

EFFECT OF COMPENSATION POLICIES ON EMPLOYEE PERFORMANCES IN SMALL AND MEDIUM ENTERPRISES IN ZAMFARA STATE, NIGERIA

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Abstract

The alignment of employee compensation with business objectives constitutes a major challenge among SME operators in Zamfara State. Consequently, this study investigates compensation policies such as performance-based pay, incentive-based pay and competency-based pay and their effects on employee performance. The study adopts a survey research design, with a sample size of 302 employees extracted from 1236 registered SMEs in the state, determined by the use of Taro Yamane formula. A structured questionnaire designed using a five-point Likert scale was used. Data were analyzed using the Partial Least Squares Structural Equation Model (PLS-SEM), incorporating measurement models (including outer loadings, validity, and reliability) as well as structural models for hypothesis testing. The study rejected the null hypotheses and confirmed that performance-based pay, incentive-based pay, and competency-based pay have a statistically significant effect on employee performance in selected SMEs in Zamfara State. It is therefore recommended that employers design transparent, fair, and well-structured incentive programs such as bonuses, commissions, and profit-sharing to sustain employee motivation. Additionally, SMEs should invest in employee training and career development programs to strengthen the link between compensation and expertise.

Keywords: *compensation, performance based, incentive-based, competency-based, SMEs,*

INTRODUCTION

Most organizations across the globe have expressed a great deal of interest and concern about employee performance because it determines how productive the organizations are (Rañeses, et al., 2022). Organizations are established with objectives, and the only way to accomplish these objectives is to use resources, such as personnel, equipment, and cash. While each of these resources are significant to the achievement of organizational goal. People or human resources, are the most important element since they are the backbone of human resource management and because they use other resources to complete tasks (Luzon, 2022). Any forward-thinking organization knows that meeting goals is essential to performance, in the past this has resulted in employee terminations or salary deductions for missing targets. The notion of employee performance is multifarious, Agonafer, (2020) makes a distinction between task and contextual performance. Contextual performance involves behaviors that support the organizational, social, and psychological environment in which task performance occurs. It involved helping coworkers with their tasks, volunteering for extra work and showing persistence and enthusiasm. In contrast, task performance refers to the core job responsibilities and duties that are formally required by an employee's role. It includes the technical processes and activities that directly contribute to the production of goods or the provision of services, such as cashier accurately processing customer transactions and for mechanic repairing vehicles as per standard procedures with a Job-specific and measurable. Overall, performance is determined by an individual's aptitude, effort, and skill within a particular setting. This is impacted by a variety of factors, including skill development, work-life balance, basic pay, and employment benefits. Organizations face competition and a range of employee demands in the globalized world. Therefore, their capacity to draw in and hold on to a talented workforce is fundamental to their survival in the competitive environment.

Compensation policies play a critical role in shaping employee performance by aligning rewards with desired behaviors and outcomes. When effectively implemented, strategies such as performance-based, incentive-based, and competency-based pay can significantly enhance individual and organizational performance. Ada et al. (2023) assert that performance-based pay improves employee motivation and commitment by directly linking financial rewards to measurable outcomes, thereby encouraging higher productivity. Similarly, Andang, et al., (2023) and Shahvari, et al. (2022) show that incentive-based pay boosts employee effort and output when goals are clearly defined and rewards are timely and fair. Moreover, Onuorah et al. (2019) demonstrate that competency-based pay enhances performance by

promoting continuous skill development and recognizing expertise, which leads to better job execution and innovation. Collectively, these compensation policies create a performance-driven culture where employees are motivated not only by financial gains but also by opportunities for growth and recognition, ultimately leading to improved overall performance.

Employee compensation and performances are critical drivers of productivity and organizational success, particularly in Small and Medium Enterprises (SMEs) (Daramola & Adedeji, 2019). However, many SME managers in Zamfara State struggle to implement effective compensation strategies that align employee motivation with business objectives (Mbah, et al. 2021). Traditional salary structures often fail to energized high performance, leading to low productivity, high turnover rates, and diminished employee engagement (Ngozi & Edwinah, 2022). The persistent of these problems risk continued inefficiency, reduced profitability, and limited business growth, ultimately affecting their sustainability.

However, studies of Nnanna et al. (2023), Ogwu et al. (2023), Richard et al. (2023), Oladejo et al. (2024), Okpe and Isichei (2024) and Nnorom & Enyinnaya (2025) on compensation strategies have been conducted in advanced economies, leaving a gap in empirical evidence regarding their effectiveness in less developed society such as Zamfara State. Environmental variation, Economic constraints, managerial limitations and volatile business environments further complicate the adaptation of these compensation models in the region. Therefore, the researcher intends to investigate effect of compensation policies such as performance-based pay, incentive-based pay, and competency-based pay on employee performance. This study is said to be guided by hypotheses stated in a null form.

H₀₁: Performance based pay has no significant effect on employee performance in selected SMEs in Zamfara State.

H₀₂: Incentive base pay has no significant effect on employee performance in selected SMEs in Zamfara State.

H₀₃: Competency base pay has no significant effect on employee performance in selected SMEs in Zamfara State.

LITERATURE REVIEW

Compensation

Employee compensation is broadly defined as all forms of monetary and non-monetary rewards provided to employees in exchange for their services to an organization. According to Nnorom and Enyinnaya (2025), employee compensation includes salaries, wages, bonuses, incentives, benefits, and other forms of recognition that aim to motivate employees, enhance job satisfaction, and retain talent. This emphasize that modern compensation goes beyond base pay to encompass comprehensive packages that align employee contributions with organizational goals, thereby improving both individual and corporate performances.

Ogwu, et al., (2023) provides a comprehensive perspective on compensation policies by examining the effects of various pay structures including performance-based, incentive-based, and competency-based pay on employee commitment and performance. The study defines performance-based pay as rewards tied to employees' achievement of specific performance goals which rely on past performance, incentive-based pay as financial bonuses provided for meeting or exceeding targets which is future motivation for encouraging good performance, and competency-based pay as compensation aligned with the skills, knowledge, and abilities that employees bring to their roles.

Performance-Based Pay

Performance-based pay compensation is tied directly to an individual's performance, typically based on measurable outcomes like sales targets, performance appraisals. It focuses on past performances, specifically rewarding employees on what they have achieved in the past. Performance pays include rewarding employee with bonuses after meeting annual performance goals, pay raises based on performance evaluations and Commissions based on monthly sales. The target is to reward excellence and motivate consistent high performance (Usman & Ahmed, 2023).

Performance-based compensation is a system where employees are compensated based on their performance improvement through evaluating past record of performance and giving rewards accordingly (Grabner & Martin, 2021). Ada et al. (2023) defines performance-based pay as a compensation strategy where employees are rewarded based on the results they achieve in the past or the quality of their job performance, rather than solely on job position or seniority. Similarly, Andang, et al., (2023) define performance-based pay as a compensation system in which employees' earnings are directly linked to their individual or team performance. They emphasize that this type of pay structure is designed to motivate employees by rewarding them for achieving specific, measurable outcomes or targets.

Incentives

Incentive base pay is a compensation designed to motivate employees to achieve specific goals or behaviors often used proactively to encourage future performance, it's more about motivating for future performance than rewarding past achievements. Example, extra pay for working weekends, Attendance incentives and Safety or productivity bonuses. The goal of incentives-based pay is to encourage desired behavior relating to future and improve productivity or specific outcomes (Usman & Ahmed, 2023).

Agyemang & Osei, (2022) define incentives as a monetary or non-monetary rewards designed to motivate employees toward achieving specific goals or desired behaviors within an organization. Unlike performance-based pay, which compensates past achievements, incentives are typically forward looking, aiming to influence future actions such as productivity, attendance, innovation, or teamwork. They serve as a strategic tool to align employee behavior with organizational objectives, particularly in dynamic environments like SMEs, where resource optimization and employee engagement are critical. Incentives may include bonuses, profit-sharing, gift vouchers, paid time off, or public recognition, and their effectiveness depends on how well they are tailored to employees' needs and organizational culture (Chukwuma & Ibrahim, 2023).

Competency Based Pay

Competency-based compensation is a system that rewards employees based on their skills, knowledge, abilities, and behaviors that contribute to organizational success regardless of current performance results. It focuses on who the employee is and what they can do, rather than what they have achieved. This is to encourage continuous development, enhance workforce capability, and retain skilled talent. Onuorah et al.(2019) define competency-based compensation as a system in which employees are rewarded based on their skills, knowledge, and competencies rather than just their job titles or seniority. This approach focuses on recognizing and compensating employees for the specific competencies they possess and demonstrate in their roles, such as problem-solving abilities, technical expertise, and interpersonal skills. Andang, et al., (2023) define competency-based pay as a compensation system that ties employees' earnings to their competencies, which include their skills, knowledge, and abilities relevant to their job roles. This system rewards employees for acquiring and demonstrating specific competencies that are critical to their performance and the organization's success.

Various studies, such as Monica and Sarvamangala (2022), and Ada et al. (2023), posit that competency-based pay inspires employees to improve their skills, knowledge, and innovativeness. By linking compensation to competencies, organizations aim to motivate employees to continually develop their abilities and enhance overall performance, thereby aligning individual capabilities with organizational goals.

Employee Performance

Employee performance refers to the degree to which an employee effectively fulfills job responsibilities and contributes to the achievement of organizational goals. It encompasses the quality, efficiency, and consistency of work outputs, as well as behaviors aligned with organizational expectations. Pradhan & Jena, (2017) define employee performance as the extent to which tasks are accomplished in a manner that supports organizational objectives, emphasizing both efficiency and effectiveness.

Similarly, Bui, & Nguyen, (2024) view it as the measurable outcomes of an employee's efforts in meeting job expectations and standards. Adisa et al. (2021) further describe employee performance as a function of how well individuals utilize their skills and competencies to achieve specific job objectives under varying conditions. These definitions highlight that employee performance is not only about task completion but also about the strategic value of the contributions made to the organization.

Performance Based Pay and Employee Performance

Mehak and Ritik, (2023) a study on the effects of the pay for performance on employee work attitude, the study was conducted in Phagwara Punjab. The study aims to examine the relationship between performance pay's efficacy and the pay matrix that rewards high performers with bigger annual merit increases. Variables under study are pay performance and employee performance. A descriptive survey research design was employed for the study and structured questionnaire were administered on the targeted population. Data were analyzed using descriptive statistics and correlation coefficient model. The research found that an approach for improving the efficacy of performance pay is a pay matrix that rewards high performers with a bigger annual merit increase,

Nyberg, et al., (2016) conducted a study titled pay-for-performance's effect on future employee performance: integrating psychological and economic principles toward a contingency perspective. The aim of the study is to identify the relationship between the characteristics of pay for performance and employee performance. With a data collected from a large U.S. based insurance company. The variables on focus in the study are bonus pay future performance, merit pay future performance and employee performance. The study engaged descriptive survey research design and structured questionnaire were administered on the drawn sample from the population of the study. Data were analyzed using regression coefficient model. The result shows that both merit and bonus pay are positively associated with future performance.

Iyanda, et al, (2015) carry out a study titled pay-performance relationship: an empirical study on employee performance in the context of Nigeria, the research aimed to investigate the effect of organizational benefits on employee performance in the context of Nigeria. The study adopted cross sectional survey method, with a structured questionnaire administered to the sample drawn from the population of the study. Data were analyzed using regression analysis and the study found that there is a positive significant relationship between performance-based pay and employee performance, organizational benefits and employee performance.

Onuorah, Okeke, & Ikechukwu, (2019) conducted a study titled Compensation Management and Employee Performance in Anambra State, Nigeria. The study aims at investigating the influence of performance-based compensation, competency-based-compensation and equity based-compensation on employee performance. The study adopts descriptive survey research design. The sample size for the study consists of 257 employees drawn from the population of the study. The instrument for data collection is a structured questionnaire. In analyzing the data for the null hypotheses, Z-test was used to test the hypotheses at 0.05 level of significance. Equity based compensation has no negative significance effect on employee performance in Nigeria organization. Competency based compensation has no negative significance effect on employee performance in Nigeria organization. Performance based compensation has no negative significance effect on employee performance in Nigeria organization. Therefore, the study conclude that compensation management has significance effect on employee performance in Nigeria organization.

Francis and Ophelia, (2011) conducted a study titled Performance-Based Pay as a Motivational Tool for Achieving Organisational Performance: An Exploratory Case Study manufacturing company in Ghana as a case study. The main objective of the study was to assess the impact of performance-related pay on the motivation of employees and, subsequently, on the achievement of organisational goals. The sample comprised 20 managerial staff and 60 non-managerial staff. The main research instrument was the questionnaire. A two-way ANOVA table was used to test the main hypotheses. The result of the study

revealed that the effect of performance-based pay on employee performance is minimal; and the motivational effect of merit pay is often blunted by biased performance appraisal.

Incentives and Employee Performance

Al-Zahrani and Al-Harbi (2023) conducted a study on the impact of incentives on employee performance and job satisfaction at General Hospital Madinah Saudi Arabia. The study aimed to identify the incentive system used and its impact on employee performance and satisfaction. The study employed a descriptive design approach of which questionnaire was administered to the sample drawn from the population of the study. The data collected were analyzed using SPSS and Simple regression equation to test the study hypotheses. It was found that there is a statistically significant positive effect of incentives on job performance at significance level.

Emily, Ronald & Lawrence, (2015). Effects of Employee Incentives on Employee Performance in Private Universities in Kenya: A Case of Kabarak University. The study aimed to ascertain the effects of employee incentives on employee performance in Kabarak University. The study population comprised of all the employees of Kabarak University, selected as respondents; thereby a census study was carried out. The study involved use of structured questionnaire to collect the data. Analysis of the collected data was done by use of Mann Whitney U test, factor analysis and Chi-square, and presented using descriptive statistics in frequency tables and charts. Financial incentives that are perceived to have significant influence on employee motivation include: salary, insurance financing, retirement benefits, and performance-based rewards, holiday, overtime pay, and loan entitlement.

Cross, (2019) conducted a study titled Effects of Incentives on Employees Productivity, Abuja, Nigeria. The study aimed to investigate the effects of incentives on employee's productivity. The study is a survey study using questionnaires that were designed based on the objectives. Data were analyzed using Pearson Product Moment Correlation Coefficient. The findings of this study revealed that there was a positive relationship between incentives and productivity, alongside monetary incentives, another key factor in motivating employees is to involve them in the process aimed at attaining organizational effectiveness because without their co-operation the organization cannot perform.

Competency-Based Based Pay and Employee Performance

Monica and Sarvamangala (2022) in a study titled competency-based compensation system investigated how the competencies in the workplace help in compensating the employees. The study was conducted in Indonesia, the variable under study includes motive attitude, skills and knowledge experience. The study adopted theoretical approach and secondary data were used for the study. The study found that Competency-based pay plans may result in increased incentive for the worker to become a high hard worker.

Eno, et al., (2015) conducted a study titled managing employee reward: implementing competency-based pay as an alternative to seniority-based pay. The study aimed to analyse the complacency of competency-based pay as an alternative to seniority pay and the study was conducted in Nigeria. The research variable under study includes; reward for knowledge and reward for skill. The study adopted literature review and secondary data for the study. The study suggested that seniority-based pay was reviewed and competency-based pay was proposed as an alternative reward strategy.

Ilhaamie, Zainal, and Yuserrie, (2009) conducted research titled competency-based pay and service quality: an empirical study of Malaysian public organizations. This research aimed to investigate the relationship between the extent of competency-based pay practices and service quality. A mail survey was employed using a simple random sampling technique in order to ensure that each public organization located in Malaysia had an equal chance of being selected as a respondent. Service quality was measured using the SERVQUAL instrument. The findings suggest that there is a positive relationship between competency-based pay practices and service provision,

Alice, (2012) conducted a study on When competency-based pay relates to creative performance: The moderating role of employee psychological need in Hong Kong. This study examines employees' perceptions of competency-based pay and their creative performance, along with the moderating role of psychological needs in this relationship. A survey design with a sample of 219 Hong Kong Chinese employees from the hotel and service sectors was adopted. Standard deviations, correlations, and reliability coefficients were used to analyze the data. The results support that employee creativity is predicted by both competency-based pay (reward for knowledge and reward for skill) and individual characteristics and individual characteristics (need for achievement, need for power).

This study has extensively explored compensation strategies such as performance-based and incentive-based pay and competency-based pay, most studies have focused on large organizations in urban or developed settings. There is a scarcity of research examining how these strategies influence employee performance within small and medium-sized enterprises (SMEs), particularly in regions like Zamfara State, Nigeria. Furthermore, competency-based pay, despite its importance in promoting skills and capabilities, remains under-investigated in empirical studies. Most prior research has not incorporated all these three proxies performance-based pay, incentive-based pay, and competency-based pay into a single framework to assess their combined and individual effects on employee performance. This study fills that empirical gap by providing context-specific evidence from SMEs, thereby contributing to both academic literature and practical policy development.

Equity Theory

The study underpins Equity Theory that posits employee's fairness in the workplace by comparing their contributions such as time, effort, skills and rewards such as salary, recognition, rewards and benefits to those of their peers. When employees perceive a balance between their input-output ratio and that of others, they are likely to feel satisfied and motivated. However, perceived inequity may lead to dissatisfaction, which can manifest as reduced productivity, withdrawal, or attempts to reestablish fairness. Recent studies reinforce the relevance of this theory in contemporary work environments. For instance, Ohunakin, & Olugbade, (2022) found that perceived inequities in compensation significantly affect employee engagement and turnover intentions in Nigerian SMEs. Similarly, Polat, (2022) emphasized that equity in reward systems boosts employee morale and organizational commitment, particularly in resource-constrained settings. These findings affirm that employees' sense of fairness remains a critical factor in shaping workplace attitudes and behaviors. This study is supported with equity theory, which emphasizes fairness in compensation, reducing dissatisfaction. This theory helps to retain employees by fostering fairness and encouraging performance improvement. This approach is particularly useful in SMEs, where limited resources require strategic use of both financial and non-financial rewards to maintain a productive workforce.

METHODOLOGY

This study adopted survey design. The population of this study comprised all the SMEs registered with SMEDAN in Zamfara state. According to records obtained from SMEDAN and NBS report (2017) there are forty-eight thousand seven hundred and sixty-seven (48,767) employees working within the SMEs in the state. Taro Yamane formula was used to determine the sample size of 397 employees, the filled and return questionnaire is 302 amounting to 79% rate of return and stratified sampling technique was used for the study. A structured questionnaire designed using a five-point Likert scale was used. Data was analysed using a Partial Least Square Structural Equation Model (PLS-SEM) and using Path Coefficients to evaluate the hypotheses that were put forth at the 0.05 level of significance

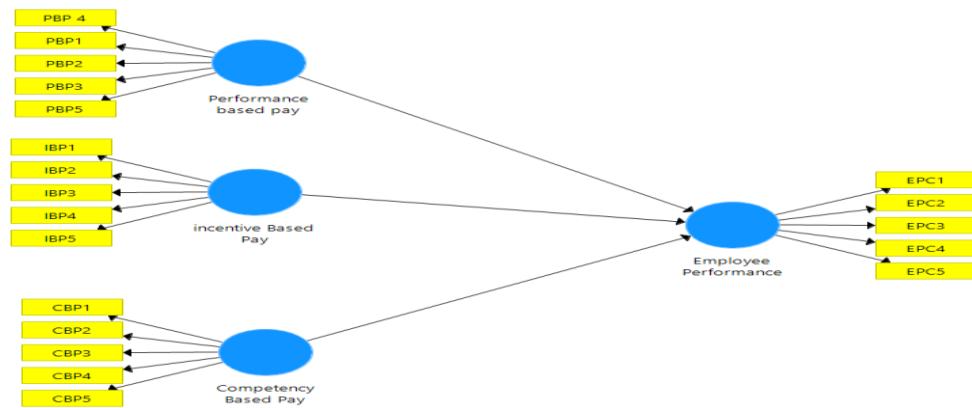


Fig.1: Theoretical Model on compensation policies and Employee Performance in Small and medium Enterprises in Zamfara state, Nigeria.

RESULTS AND DISCUSSION

Out of the three hundred and seventy-nine (379) distributed questionnaires, 302 were properly filled and returned giving a response rate of 79%. Subsequently, all further analyses were done using 302 responses data.

Assessment of Measurement Model

In assessing the measurement model, the researcher began by assessing the item outer loadings. As a rule, loadings above 0.708 are recommended, as they indicate that the construct explains more than 50percent of the indicator's variance, thus providing acceptable item reliability (Hair, et al., 2019). Items with loading lower than 0.7 were deleted from the model as seen in figure 2 below.

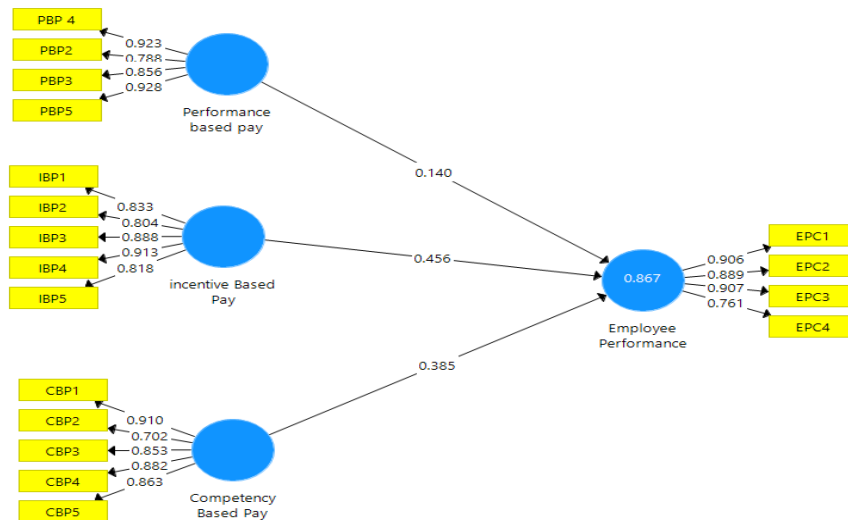


Table 4.2: Measurement Model Items

S/N	Variables	Factor Loadings	Cronbach Alpha	Composite Reliability	Average Variance Extracted (AVE)	No of Items
1	Performance Based pay (PBP)	PBP2 0.788 PBP3 0.856 PBP4 0.923 PBP5 0.928	0.898	0.929	0.767	4
2	Incentives Based pay (IBP)	IBP1 0.833 IBP2 0.804 IBP3 0.888	0.906	0.930	0.727	5

3	Competency Based Pay (CBP)	IBP4 0.913	0.898	0.925	0.714	5
		IBP5 0.818				
		CBP1 0.910				
		CBP2 0.702				
		CBP3 0.853				
4	Employee Performance (EPC)	CBP4 0.882	0.889	0.924	0.753	4
		CBP5 0.863				
		EPC1 0.906				
		EPC2 0.889				
		EPC3 0.907				
		EPC4 0.761				

Source: Smart PLS Output, 2025

Composite reliability of Jöreskog's (1971) was applied to test for internal consistency of the study. All the values fall within the Hair et al. (2019) rating of good consistency 0.70. The Cronbach alpha value were above 0.60 which is the minimum threshold as recommended by Sekaran (2010). To test for the convergent validity, the average variance extracted (AVE) was used. All the latent variables showed values greater than 0.50 which indicates that the constructs explain at least 50 percent of the variance of its items. According to Henseler, et al., (2015) the Fornell-Larcker criterion does not perform well when explaining discriminant validity, particularly when the indicator loadings on a construct differ only slightly.

The Variance Inflation Factor (VIF) was used to evaluate collinearity of the formative indicators. All the VIF values were less than 5 indicate the absence of critical collinearity issues among the indicators of formatively measured constructs (Hair, et al., 2019).

R Square Table

	R ²	R Square Adjusted
Employee Performance	0.867	0.866

Source: SmartPLS Output, 2025

The R-square value stood at 0.867 indicating that compensation strategies proxied by performance-based pay, incentive-based pay and competency-based pay accounts for approximately 87% variation in employee performance. The remaining 13% variation could be explained by other factors not included in the study. Based on Hair, et al., (2019), the r-square is considered moderate.

The result of the path analysis is presented in the table below:

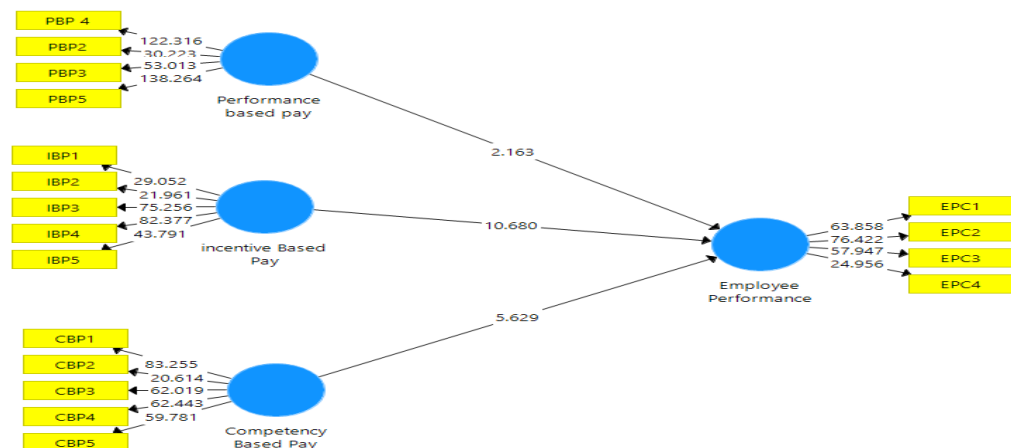


Table 4.4: Path Coefficients

Hypotheses' Variable	B	T-Value	P-Value	Decision
Performance based pay ->Employee				
Ho ₁ Performance incentive Based Pay -> Employee	0.140	2.163	0.031	Rejected
Ho ₂ Performance Competency Based Pay -> Employee	0.456	10.680	0.000	Rejected
Ho ₃ Performance	0.385	5.629	0.000	Rejected

Source: SmartPLS Output, 2024

The result from the analysis indicates that **Performance based pay** has positive and significant effect on employee performance. The decision was reached based on the t-value of 2.163 which is greater than 1.964 and a beta value of 0.140 with a p-value of 0.000. This finding implies that efforts by SME managers to apply Performance based pay as a policy to enhance employee productivities have a significant impact. This may be connected to the fact that employees are more motivated and committed when they perceive a direct link between their performance and financial rewards, leading to improved effort, focus, and goal-oriented behavior in the workplace. This finding is in agreement with that of Mehak and Ritik, (2023), Nyberg, et al., (2016), Iyanda, et al, (2015) Onuorah, Okeke, & Ikechukwu, (2019) who found that there is a positive and significant effect of Performance based pay on employee performance in selected SMEs in Zamfara state.

The result from the analysis indicates that Incentive Based Pay has a positive and significant effect on Employee Performance. The decision was reached based on the t-value of 10.680, which is greater than 1.964, and a beta value of 0.456 with a p-value of 0.000. This finding implies that Incentive Based Pay compensation policy has greatly impacted Employee Performance, and this may be as a result of employees feeling more valued and driven to meet or exceed performance expectations when additional rewards are tied directly to their achievements, thereby fostering higher levels of motivation, engagement, and productivity. This finding is in agreement with that of Al-Zahrani and Al-Harbi (2023), Emily et al. (2015). Cross, (2019) who found positive and significant effect of Incentive Based Pay on employee performance in selected SMEs in Zamfara state.

The result from the analysis indicates that Competency Based Pay has a positive and significant effect on employees' performance. The decision was reached based on the t-value of 5.629, which is greater than 1.964, and a beta value of 0.385 with a p-value of 0.000. This finding implies that Competency Based Pay has greatly impacted employee performance, and this may not be unconnected to the fact that rewarding employees based on their skills, knowledge, and demonstrated abilities encourages continuous learning, enhances job mastery, and fosters a performance-driven culture where employees strive to develop competencies that directly contribute to organizational success. This finding is in agreement with that of Ilhaamie, Zainal, and Yuserrie, (2009), Eno, et al., (2015), Monica and Sarvamangala (2022), who found positive and significant effect of Competency Based Pay on employee performance in selected SMEs in Zamfara state.

CONCLUSION AND RECOMMENDATIONS

In conclusion, the study demonstrates that compensation policies specifically Performance-Based Pay, Incentive-Based Pay and Competency-Based Pay, have a significant and positive impact on employee performance in selected SMEs in Zamfara State. Among the three, Incentive-Based Pay shows the strongest influence, followed by Competency-Based Pay, and then Performance-Based Pay. These findings highlight the importance of strategically structured compensation systems in enhancing employee motivation, productivity, and overall organizational effectiveness. Therefore, SME managers and policymakers should consider implementing and strengthening performance-driven and skill-based compensation frameworks to improve employee outcomes and drive business growth.

Based on the conclusions the study therefore recommends that;

1. To effectively utilize performance-based pay, SMEs need transparent and fair performance evaluation mechanisms. Regular appraisals based on measurable outcomes will help ensure that compensation reflects actual employee efforts and achievements, fostering a culture of accountability and performance.
2. SMEs should prioritize developing clear and achievable incentive-based pay systems that can motivate and directly reward employees for meeting performance targets. This will help sustain motivation and drive consistent productivity.
3. Business owners and Human Resource managers should link employee compensation to individual skills, knowledge, and professional development. This encourages continuous learning and ensures that employees are rewarded for their competencies and contributions.

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	SA 5	AG 4	UN 3	DA 2	SD 1
Performance pay					
My organization rewards me financially based on how well I perform my job /duties.					
I clearly understand criteria used to determine performance-based pay in my workplace					
Performance based pay motivate me to work harder and achieve better results there is a fare and transparent system for evaluating employee performance for pay increase.					
I am satisfied with performance-based pay system used by my organization					
Incentives					
I receive additional financial incentives when I meet or exceed my target					
The incentive pay system in my organization encourage me to be more productive					
I believe the incentives based pay I receive reflects on my actual contribution to the organization					
The process for awarding incentives is transparent in my organization					
Incentives based pay is an effective way to recognize and reward employee performance					
Competency					
My salary reflects the level of skills and competencies I bring to my job					
Employee with higher qualification receive better pay in my organization					
I am encouraged to develop new skills because they lead to better pay					
Competency based pay in my organization fairly rewards employee who improve their knowledge					
I clearly understand how my competencies affect my compensation					
Employee Performance					
I consistently meet the performance targets set by my organization					
I complete my tasks efficiently and on time					
I take initiative to solve problems and improve work processes					
My work quality meets up with the standard set					
I contribute to the goals and success of my department					