

The Influence of Empowerment, Work Environment, and Reward on Employee Performance through Employee Engagement as an Intervening Variable

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Abstract

This study aims to analyze the influence of empowerment, work environment, and rewards on employee performance with employee engagement as an intervening variable in PT Berkarya Putra Inovasi. The research method used was quantitative with the Structural Equation Modeling-Partial Least Square (SEM-PLS) approach. Data was collected through the distribution of questionnaires to 128 employee respondents. The results of the study showed that empowerment does not have a significant effect on employee performance, but it has a significant effect on employee engagement. Work environment and rewards have been proven to have a significant effect on employee engagement and employee performance. Furthermore, employee engagement has a significant influence on employee performance and can be an intervening variable that strengthens the influence of empowerment, work environment, and rewards on performance. The implications of the research show the importance of companies in strengthening empowerment strategies, creating a conducive work environment, and providing fair rewards.

Introduction

The phenomenon of declining employee performance is the main issue behind this study. Key Performance Indicators (KPI) data at PT Berkarya Putra Inovasi show a significant downward trend in the last three years, from 87% (2021) to 75% (2023). This condition widens the gap in the company's competitiveness compared to similar industry benchmarks (Awasthi et al., 2025; Indriyani et al., 2025; Sumarliah & Al-Hakeem, 2023). The decline in performance is estimated to be related to low employee engagement, suboptimal working environment conditions, and perception of a less effective reward system (Kamselem et al., 2022; Mrayyan et al., 2026; Holtan et al., 2024).

Theoretically, empowerment, work environment, and rewards are important factors that affect employee performance, but the influence is not always direct and can be mediated by employee engagement (Al Zeer et al., 2023; Thabit et al., 2022; Joo et al., 2023). The concept of empowerment focuses on granting autonomy and responsibility to increase intrinsic motivation (Matei & Veith, 2023; Medhn Desta & Mulie, 2024; Peethambaran & Naim, 2023). The work environment emphasizes the importance of physical, psychological, and social conditions that support productivity. Meanwhile, rewards include a fair and transparent financial and non-financial reward system. Employee engagement is seen as a psychological construct that is able to bridge the influence of these factors on performance (Ahmada et al., 2023; Iman & Shaikh, 2025; Natamba et al., 2024).

The formulation of this research problem includes: whether empowerment, work environment, rewards, and employee engagement affect employee performance, and whether employee

engagement mediates the influence of three independent variables on performance (Abdullahi et al., 2023; Juyumaya & Torres, 2023; Aziez, 2022).

The purpose of the study was to test and analyze the relationship between these variables in employees of PT Berkarya Putra Inovasi. This research is expected to make a practical contribution to companies in formulating performance improvement strategies through empowerment optimization, work environment improvement, and fair reward systems. Theoretically, this study enriches the study of the role of employee engagement mediation in the relationship between human resource management practices and employee performance, especially in the context of the Indonesian technology industry.

The scope of the research is focused on employees of PT Berkarya Putra Inovasi as a case study. The results of the research are expected to be not only useful to the company practically, but also provide policy implications and academic contributions in the development of relevant human resource management models in the digital age.

Literature Review

This research uses several major theories as a basis, Self-Determination Theory (Deci & Ryan, 2013), Job Demands-Resources Model (Bakker & Demerouti, 2007) and Social Exchange Theory (Blau, 2017). The variables studied included empowerment, work environment, rewards, employee engagement and employee performance. The hypothesis of this study includes the direct influence of each independent variable on performance, the influence on employee engagement, and the mediating role of employee engagement.

Empowerment is defined as the process of giving autonomy, authority, and responsibility to employees to make decisions related to their work (Conger & Kanungo, 1988). (Spreitzer, 1995) psychological model identifies four dimensions of empowerment, namely meaning, competence, self-determination, and impact. Empowerment is believed to be able to increase intrinsic motivation and performance, although its effectiveness depends on the organizational culture and individual readiness (Maynard et al., 2012).

The work environment includes physical, social, and psychological conditions in the workplace that affect employee comfort and productivity (Kaur et al., 2014). The Person-Environment Fit Theory (French et al., 1982) emphasizes that an individual's conformity to his or her environment will improve well-being and performance. A conducive work environment has been shown to drive productivity by up to 25% (Chandrasekar, 2011), although some studies show the effect is not always significant, depending on the organizational context.

Rewards are defined as financial and non-financial compensation given by organizations to employees in return for their contributions (Sabatini et al., 2021). Expectation theory (Vroom, 1964) explains that employees are motivated when they believe that the effort put in will result in rewarded performance with valuable rewards. Justice theory (Adams, 1965) emphasizes the importance of the perception of justice in the reward system. An effective reward system can improve motivation and performance, but research has also shown results that vary depending on the design and implementation.

Employee engagement is seen as the full involvement of employees cognitively, emotionally, and physically in their work (Kumar & Sia, 2012). Schaufeli et al. (2002) emphasize three main dimensions: vigor, dedication, and absorption. Social Exchange Theory (Blau, 2017) explains that engagement arises when employees feel treated fairly and valued, so they contribute more. High engagement rates have been shown to correlate with increased productivity, loyalty, and profitability of organizations.

Employee performance is the result of work achieved by employees in quality and quantity according to their responsibilities (Mangkunegara, 2011). The Goal-Setting (Locke & Latham, 1990) and Self-Efficacy (Bandura, 1997) theories explain that clear goals and employee self-confidence contribute greatly to improved performance. Internal factors (ability, motivation) and external factors (work environment, supervision, compensation) are important determinants.

Previous research reviews have shown mixed results. Several studies state that empowerment, work environment, and rewards have a significant effect on employee performance (Jayaweera, 2015; Njanja et al., 2013; Sunarsi & Kusjono, 2019), but other studies have found an insignificant effect (Asgarsani et al., 2013; Mughal et al., 2014). This inconsistency shows the existence of intervening variables, one of which is employee engagement, which can bridge the relationship between organizational factors and performance (Saks, 2006; Anitha, 2014).

Based on previous theories and research, this study builds on ten research hypotheses:

H1: Empowerment has a significant effect on employee performance.

H2: The work environment has a significant effect on employee performance.

H3: Rewards have a significant effect on employee performance.

H4: Employee engagement has a significant effect on employee performance.

H5: Empowerment has a significant effect on employee engagement.

H6: Work environment has a significant effect on employee engagement.

H7: Rewards have a significant effect on employee engagement.

H8: Employee engagement mediates the influence of empowerment on employee performance.

H9: Employee engagement mediates the influence of the work environment on employee performance.

H10: Employee engagement mediates the effect of rewards on employee performance

Methods

This study used a quantitative approach with an explanatory research design that aims to test the causal relationship between the variables that had been formulated. The analysis was carried out using the Structural Equation Modeling–Partial Least Squares (SEM-PLS) method because it is suitable for testing complex models with latent variables and relatively limited sample sizes. The object of the study was an employee of PT Berkarya Putra Inovasi, a digital printing manufacturing company in Surabaya, with a population of all permanent employees. The research sample was determined by purposive sampling technique and succeeded in capturing as many as 128 respondents who met the research criteria.

Primary data was obtained through the distribution of Google Form-based questionnaires. The research instrument used a five-point Likert scale, ranging from "strongly disagree" to "strongly agree", which was chosen because it could measure respondents' perceptions in a quantitative and structured manner. The variables studied consisted of three independent variables, namely empowerment, work environment, and reward; one dependent variable is employee performance; and one intervening variable, namely employee engagement. Each variable is operationalized into measurable indicators based on previous theories and research. Empowerment is measured through the dimensions of meaning, competence, self-determination, and impact; the work environment includes physical, social, and psychological aspects; Rewards consist of financial and non-financial compensation; employee engagement

includes vigor, dedication, and absorption; Meanwhile, employee performance is measured from quality, quantity, knowledge, planning, cooperation, and personality.

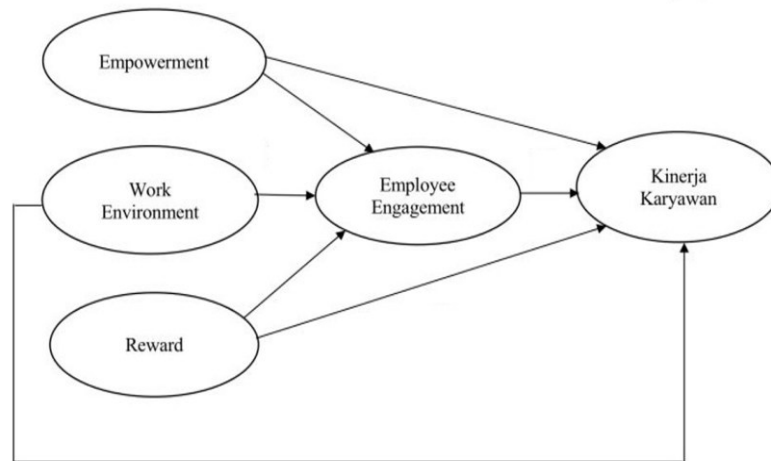


Figure 1. Conceptual Framework

Data analysis is carried out through several stages. Instrument tests include convergent validity, discriminant validity, and reliability using Composite Reliability and Cronbach's Alpha. The evaluation of the measurement model (outer model) was carried out by looking at the value of the loading factor, Average Variance Extracted (AVE), and construct reliability. Furthermore, the evaluation of the structural model (inner model) using R-square values, predictive relevance (Q-square), and path significance tests through t-statistic and p-value using the bootstrapping method. The results of this analysis were used to test the hypothesis of both direct and indirect influences, including the role of employee engagement as a mediating variable. With this method, this study is expected to provide a comprehensive picture of the relationship between empowerment, work environment, rewards, employee engagement, and employee performance at PT Berkarya Putra Inovasi.

Results and Discussion

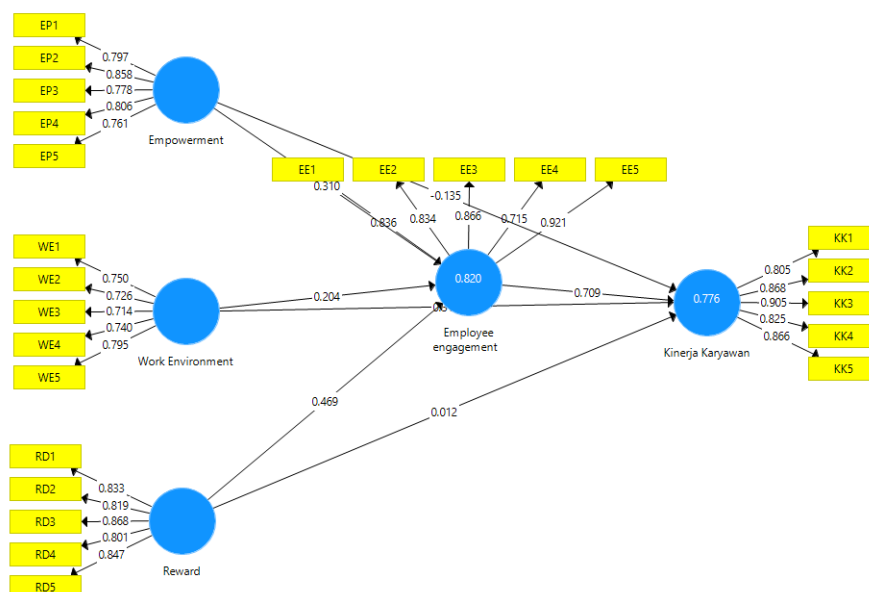


Figure 2. Analysis of the research path

The results showed that the research instruments met the criteria of validity and reliability, with a loading factor value above 0.7, AVE above 0.5, and Composite Reliability and Cronbach's Alpha above 0.7. The evaluation of the structural model (inner model) also showed that independent variables were able to explain the variation in employee engagement and employee performance at PT Berkarya Putra Inovasi quite strongly, as shown by an adequate R-square value.

SEM-PLS conceptually distinguishes these two types of variables in its model visualization, so that the oval shape for latent variables is an immutable standard. In this study, the variables analyzed were defined as latent constructs (*Empowerment, Work Environment, Reward, Employee Engagement, Employee Performance*), so that SmartPLS will automatically display the results in the form of a circle or oval.

Table 1. Direct Influence Hypothesis Test

Hypothesis	Path Coefficients	t-Statistic	P-Value	Information
H1	<i>Empowerment -> Employee Performance</i>	1.177	0.240	Rejected
H2	<i>Work Environment -> Employee Performance</i>	2.905	0.004	Accepted
H3	<i>Reward -> Employee Performance</i>	0.104	0.917	Rejected
H4	<i>Employee Engagement -> Employee Performance</i>	5.638	0.000	Accepted
H5	<i>Empowerment -> Employee engagement</i>	4.286	0.000	Accepted
H6	<i>Work Environment -> Employee engagement</i>	3.250	0.001	Accepted
H7	<i>Reward -> Employee engagement</i>	4.625	0.000	Accepted

Source: data analysis results from SmartPLS application.

Table 2. Test of the Hypothesis of the Influence of Mediation Research Model

Hypothesis	Path Coefficients	t-Statistic	P-Value	Information
H8	<i>Empowerment -> Employee engagement -> Employee Performance</i>	3.223	0.001	Accepted
H9	<i>Reward -> Employee engagement -> Employee Performance</i>	3.894	0.000	Accepted
H10	<i>Work Environment -> Employee engagement -> Employee Performance</i>	2.552	0.011	Accepted

Source: data analysis results from SmartPLS application.

Specifically, this study found that empowerment does not have a significant effect directly on employee performance, but it has a significant influence on employee engagement. This suggests that employee empowerment will have an impact on improving performance if they first increase their engagement. Meanwhile, the work environment has been proven to have a significant effect on both employee engagement and employee performance, so that supportive work environment conditions can encourage direct engagement and work results.

Another important finding is that rewards do not have a significant effect on employee performance, but do have a significant effect on employee engagement. Thus, rewards do not

directly improve performance, but can strengthen employee engagement, which ultimately drives performance improvements indirectly. Furthermore, employee engagement has been proven to have a significant effect on employee performance and acts as a mediating variable that strengthens the influence of empowerment, work environment, and rewards on performance.

Overall, the results of the study confirm that improving employee performance at PT Berkarya Putra Inovasi cannot only rely on empowerment or reward systems, but must be focused on creating a conducive work environment and increasing employee involvement. Employee engagement has proven to be a key mechanism that bridges the influence of human resource management practices on employee performance.

The results of this study provide several important findings regarding the factors that affect employee performance at PT Berkarya Putra Inovasi. First, empowerment does not have a significant effect on employee performance, but it has been proven to have a significant effect on employee engagement. These findings suggest that empowerment does not necessarily improve work outcomes, but rather requires the role of employee involvement as a psychological mechanism that bridges its influence. This is in line with the research of Asgarsani et al. (2013) who found that empowerment does not always have a direct impact on performance, but is different from the research of Pratama & Sriathi (2015) which states the opposite. Thus, the organizational context, culture, and individual readiness are factors that affect the effectiveness of empowerment.

Second, the work environment has a significant effect on employee performance and employee engagement. A conducive work environment, both from physical, social, and psychological aspects, has been proven to be able to increase motivation and productivity. These results are consistent with the research of Jayaweera (2015) and Anitha (2014), which affirmed that a good work environment encourages employee engagement and has a direct impact on performance achievement. These findings affirm the importance of companies in creating a work atmosphere that supports collaboration, comfort, and a sense of security for employees.

Third, rewards do not have a significant effect on employee performance, but have a significant influence on employee engagement. This indicates that the existing reward system is not yet fully able to drive performance improvement directly, likely due to perceptions of injustice or a lack of relevance to rewards to employee needs. However, rewards still play a role in increasing emotional engagement and motivation, which in turn can impact performance indirectly. These findings are in line with Mughal et al. (2014) who showed that rewards are not significant to performance, but contradict the research of Njanja et al. (2013) who stated that rewards have a direct effect.

Fourth, employee engagement has a significant effect on employee performance. This reinforces the view of Kahn (1990) and Schaufeli et al. (2002) that the emotional, cognitive, and physical involvement of employees is an important determinant in producing optimal performance. Engaged employees tend to show higher dedication, enthusiasm, and commitment, which has an impact on the organization's achievements. In addition, employee engagement has also been proven to mediate the relationship between empowerment, work environment, and reward to performance, thus serving as an important bridge between human resource management practices and employee work outcomes.

Overall, this discussion emphasizes that improving employee performance at PT Berkarya Putra Inovasi can not only be achieved through empowerment or a reward system alone, but must be integrated with the creation of a conducive work environment and engagement strengthening strategies. From a theoretical perspective, this study enriches the literature by

emphasizing the inconsistency of the influence of empowerment and rewards, and confirming the strategic role of employee engagement as a mediating variable. Meanwhile, practically, this study provides direction for management to emphasize strategies that increase employee engagement, improve the work environment, and adjust the reward system to be more relevant to the needs and expectations of the workforce.

Conclusion

The results of this study conclude that the improvement of employee performance at PT Berkarya Putra Inovasi is greatly influenced by employee engagement and work environment, while empowerment and rewards do not have a direct influence on performance. Empowerment has been proven to have a significant effect on employee engagement, so engagement is an important mechanism that bridges these relationships. The work environment has a significant influence on both employee engagement and employee performance, emphasizing the importance of conducive working conditions. Meanwhile, rewards do not have a significant effect on performance, but on the contrary have a significant effect on employee engagement, which ultimately has an indirect impact on performance. Employee engagement itself has been proven to have a strong direct influence on performance while mediating the relationship between empowerment, work environment, and rewards and employee performance.

This study has several limitations, the author has the expectation that all independent variables, namely empowerment, work environment, and reward, will have a significant direct influence on employee performance. This expectation is based on previous studies that have shown that these three factors are the main determinants of performance in the context of modern organizations. However, the test results showed that empowerment and rewards did not have a direct effect on employee performance, but only through employee engagement as a mediating variable. This shows that the real effects of empowerment and reward systems will only emerge if employees first experience emotional and cognitive attachment to their work.

The researcher also hopes that rewards as a form of appreciation from organizations, both financial and non-financial, will be a direct motivational factor in encouraging employee performance improvement. But in reality, rewards have not been shown to be directly significant to performance, indicating the possibility of perceived injustice, mismatch of expectations, or other factors that have not been revealed in this research model.

The author hopes that empowerment can directly improve performance because it provides autonomy and a sense of ownership to work. However, the results do not directly support this hypothesis, suggesting that empowerment without emotional and cognitive involvement is not enough to drive optimal performance output.

Based on these findings, the practical advice proposed is that companies need to prioritize the creation of a work environment that is comfortable, safe, and supportive of collaboration, as well as strengthen strategies to increase employee engagement through sustainable empowerment programs. The reward system should be evaluated to be fairer, more transparent, and relevant to employee expectations so that it can increase motivation and engagement. From the theoretical side, this study emphasizes the importance of the role of employee engagement mediation in explaining the relationship between organizational factors and performance. For further research, it is recommended to expand the research object to other companies in similar industries or across sectors, add variables such as leadership, organizational culture, or job satisfaction, and use mixed methods so that the research results are more comprehensive.

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