“Four possible rewards (or punishments) for innovation – their effect on the employee”

AUTHORS	Agus Ismaya Hasanudin Yuliansyah Yuliansyah https://orcid.org/0000-0002-0036-0853 Muafi https://orcid.org/0000-0002-3926-7496 Bagus Putri Ramadhani
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Yuliansyah Yuliansyah, Muafi, Bagus
Putri Ramadhani, 2018

Agus Ismaya Hasanudin, Ph.D.,
Senior Lecturer, Accounting
Department, University of Tirtayasa,
Indonesia.

Yuliansyah Yuliansyah, Ph.D., Senior
Lecturer, Accounting Department,
University of Lampung, Indonesia.

Muafi, Ph.D., Senior Lecturer,
Management Department,
Universitas Islam Indonesia,
Indonesia.

Bagus Putri Ramadhani, Research
Assistant, Accounting Department,
Faculty of Economics and Business,
University of Lampung, Indonesia.

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Agus Ismaya Hasanudin (Indonesia), Yuliansyah Yuliansyah (Indonesia),
Muafi (Indonesia), Bagus Putri Ramadhani (Indonesia)

FOUR POSSIBLE REWARDS (OR PUNISHMENTS) FOR INNOVATION – THEIR EFFECT ON THE EMPLOYEE

Abstract

A manager's attitude to innovation affects an employee's job satisfaction, and consequently their individual performance. The authors survey employees of Indonesia Stock Exchange-listed companies. Our results confirm that individual performance depends on job satisfaction. However, job satisfaction is not fully contingent on the reward system, or the JRI, or the manager's attitude. Performance is much affected by other factors, such as stress at work, tension at home, and unrest in the community.

Keywords

reward system, job relevant information (JRI), attitude
towards innovation, individual performance

JEL Classification M12

INTRODUCTION

Organizational support and its relationship to individual satisfaction attract researchers in many fields (O'Driscoll & Randall, 1999; Sholihin & Pike, 2009; Yuliansyah et al., 2016a). Many studies agree that individual satisfaction increases individual performance (Yuliansyah, Bui, & Mohamed, 2016). Unlike previous studies, we take the approach that three key factors in a worker's job satisfaction are (a) reward system, (b) job relevant information (JRI) for decision making, and (c) managerial support to be creative. Individual job satisfaction leads to better individual performance. These factors have been overlooked in the past.

It is common ground that a system of rewards does improve job satisfaction. O'Driscoll and Randall (1999) note that satisfaction with extrinsic motivation is a key inducement to complete a task. Aletraris (2010) finds that when a worker has higher job satisfaction, they put more effort into their work. A qualitative study conducted by Yuliansyah, Bui, and Mohamed (2016) confirms this.

In addition, Kren (1992) shows that JRI does facilitate decision making, which is task-related. JRI increases performance by giving accurate information so that the best actions can be chosen. In budgeting, JRI is strongly needed by top-level managers in order to achieve better budgeting feedback. More generally, JRI keeps individual performance in line with corporate targets. Clear JRI in a company really improves decisions made by employees.

According to O'Reilly, Chatman, and Caldwell (1991), a manager should value innovation and creativity on the job. Innovation is an important corporate strength in facing market competition and in sustaining an advantage. Freeman, Wicks, and Parmar (2004) view

innovation as an effort by a company, through the use of technology and information, to develop and market new products and also new processes. In other words, innovation is modification or discovery of ideas for continuous improvement not only in fulfilling customer's needs, but also in adding value to, or reducing the cost of, materials, services, working processes, marketing, delivery, and capital equipment, thus benefitting the company, the stakeholders, and the community (Yuliansyah & Razimi, 2015).

Job satisfaction must be felt by each employee before they work well and effectively. If an employee has low job satisfaction, then, the company loses financially, because the employee does not work with their full ability to achieve the company's target. On the other hand, when high job satisfaction increases their productivity, the employee achieves the company target. We explore the extent to which (a), (b), and (c) above improve job performance through job satisfaction.

We survey only Indonesian Stock Exchange-listed companies, in general, selecting for good systems of management (Lau & Sholihin, 2005; Yuliansyah & Khan, 2015a; Yuliansyah & Khan, 2015b; Yuliansyah et al., 2016b). This particular study makes several contributions to the field of management accounting. First, it is of a service industry. Service industries are still rarely discussed (Kihn, 2010; Yuliansyah & Khan, 2015b). Second, it extends the existing study framework we called (a), (b), (c), that is, reward systems, JRI, and managerial perception of innovation. That job satisfaction leads to better performance is well established. This study confirms it in a service industry.

This article is divided into five sections: introduction (above), 1 – the literature review and hypotheses development, 2 – the research method, 3 – the results, and last – our conclusions.

1. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Some studies of individual performance (Burney & Widener, 2007; Burney et al., 2009; Sholihin & Pike, 2009; Sholihin et al., 2010; Wong & Laschinger, 2013; de Waal, 2010; de Waal, 2003; de Waal & Counet, 2009; de Waal, 2004; Yuliansyah et al., 2016a; Yuliansyah & Khan, 2015b) conclude that the improvement occurs as a result of a bundle of behavior effects within an organization. Kren (1992) identifies JRI as information that facilitates decision making related to the task. JRI increases performance by giving more accurate predictions so that the best actions can be chosen. JRI enlightens subordinates about the results of decisions and actions; it shows what needs to be done to achieve the goal (Campbell & Gingrich, 1986).

According to O'Reilly et al. (1991), how highly a manager views innovation and creativity on the job will affect their own behavior in encouraging them. The organization that encourages innovation and creativity needs creative and innovative managers. They themselves face uncertainty, so they need greater au-

tonomy in making decisions. We conclude that managers with high manager's perception of innovation respond well to performance targets, because they handle uncertainty and high risks more successfully than other managers with lower perception.

From the logical framework above, our paradigm is that the independent variables (reward system, JRI, and manager's perception), and job satisfaction as an intervening variable, have individual effects on the dependent variable (see Figure 1 below).

1.1. Effect of a reward system on job satisfaction

Organizations need to husband their resources. A high level of employee turnover creates instability and escalates training costs. The desire to complete the task is positively related, and the desire to leave the organization is negatively related to job satisfaction.

The relations of rewards, satisfaction, and performance are linear. Being rewarded, employees will feel ready to expend their time, ability, skill, and effort for the company, and will work maximally, as the company expects.

Figure 1. Framework of the study

Based on the above explanation, we argue that there is a positive relation between rewards and individual performance through job satisfaction. Thus:

H1: Rewards have a positive effect on job satisfaction.

1.2. Effect of JRI on individual performance through job satisfaction

Information is data, which are meaningful to the receiver and are useful in decision making now or in future. JRI is useful to employees completing a task in accordance with instructions. Good quality JRI has a positive effect on job satisfaction (Lau & Tan, 2003). Therefore, in this study, we hypothesize:

H2: JRI has a positive effect on job satisfaction.

1.3. Effect of managerial attitude to innovation on job satisfaction

One indicator of employee satisfaction is that an employee who is creative and full of innovation is allowed and encouraged to discuss and implement their creative ideas. That the employee feels happy and satisfied is one form of self-actualization for them. From the above explanation, it can be

seen that the manager's perception of innovation through job satisfaction is positively related to individual performance. Therefore, in this study, we hypothesize:

H3: Manager's perception of innovation has a positive effect on individual performance.

1.4. Effect of reward system on job performance

An employee who has wide knowledge, special skill, and good ability will produce good quality product and perform well (Koopmans et al., 2013). However, if any of the three factors is missing, quality and performance will be low. In management, reward is an instrument to increase motivation of employees. Reward usually gives someone a happy feeling, and usually makes them repeat the productive behavior. From here, it can be seen that the relation of reward to performance is positive (Yuliansyah, Bui, & Mohamed, 2016). Therefore, in this study, we hypothesize:

H4: A reward system has a positive effect on job performance.

1.5. Effect of JRI on job performance

Kren (1992) defined JRI as available information to increase effectiveness of decisions related to

a task. In general, JRI increases individual performance. A manager who has better information will improve their performance (Lau & Tan, 2003; Chong, 2004). In addition, Chong (2004) concludes that JRI and individual performance have a positive relationship. Yuliansyah, Bui, and Mohamed (2016) find that individual motivation is higher if their JRI is listed as one of their KPIs. Thus, we hypothesize:

H5: JRI has a positive effect on job performance.

1.6. Effect of managerial attitude to innovation on job performance

The role of leaders in organization is central to achieving targets that are predetermined. Manager's perception of innovation, that is, the orientation of a manager toward innovation, reflects the confidence of the manager to take risks, that is, creative and innovative approaches to work.

The higher the value of innovation in the eye of manager, the more their leadership style will motivate subordinates to identify creation and innovation that will benefit the company. Ideally, employees always seek better ways to achieve working targets. Each well-achieved working target reflects good individual performance.

From this, it can be seen that the relation of manager's perception of innovation with individual performance is positive. Therefore, in this study, we hypothesize:

H6: Manager's perception towards innovation has a positive effect on job performance.

1.7. Effect of job satisfaction on job performance

Job satisfaction affects an employee's productivity. An employee who has high satisfaction will see the job as a pleasant thing. Contrariwise, an employee who has low job satisfaction will see the job as dull and boring, and they work unwillingly.

Dispirited employees who begrudge their time will do poor work compared to employees who work in

good spirits. If the company has employees who mostly have low satisfaction, the level of corporate productivity most likely will be low, and disadvantageous to the company. Companies need to pay attention to employee satisfaction so that the employees will cooperate in achieving corporate goals.

A study by Leroy et al. (2015) of 30 leaders and 252 followers in 25 Belgian service companies shows that satisfaction can improve individual performance. Atmojo (2012) finds that job satisfaction has a positive effect on individual performance. We propose the following hypothesis:

H7: Job satisfaction has a positive effect on individual performance.

2. RESEARCH METHOD

2.1. Research sample

The population of this study is companies listed in Indonesian Stock Exchange (IDX). We select employees of companies, which have a reward system, JRI, and manager's perception of innovation. We obtain primary data from the answers of respondents who fill in and return the questionnaires. Table 1 shows the percentage of distributed and returned questionnaires.

Table 1. Percentage of distributed and returned questionnaires

No	Information	Total	Percentages (rounded), %
1	Distributed questionnaires	110	100
2	Returned questionnaires	92	83
3	Returned questionnaires (not filled in)	12	11
5	Incomplete questionnaires	8	7
6	Questionnaires that can be processed and analyzed (usable data)	72	65

In addition, demographic information of respondents can be seen in Table 2.

Table 2. Demografic information of respondents

Classification	Criteria	n	Cumulative	%	Cumulative %
Gender	Male	40	40	56	56
	Female	31	71	44	100
Age	< 30	15	15	21	21
	31-40	40	55	56	77
Education	High school/Diploma	19	19	27	44
	Undergraduate (S1)	41	60	58	88
	Graduate (S2/S3)	11	71	15	100
Working career in years	< 5 years	20	20	28	28
	6-10 years	37	57	52	80
	> 11 years	14	71	20	100

2.2. Variable measurement

2.2.1. Reward system

Six questions developed by Tessema and Soeters (2006) establish the presence (or not) of an attractive reward system. Respondents indicate their agreement with each item using a 5-point Likert scale starting from 1 = strongly disagree to 5 = strongly agree.

2.2.2. Job relevant information (JRI)

JRI should be available for a worker to ease their task and expedite decision making (Kren, 1992). Three items developed by Kren (1992), for example, "I am able to obtain the strategic information necessary to evaluate important decision alternatives" again prompt agreement, or not, on a 5-point Likert scale.

2.2.3. Manager's perception of innovation

A manager's perception of innovation controls the importance they put upon innovation and creativity at work (Subramaniam & Mia, 2001). This questionnaire, originally developed by O'Reilly et al. (1991), is used by several authors (Subramaniam & Mia, 2001; Yuliansyah & Razimi, 2015). Six items use a 5 – point Likert scale ranging from 1 (not at all) to 5 (to a great extent).

2.2.4. Job satisfaction

Job satisfaction follows Riordan et al. (1997) and Helm (2013). Some of the six items compare industry standards with, for example, 1 (Your current salary), 2 (Your work tasks and daily respon-

sibilities), 3 (Promotions received so far). Again, a 5-point Likert scale runs from 1 = very much disagree, to 5 = very much agree.

2.2.5. Individual performance

Individual performance refers to an 'employee's actions carrying out the assigned duties that they do in their stipulated roles within the organization' (Yuliansyah & Khan, 2015). In a measurement developed by Koopmans et al. (2013), seven items evoke a 5-point Likert response.

3. RESULTS OF THE STUDY

The data in this study are analyzed using SmartPLS. One reason for using SmartPLS is that this study is a predictive study. Another reason is that for a sample of 100 respondents, SmartPLS is better than AMOS or Lisrel. In the analysis using SmartPLS, the two stages are model testing and model structural testing.

3.1. Measurement model

The measurement model is done by testing the reliability and validity. The reliability test consists of composite reliability and Cronbach's alpha. According to Hair et al. (1998), a model is valid and reliable if it has a composite reliability value above 0.7. Table 3 below shows that reliability model testing is good.

The validity test consists of two indicators – convergent and discriminant validity. Discriminant validity comes from the score of Average Variance Extracted (AVE). Fornell and Larcker (1981) state

that a valid construct for AVE is above 0.5. Table 3 below shows that the AVE score is indeed above 0.5, so convergent validity is established.

Table 3. Composite reliability, Cronbach's alpha, AVE and R^2

Variables	Composite reliability	Cronbach's alpha	AVE	R^2
Reward system	0.896	0.866	0.523	–
JRI	0.915	0.893	0.573	–
Job satisfaction	0.869	0.801	0.625	0.417
Job performance	0.934	0.922	0.563	0.697

Based on Table 3 above, it shows that the values of R^2 from job satisfaction and individual performance are 0.417 and 0.697. The criteria of coefficient of determination value (R^2) are good if it has a value of more than 0.1, and based on the requirement above, it can be said that coefficient of determination in this study is reliable, so the next stage is to test our hypotheses.

Discriminant validity is established by the Fornell-Larcker criterion evaluated by looking at the val-

ue of AVE root, and it must be more that the correlation value between constructs. Table 4 below shows that the Fornell-Larcker Criterion is good.

Table 4. Fornell-Larcker Correlation

Variables	RS	JRI	MPTI	JS	JP
JRI	0.541	0.757	–	–	–
Managerial attitude to innovation	0.389	0.506	0.714	–	–
Job satisfaction (JS)	0.570	0.523	0.450	0.790	–
Job performance (JP)	0.760	0.601	0.589	0.585	0.750

Based on the explanation above, we conclude that the tests of reliability and validity of construct are good.

3.2. Structural model

Hypotheses testing is done by looking at the value of path coefficient (β) as a determination of relation between two variables. The value of path coefficient $\beta > 0.1$ means that the relation between those two variables is strong. On the other hand,

Figure 2. Path analysis

Table 5. Measurement of structural model

Dependent variable	Independent variables			
	Reward system	JRI	Managerial attitude to innovation	Job satisfaction
Job satisfaction	0.375*** (3.403)	0.224** (2.078)	0.191* (1.623)	–
Job performance	0.532*** (3.756)	0.125* (0.982)	0.278*** (2.621)	0.092* (0.921)

Note: *** Significant at 1% (very significant), ** significant at 5%, * significant at 10% (weak).

a value below 0.1 means that the relation between those two variables is weak.

Bootstrapping is done with 500 subsamples and two-way significance level of 5%. The value of *t*-table for two-way significance of 5% is 1.96. A value of *t*-statistics > 1.96 means that the independent variable significantly affects the dependent variable. A value of *t*-statistics below 1.96 means that the independent variable does not affect the dependent variable. From the bootstrapping result, the hypotheses tests can be seen in Figure 2 below.

3.3. Hypotheses testing

3.3.1. Effect of reward system on job satisfaction

From the data processing result of the study, a reward system positively affects ($\beta = 0.375$) an employee's job satisfaction. The value of *t*-statistics is more than *t*-table ($3.403 > 1.960$). In other words, a reward system positively and significantly affects an employee's job satisfaction.

3.3.2. Effect of reward system on individual performance

From the data processing result of the study, a reward system positively affects ($\beta = 0.532$) an employee's performance. The value of *t*-statistics is more than *t*-table ($3.756 > 1.960$). In other words, a reward system positively and significantly affects individual performance.

3.3.3. Effect of JRI on job satisfaction

From the data processing result of the study, JRI positively affects ($\beta = 0.224$) an employee's job satisfaction. The value of *t*-statistics is more than *t*-table ($2.078 > 1.960$). In other words, JRI positively and significantly affects an employee's job satisfaction.

3.3.4. Effect of JRI on individual performance

From the data processing result of the study, JRI positively affects ($\beta = 0.125$) individual performance. However, the value of *t*-statistics is less than *t*-table ($0.982 < 1.960$). In other words, JRI does not have a significant effect on individual performance.

3.3.5. Effect of managerial attitude to innovation on job satisfaction

From the data processing result of the study, managerial attitude to innovation positively affects ($\beta = 0.191$) job satisfaction. However, the value of *t*-statistics is less than *t*-table ($1.623 < 1.960$). In other words, managerial attitude to innovation does not have a significant effect on an employee's job satisfaction.

3.3.6. Effect of managerial attitude to innovation on individual performance

From the data processing result of the study, managerial attitude to innovation positively affects ($\beta = 0.278$) individual performance. The value of *t*-statistics is more than *t*-table ($2.621 > 1.960$). In other words, managerial attitude to innovation is positively and significantly affects individual performance.

3.3.7. Effect of job satisfaction on individual performance

From the data processing result of the study, employee's job satisfaction positively affects ($\beta = 0.092$) individual performance. However, the value of *t*-statistics is less than *t*-table ($0.921 < 1.960$). In other words, employee's job satisfaction does not have a significant effect on performance.

CONCLUSION

Job satisfaction must be felt by each employee in order to be able to work well and effectively. If the employee is dissatisfied with their job, the company will suffer financial losses caused by the employee who works unenthusiastically and wastefully and requires to be replaced. On the other hand, with high job satisfaction, employees persist in giving optimal results, so the goal of the company can be achieved. Rewards, JRI, and manager's perception of innovation all positively affect individual performance.

We find that every company should pay attention to job satisfaction, seeking to provide not only necessities for employee and their families, but also social status and enjoyment of life. In increasing this performance satisfaction, a company needs to pay attention to the various unexpected aspects that cause particular dissatisfaction such as unfairness in promotion or in salary, and in relations with co-workers, as well as in the job itself.

This study has limitations. The first is related to the sample. The sampling in this study is only from the companies listed in Indonesian Stock Exchange. We sampled only service industries. Therefore, the next study can be of other companies of different industry types to allow better generalization. The second limitation is the mediating variable, job satisfaction which, is not able to describe all the other factors that can affect individual performance other than our three (reward system, JRI, and manager's perception of innovation). For the next study, based on the above findings, we suggest adding other variables, such as work stress, leadership, and other variables that might affect satisfaction and individual performance.

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