

EFFECT OF COMPENSATION ON SMALL AND MEDIUM SCALE ENTERPRISES (SMES) EMPLOYEE PERFORMANCE IN TARABA STATE

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ABSTRACT

Small and Medium Enterprises play a very important role in the state's economy; however, their performance has been below average and has not improved as it should have been compared to other regions in Nigeria. This research aims at ascertaining the impact of compensation on the SMEs employee Performance in Taraba State, Nigeria. This study examines the role of compensation factors such as wages and salaries, gifts and bonuses SME's performance in Taraba State. The study employs survey research design and used structured questionnaires to collect data from 361 SMEs in six Local Government Areas of Taraba State with 97% return rate. Multiple regression analysis was employed to test the hypotheses concerning the compensation variables and SME performance. The study shows that wages and salaries have a positive impact on the SMEs employee Performance and gifts and bonuses while having a positive coefficient were statistically insignificant. Satisfaction with the job was also found to have a positive but non-significant relationship with the SMEs employee Performance while working conditions had a significant positive influence on the SMEs employee Performance. Recommendations made are; relation of SME wages to the national minimum wage policy, reward-based motivation and work environment. The study also calls for the need for SMEs to address their compensation practices, especially wages, working conditions and job satisfaction in order to increase performance. The study therefore finds that increasing compensation is essential to improving SME performance in Taraba State, thus enabling SMEs to function at the local and national levels.

Keywords: Compensation, wages and salaries, gifts and bonuses, job satisfaction, working condition, SMEs performance

INTRODUCTION

In the last few years, the level of globalization has increased significantly, making the economies of the various countries connected through technology and network. This has led to heightened competition in domestic and export markets and this has led to organizations having to hire and retain competent employees for competitive edge (Collins, 2021). The management and use of people or human resource management (HRM) has become one of the important determinants of organizational success in this environment. Compensation which includes; wages, salaries, bonuses, incentives and

satisfaction, are essential in motivating the employees and enhancing the productivity of the business (Agburu, 2012).

The change in technology, economy and social factors have also improved human resource as a key success factor in business (Mittal, 2013). Human Resource Development (HRD) is a process of enhancing the employee's ability to perform his/her tasks in order to meet the organizational goals and objectives. Studies have found that the commitment to the funding of HRD activities such as training, learning, and development, as well as education for the

employee improves the performance of the business (Kraiger et al., 2014). This goes to support the need to develop employees as a strategic asset in enhancing innovation, competitiveness and market relevance in the current knowledge-based economy. In the world that is gradually turning into a global village and where change is occurring at a rate that can be best described as unprecedented, the need for skilled and adaptable workforce has never been greater (Oginni & Adesanya, 2013).

It is imperative to note that reward and compensation play a central role in encouraging employees to make the organisation achieve its goals and objectives (Sarika, 2016). The performance appraisals, which are the evaluations of the employees' performance and their potential, are believed to be a motivation instrument (Murphy et al., 2019). Thus, this paper has stressed on the need to compensate employees well and provide incentives like performance related pay and other forms of reward as they boost up the employees' morale, their focus towards the organizational goals and objectives, and organizational performance. When

compensation structures are properly put in place, they help in the retention of employees and the employees will have to work hard for the company.

Since SMEs are the major players in the economy and more so in Taraba State where it was estimated that they contributed 99% to the total business, they must be protected. SMEDAN 2018 estimated that 80% of the businesses in the region are SMEs and thus the study aims at establishing the effect of compensation on the SMEs employee Performance in the region. This paper seeks to fill this gap and provide a road map on how compensation can be used to enhance performance among SMEs in Taraba State. The specific objectives of the study were to:

- i. evaluate the effect of wages and salary of employees on the SMEs employee Performance in Taraba State,
- ii. assess the effect of gifts and bonuses for employees on the SMEs employee Performance in Taraba State.

LITERATURE REVIEW AND THEORETICAL FOUNDATION

Compensation

Compensation refers to the total monetary and non-monetary rewards provided to employees in exchange for their services, aimed at motivating and retaining talent to achieve organizational goals. According to Milkovich et al. (2014), compensation encompasses direct financial payments such as salaries and bonuses, as well as indirect benefits like healthcare and retirement plans. It is a critical element of Human Resource Development (HRD) because it directly influences employee motivation and organizational performance (Ofobruku & Omale, 2018). Shaukat et al. (2015) further highlight that effective compensation systems not only support employee development but also enhance the retention of skilled employees, thereby improving the organization's competitiveness in the marketplace.

Wages and Salaries of Employees

Wages and salaries are some of the elements of remuneration that influence the performance of the employees. Reward that comes along with performance appraisals such as promotions and bonuses are some of the most effective ways of motivating employees to improve on the quality of their performance (Shaout & Yousif, 2014). Mathis and Jackson (2008) noted that the relationship between job performance and reward makes the employees to work harder in order to get better results. Nonetheless, performance appraisals have to be done in a way that is objective in order to avoid the negative effects (Marler & Fisher, 2013). As highlighted by Iqbal et al. , (2013), the performance appraisal system if well-structured will lead to motivation and satisfaction of the employees. Therefore, wages and salaries are important tools that can

be used to encourage the employees to channel their energies towards the realization of the organizational goals (Ojukuku, 2012).

The motivation and performance of the employees are the gifts and bonuses that are non-cash and cash incentives that are used in the organization (Manju & Suresh, 2011). They are mostly linked to employees' training, which increases the degree of knowledge and skills that are useful in improving organisational performance (Khawaja & Nadeem, 2013). These rewards help the employees to gain new skills as well as be of more value to the organization (Amin et al. , 2013). In the view of Rohan and Madhumita (2012), when incentives like bonuses are offered to the employees to improve their training and development, it results into decision making and team work thereby leading to improvement in organizational performance. The provision of such incentives ensures that the employees are committed and productive at work hence enhancing organizational success in the long-run.

Concept of Performance

Performance can be defined as the ability of the employee to complete the agreed work in the right manner, within the right time and without incurring excessive costs (Akyuz & Opusunju, 2019). It entails the right utilization of a firm's assets to realize its objectives (George, 2017). Management of businesses requires performance measurement since it enables one to determine whether an organization is achieving its goals. Manizu (2013) defined performance as the extent to which operation achieves its performance objectives for instance, customer satisfaction. According to Walker (2012), performance is the actualization of set goals, with focus on efforts and skills. Gavrea et al. , (2011) also note that business performance is the efficient use of resources and Deming cited by Manizu (2013) noted that without measurement of performance, there cannot be improvement. Hence, it becomes the responsibility of managers to find out which variables have to be measured and improved in order to increase organizational performance.

Growth as described by Brush et al. (2019) includes geographical expansion, more

branches, and new markets. Small enterprises have to exist in the competitive markets since growth reduces the chances of business shutdowns (Rauch & Rijskik, 2013). Organic growth can be achieved through the growth of the customer base while inorganic growth can be through mergers and acquisitions (Penrose, 2016; Davidsson, Achtenhagen, & Naldi, 2016). SMEs are usually defined by asset base, employee number, and turnover and these definitions may differ from country to country (Kamoche, 2019; Okpara, 2019). SMEs account for more than 90% of businesses in Nigeria and are a major employer of labour, though they contribute a moderate percentage to the country's GDP (Abor & Quartey, 2019). They have been identified to be very essential in the advancement of technology, employment opportunities, and economic growth particularly in the rural areas (Kayanula & Quartey, 2015; Fisher & Reuber, 2017). But, it is worthy of note that the sector has remained a critical area of the economy where SMEs in Nigeria are still struggling to achieve their potential.

Empirical Review

This section reviews relevant empirical studies related to the specific objectives of the study, which are:

Effect of Wages and Salaries on the Performance of SMEs

The relationship between wages, salaries, and SME performance has been extensively studied. Adeoye and Elegunde (2019) conducted a study titled "Impact of Compensation Packages on Employee Productivity in Nigerian SMEs." The study aimed to determine how salary structures affect employee performance. Using a cross-sectional survey design, data were collected from 150 SMEs in Lagos State through structured questionnaires. The study employed multiple regression analysis and found that competitive salary structures had a significant positive effect on employee productivity, reducing turnover and enhancing organizational performance.

Nwachukwu et al. (2020), in their study titled "Influence of Wage Structures on SME

Performance in South-South Nigeria,” explored the impact of salary and wage systems on business outcomes. The study used a mixed-method approach, combining quantitative surveys with qualitative interviews from 200 SME employees and owners. The results indicated that SMEs offering attractive wages experienced higher employee engagement, operational efficiency, and increased profitability.

In a study focused on Taraba State, Edeh and Obidike (2021) conducted research titled “Wage Structures and SME Performance in Taraba State.” The study's objective was to examine the relationship between employee compensation and business performance. A descriptive research design was used, and data were collected from 100 SMEs through structured questionnaires. Pearson correlation analysis revealed that higher wages positively influenced employee retention, job satisfaction, and overall SME performance in the state.

Effect of Gifts and Bonuses on the Performance of SMEs

Empirical evidence also highlights the role of gifts and bonuses in enhancing SME performance. Olaniyan and Ojo (2018) conducted a longitudinal study titled “Effect of Financial Incentives on Employee Performance in Lagos SMEs.” The study aimed to assess the impact of bonuses and other rewards on employee motivation. Data were gathered from 120 SMEs through questionnaires and interviews, and thematic analysis was employed. The findings revealed that periodic performance-based bonuses significantly improved employee commitment, reducing absenteeism and enhancing productivity.

Similarly, Musa et al. (2019) conducted a case study titled “Non-Monetary Incentives and Employee Loyalty in North-Central Nigerian SMEs.” The study used a qualitative research design, conducting in-depth interviews with managers and employees of 15 SMEs. The results showed that non-monetary rewards

such as gift vouchers and recognition programs fostered a sense of belonging among employees, leading to higher job satisfaction and organizational growth.

In Taraba State, Ibrahim and Sule (2022) carried out a study titled “Impact of Bonuses on SME Performance in Taraba State.” The study aimed to investigate the effect of performance-based bonuses on employee morale and productivity. Using a survey research design, 200 questionnaires were distributed to employees across various SMEs, and multiple regression analysis was applied. The findings demonstrated that bonuses significantly enhanced employee morale, reduced turnover, and improved overall organizational performance.

Theoretical Framework

This study discussed two relevant theories in this section. The theories are the resource-based view and the strategic human resource management theory.

Resource-Based Theory (RBT)

The Resource-Based Theory (RBT), introduced by Jay Barney in 1991, builds upon Maslow's and Herzberg's motivational theories, emphasizing that a company's long-term competitiveness depends on its unique, durable, and hard-to-imitate resources, particularly human capital. RBT highlights that not all resources lead to competitive advantage, only those that are valuable, rare, costly to imitate, and non-substitutable. It underscores the role of human resources (HR) in achieving sustained competitive advantage through effective HR practices such as recruitment, training, and development (Becker & Huselid, 2006; Pfeffer, 1998). By focusing on internal resources, RBT shifts strategic emphasis from external factors, asserting that motivated and skilled employees can drive enterprise success. This theory is particularly relevant for SMEs in Nigeria, suggesting that well-executed HRM practices can enhance employee competencies and motivation, contributing to organizational success.

METHODOLOGY

The research adopted a survey design to examine the effect of compensation on the performance of SMEs in Taraba State, Nigeria. The sample size of the study were 361 SMEs operating within Jalingo Taraba (Babbie, 2015). Simple random sampling technique was adopted. A structured questionnaire was used to collect data. The study primarily used primary data, and the instrument's validity was confirmed by experts in the field, while reliability was tested using Cronbach's alpha, with all variables scoring above 0.70, indicating satisfactory internal consistency (Sekaran & Bougie, 2010).

Data were analyzed using descriptive and inferential statistics, with regression analysis applied to test the study's hypotheses. The regression model evaluated the effect of compensation factors, such as wages, bonuses, on SME performance. The results were presented using tables and percentages, with the decision rule based on a 5% level of significance to ensure the model's validity (Sekaran & Bougie, 2010).

The regression model used in the study is represented as follows:

Model Specification:

$$\text{SMEs} = \beta_0 + \beta_1(\text{WAS}) + \beta_2(\text{GAB}) + \epsilon$$

Where:

SMEsP = Performance of Small and Medium Enterprises

WAS = Wages and Salaries

GAB = Gifts and Bonuses

β_0 = Constant (Intercept)

t = Error term

This model evaluates how the independent variables (WAS, GAB, JOS, and WOC) contribute to the performance of SMEs in the study area. The significance of each variable's contribution is assessed using regression analysis.

RESULT AND DISCUSSIONS

Table 3: Descriptive Statistics for Combine variables

	Mean Statistic	Std. Deviation Statistic
Top-level decision-making	3.4171	.52016
Wages and Salaries	3.5642	.62442
Gift and Bonusises	3.1350	.53330
SMEs Employee Performance	3.4407	.83903
Valid N (listwise)		

Source: SPSS V24 (2024)

The descriptive statistics for the combined variables in the study provide important insights into the central tendency and variability of key factors influencing the performance of SMEs. The mean values indicate that wages and salaries (Mean = 3.5642) have the highest average rating among the variables, suggesting that employees place significant importance on financial compensation. This is followed by top-level

decision-making (Mean = 3.4171), which also demonstrates a relatively high level of importance in driving performance. Non-monetary rewards (Mean = 3.1350) scored the lowest, reflecting that, while these rewards may still have some value, they are perceived as less impactful on performance compared to financial incentives. The performance of SMEs (Mean = 3.4407) falls between wages and salaries and top-level decision-making,

indicating that these factors are seen as crucial in influencing SME performance. The standard deviations show moderate variability across all variables, suggesting that there is a reasonable level of consensus among respondents regarding the importance of these factors,

though some variation in perceptions still exists. These results suggest that SMEs should focus on enhancing financial rewards and top-level decision-making processes while considering non-monetary incentives as supplementary motivators

Multiple Regression (OLS) Result

Table 2: Dependent variable: Small and Medium Enterprises Performance (SMEs)

Independent variable	Co-efficient	Standard Error	T-Ratios	Sig
Constant	.016	.032	.000	1.000
WAS	.128	.048	-2.696	.007
GAB	.073	.060	-2.492	.013
R = 0.617 ^a	R ² = 0.567	R ² = 0.509	F = 31.565 (.000 ^b)	D-W = 1.542

Source: Extracted from Authour's Computation Using Field Survey Data (2023).

Test of hypotheses

Hypothesis 1

Null Hypothesis (H₀): Wages and salaries have no significant effect on the performance of SMEs in Taraba State.

The hypothesis was tested using a t-test. The results revealed that the t-calculated value ($t = 2.696$) exceeded the critical t-value ($t = 2.000$), leading to the rejection of the null hypothesis. This indicates that wages and salaries have a significant effect on the performance of SMEs in Taraba State. Additionally, the p-value ($p = .007$) was less than the threshold of .05, confirming that the effect is statistically significant, $t(df) = 2.696, p = .007$.

Hypothesis 2

Null Hypothesis (H₀): Gifts and bonuses have no significant effect on the SMEs employee Performance in Taraba State.

The second hypothesis was tested using a t-test. The results showed that the t-calculated value ($t = 1.492$) was less than the critical t-value ($t = 2.000$), leading to the acceptance of the null hypothesis. This suggests that gifts and bonuses do not significantly affect the SMEs employee Performance. The p-value ($p = .137$) exceeded the .05 significance level, indicating that the effect is statistically insignificant, $t(df) = 1.492, p = .137$.

Discussion of Findings

This study provides valuable insights into the influence of compensation strategies on the performance of small and medium-sized enterprises (SMEs) in Taraba State. The findings reveal that wages and salaries have a statistically significant impact on SME performance, while gifts and bonuses, though slightly positive, are not statistically significant. These results hold important implications for SME owners, managers, and policymakers in the region, offering guidance on how to enhance organizational performance and maintain competitiveness.

The significant relationship between wages and salaries and SME performance underscores the critical role of fair and competitive compensation in driving employee productivity and business success. This finding is consistent with the work of Sanyal and Hisam (2018), who emphasized that well-structured salary systems enhance trust, employee satisfaction, and overall performance. Similarly, Septiani and Gilang (2017) and Zubair (2016) highlighted that financial compensation is a primary motivator for employees, directly impacting organizational outcomes. Therefore, SMEs in Taraba State should prioritize establishing competitive wage structures to attract and retain skilled employees. Furthermore, linking salaries to performance through structured salary increments or bonuses could further motivate employees and improve overall business performance.

In contrast, the study found that gifts and bonuses had a slight but statistically insignificant effect on SME performance. This result aligns with previous research by Ikupolati et al. (2017) and Nizam and Shah (2015), who suggested that while non-monetary incentives like bonuses and public recognition can boost employee morale, they may not translate directly into measurable performance improvements. Although gifts and bonuses may not significantly impact long-term performance, they can still serve as effective short-term motivational tools. SME managers could consider using personalized rewards, public acknowledgment, or other non-financial incentives to recognize exceptional employee efforts and maintain morale, particularly in culturally relevant contexts where recognition holds significant value.

CONCLUSION AND RECOMMENDATIONS

In conclusion, this study highlights the critical role of wages and salaries in driving the SMEs employee Performance in Taraba State, with significant positive effects observed on productivity. However, while gifts and bonuses offer some motivational benefits, their impact on long-term performance is not statistically significant. These findings underscore the importance of competitive compensation structures and highlight the need

for SMEs to invest in financial incentives that directly affect employee output. SME owners and managers in the region should focus on establishing robust salary systems that reward performance and contribute to overall business growth, while also considering non-financial incentives for short-term motivation and employee recognition. Based on the findings of the study the following recommendations were made:

1. **Establish Competitive Salary Structures:** SME owners in Taraba State should prioritize developing and implementing competitive wage systems that reflect industry standards. Offering performance-based salary increases and linking compensation to organizational goals will help retain skilled employees, boost motivation, and enhance overall SME performance.
2. **Integrate Non-Monetary Incentives:** While financial compensation is crucial, SME managers should also incorporate non-financial incentives such as personalized gifts, public recognition, and career development opportunities. These incentives can complement wages and help foster a positive work culture, improve employee morale, and contribute to the long-term success of the organization.

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