-monetary rewards such as recognition, career growth, flexible work, and challenging tasks strongly influence motivation. The results also support Hierarchy of Needs (Maslow,1943), where non-monetary rewards fulfill esteem and self-actualization needs, and Two-Factor Theory (Herzberg et al. 1993), where recognition, responsibility, and growth opportunities act as key motivators. Based on Expectancy Theory (Vroom,1964), non-monetary rewards meet the instrumentality factor, where employees believe good performance leads to valued rewards. At the Directorate General of Taxes, particularly in the Regional Office of South Sumatra and Bangka Belitung Islands, non-monetary rewards like recognition, promotions, growth opportunities, and supervisor feedback have proven effective in boosting employee motivation. Organizations are encouraged to further optimize non-monetary reward strategies to enhance employee motivation.

The PLS-SEM analysis shows that employee motivation has a significant positive effect on employee performance (path coefficient = 0.898; t = 12.777; p < 0.001), supporting H5. This finding aligns with (Munandar et al. 2022), (Hasica et al. 2023), (Mulyeni et al. 2023), (Arsindi et al. 2022), (Kumari et al. 2021), (Fauziah et al. 2020), (Sudjatmoko & Rusilowati, 2022), (Matloob et al. 2021), and (Forson et al. 2021), who all confirmed that motivation positively influences employee performance. Motivated employees are more capable, resilient, and enthusiastic in their work, ultimately driving organizational success. However, this result contrasts with (Hidayatullah et al. 2023), who found a negative influence. The findings support Hierarchy of Needs (Maslow, 1943), Two-Factor Theory (Herzberg et al. 1993), and Expectancy Theory (Vroom,1964), emphasizing that fulfilled needs, intrinsic motivators, and the belief that effort leads to valued rewards significantly enhance employee performance. Organizations should adopt appropriate motivational strategies to improve participation, productivity, and competitiveness (Marewo, 2020).

The analysis further demonstrates a significant positive indirect effect of monetary rewards on employee performance, mediated by motivation (path coefficient = 0.154; t = 2.736; p = 0.003), supporting H6. In addition, monetary rewards also have a significant direct positive effect on employee performance. These findings indicate complementary mediation, where both direct and indirect effects are significant and move in the same direction (Hair et al., 2022). The results align with (Nurjiasih & Sudarnaya, 2023), (Muliani et al. 2017), and (Liana et al. 2024), who support the mediating role of motivation in the relationship between rewards and performance. However, this result contrasts with (Irawati & Abdullah, 2021), who found no mediation effect. This study supports Two-Factor Theory (Herzberg et al. 1993), which emphasizes that monetary reward, as a hygiene factor, helps prevent dissatisfaction and indirectly improves performance through increased motivation. Organizations are encouraged to develop fair and competitive monetary reward policies to enhance both motivation and employee performance, ultimately strengthening organizational competitiveness (Marewo, 2020).

PLS-SEM results show that non-monetary rewards positively and significantly influence employee performance through motivation (path coefficient = 0.651; t = 9.469; p < 0.001),

supporting H7. However, the direct effect of non-monetary reward on performance is negative and significant, reflects competitive mediation, where direct and indirect effects are both significant but in opposite directions (Hair et al., 2022). This suggests that while non-monetary rewards alone may demotivate employees, their impact can be improved through increased motivation. These results align with (Maharvi, 2022), Nurjiasih & Sudarnaya (2023), (Muliani et al. 2017), and (Liana et al. 2024), but contrast with (Irawati & Abdullah, 2021). The negative direct effect may stem from employees perceiving the non-monetary rewards as insufficient relative to their efforts, as explained by Expectancy Theory Vroom (1964) regarding instrumentality and valence. When rewards are not aligned with employees' expectations or values, demotivation may occur. However, when non-monetary rewards successfully enhance employee motivation, they positively impact performance. This finding emphasizes the importance of carefully designed non-monetary reward systems that align with employee needs and motivations. Motivation plays a key role in mitigating negative perceptions and in converting non-monetary rewards into performance-enhancing factors (Forson et al., 2021; Marewo, 2020).

5. Conclusion

The structural model indicates that monetary reward, non-monetary reward, and employee motivation significantly affect employee performance, explaining 64.5% of its variance. The analysis reveals that monetary reward exerts a positive influence on employee performance. Conversely, non-monetary reward shows a negative effect on employee performance. Meanwhile, employee motivation positively affects performance.

Monetary and non-monetary rewards explain 68.5% of the variance in employee motivation. Both factors have positive path coefficients and are statistically significant, indicating that monetary and non-monetary rewards positively influence employee motivation.

Employee motivation serves as a significant mediator within the structural model. Motivation serves as an effective mediating mechanism between both monetary and non-monetary rewards and employee performance. The indirect effects of monetary and non-monetary rewards on employee performance through motivation are positive and statistically significant.

The implications of these findings are expected to serve as a basis for regulators in formulating improved policies and regulations concerning employee welfare. Policymakers in the labor sector should consider developing reward systems that are optimal and tailored to individual circumstances. The findings of this study demonstrate that monetary rewards, non-monetary rewards, and employee motivation have significant effects on employee performance. The results further indicate that monetary rewards have a positive and significant relationship with employee performance, while both monetary and non-monetary rewards positively and significantly contribute to employee motivation. These findings suggest that reward systems should be considered as an important organisational mechanism for supporting employee motivation and performance, particularly within the public-sector context. The findings also provide insights for policymakers and public-sector organisations in developing reward

policies that consider employees' needs and organisational circumstances. A balanced and contextually appropriate combination of monetary and non-monetary rewards may contribute to employee well-being, motivation, and ultimately the achievement of optimal organisational performance.

This study provides evidence on the relationships among monetary rewards, non-monetary rewards, employee motivation, and employee performance within the Directorate General of Taxes; however, several limitations should be considered when interpreting the findings and designing future research. The adjusted R^2 for employee performance was 0.645, indicating that monetary rewards, non-monetary rewards, and employee motivation explain 64.5% of the variance in employee performance, while the remaining 35.5% may be explained by other factors that could be incorporated into future models. Future studies may therefore consider additional determinants of employee performance, employ samples from Tax Service Offices (KPP) across different regions to improve the breadth and generalisability of the findings. Future researchers are also encouraged to complement quantitative analysis with interviews or other qualitative approaches to provide deeper explanations of the observed relationships, particularly where significant negative effects are identified.

This study has several limitations that should be considered when interpreting its findings. First, the sample was limited to employees within the Regional Office of the Directorate General of Taxes (DJP) of South Sumatra and the Bangka Belitung Islands; therefore, the findings may not be directly generalised to the entire DJP organisation. Second, the use of an online questionnaire may have introduced response bias or differences between reported and actual conditions, although this risk was mitigated through organisational coordination, standard research procedures, clear instructions, and respondent anonymity. Third, the measurement items were largely adapted from previous studies and subsequently contextualised to the DJP setting, which may limit their ability to fully capture the specific characteristics of reward practices within the organisation.

6. Ethics Approval

Participation in this study was voluntary. Respondents were informed about the purpose of the research and the use of the collected data for academic purposes. The confidentiality of respondents' information was maintained throughout the research process.

7. Author Contributions

Anisa Rahmawati contributed to the conceptualization, methodology, data collection, data analysis, and preparation of the original manuscript. Nina Andriana contributed to the supervision, validation, critical review, and editing of the manuscript. Both authors reviewed and approved the final version of the manuscript.

8. Declaration on the Use of AI and AI-Assisted Technologies in Writing

The authors declare that no artificial intelligence (AI) or AI-assisted technologies were used in the writing of this manuscript.

9. Declaration of Competing Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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12. Data Availability Statement

The data supporting the findings of this study are available from the corresponding author upon reasonable request, subject to applicable institutional policies and confidentiality requirements.

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