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Employee Rewarding System and Small and Medium Scale Enterprises' Performance In Developing Economy

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ABSTRACT

This study examined the relationship between employees' rewarding systems and small and medium scale enterprises in Lagos State, Nigeria. The study employed the survey research design. The study purposefully selected a sample of 100 respondents from small and medium-sized businesses in Lagos State's central business district. The questionnaire was the primary tool for gathering information. Data generated were analyzed using both descriptive and inferential statistics. Based on the analysis, the finding shows that pay influences the rewarding employees' system have a significant relationship with small and medium scale enterprises' performance at a value of = .327. Results also show that both employees' direct financial reward and non-financial benefit have significant positive effects on small and medium scale enterprises at a value of F= 27.189 and 131.,44< 0.05, respectively. The study recommends that for SMEs to attain optimality in performance, adequate attention should be given to employees' welfare.

Keywords: Employees, Human Resources, **SMEs**, Performance

1 Introduction

Economies worldwide and especially in the developing region tend to grow if proper attention is given to Small and Medium Scale Enterprise development within those various economies. Despite their proclivity to expand the economy, these varied SMEs cannot function in isolation. It is the concern of organizations worldwide to strive for effective human capital strategies to enhance their productivity. In a growing company, employee productivity is a critical aspect of overall performance. Employees and other stakeholders in their environment of operation play a significant role in their success. Every business requires a strategic reward system to address critical areas of compensation, benefits, recognition and appreciation as motivating factors for improved performance. Rewarding employees have been linked to the organization's workforce's drive to perform better. On the other hand, organisations face a dilemma in deciding which types and combinations of rewarding tools to deploy. Human resource is a social animal whose behaviour is not predictable. Still, firms or organizations require an optimal performance of this category of resource for increased productivity in their activities, hence, the need for an improved and robust reward system. An employee reward system refers to programs set up by a company to reward performance and motivate employees on individual and group levels (Ritika, 2020).

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Schular and Jackson (1996) argued that the relationship of rewards, motivation and job satisfaction of employees is of significant importance to the success of both public and private sectors. As firms strive to attain optimal success in their activities, employees want to get two broad types of rewards (financial and non-financial). It is argued that rewards contribute to improving the satisfaction level of workers, and this tends improved performance (Dewhurst, 2010). Financial rewards mean pay-for-performance such as performance bonuses, job promotion, commission, tips, gratuities and gifts Etc. Non-financial rewards are non-monetary/non-cash, and it is social recognition such as acknowledgement, certificate and genuine appreciation Etc. The non-financial reward is also called material reward (Neckermann & Kosfeld, 2008). SMEs pay employees for their contribution to the success of the business. Therefore, pay must be linked to the system or process and signal expected behaviours and outcomes.

Statement of the problem

Small and Medium Scale Enterprises, though, have been found to provide scour for economic problems of the world's developing nations; their activities have been found to involve human resources as an agent of change creation as they cannot operate in a vacuum. On the other hand, employee dissatisfaction is a significant issue in small and medium-sized businesses (SMEs). Job satisfaction is a form of intrinsic motivation. It refers to a worker's overall attitude toward their employment. That is, an organizational reward system often has a significant impact on the level of employee job satisfaction (Olofin and Folawewo, 2006). For instance, if everyone receives an across-board pay increase of 10 per cent. The reward provides little in the way of a sense of success. However, if pay increase is related directly to the output, an employee who receives a healthy pay increase will likely experience accomplishment and satisfaction. Sathyanarayana and Kishore (2013) examined human resource management practices and the financial performance of small and medium-sized enterprises in India. They concluded that firms could reduce employee turnover by implementing compensation and benefits strategies. Most of these works were examined with specific aspects of the reward system, thus requiring further investigation. This study, therefore, examines the rewarding employee system and small and medium scale enterprises, performance in developing economies with attention to details encompassing the significant areas of intrinsic and extrinsic nature of the rewarding system.

Objectives of the Study

The primary goal of this study is to look into the impact of employee reward systems on the success of developing-country small and medium-sized businesses, emphasising Nigeria's Lagos State. Other specific objectives include:

1. To examine the relationship between the reward system and employees' performance.
2. To assess the effects of employees' direct financial reward on Small and Medium Scale Enterprise performance in Lagos State.
3. To evaluate the effect of employees' non-financial benefits on Small and Medium Scale Enterprise performance in Lagos State.

Research Hypotheses

Ho_1: There is no link between employee reward programs and the performance of small and medium-sized businesses in Lagos State.

Ho_2: Employees' direct financial reward does not affect Small and Medium Scale Enterprise performance in Lagos State.

Ho_3: Employees' non-financial benefit does not affect Small and Medium Scale Enterprise performance in Lagos State.

2 Conceptual Review

The Concept of Reward System.

According to Armstrong (2001), a reward system consists of integrated policies, processes, and practices for rewarding its employees following their contribution, skill and competence, and market worth. The reward system is built around the organization's reward philosophy, strategies, and policies. It includes processes, practices, structures, and procedures for providing and maintaining appropriate types and levels of compensation, benefits, and other reward conditions. According to Obisi (2003), A Reward system is a prize given to employees to induce their performance. Robert (2005) defines a reward system as developing and implementing strategies, policies, and procedures that help the organization achieve its objectives by obtaining and keeping the people it needs and increasing their motivation and commitment. Johnson et al. (2010) outline the aims of reward system to include: to recruit, retain, and encourage employees in order to help the organization achieve its long- and short-term objectives by ensuring that the appropriate personnel are in place and to meet employees' expectations that their work and contributions will be handled equitably, reasonably, and consistently. Intrinsic and extrinsic rewards are the two categories of rewards identified by Neckermann and Kosfeld (2008).

Intrinsic Rewards

Intrinsic incentives, also known as non-monetary benefits, are built into an activity and are not dependent on the presence or acts of another person or item. Intrinsic is concerned with the feeling of being noticed, acknowledged for a job well done, and having a voice in whatever position is being filled.

Extrinsic Reward

Extrinsic rewards do not come naturally or inherently from activity performance but are administered to a person by external agents. Money, retirement benefits, health insurance plans, compensation, salary, bonus, and other reasons are examples of extrinsic rewards.

Concept of Small and Medium Scale Enterprises

According to the National Council of Industries, small and medium enterprises (SMEs) are businesses with total costs of less than two hundred million naira (N200,000,000.00) excluding land. SME's (Small and Medium Enterprises) are celebrated in almost every country and state. SMEs have been accurately referred to as "the engine of growth" and "catalysts for socio-economic transformation of any country" because of their vital roles in the development and expansion of diverse economies. SMEs are a powerful vehicle for achieving national economic goals such as job creation and poverty reduction at a cheap cost of investment, as well as the development of entrepreneurial skills, indigenous technology is included. Other intrinsic benefits of thriving SMEs include access to infrastructural facilities as a result of their presence in their surroundings, the stimulation of economic activities such as suppliers of various items and distributive trades for items produced and or needed by the SMEs, and the improvement of the standard of living of SMEs' employees and their dependents, as well as those who are directly or indirectly associated with the SMEs.

In Africa, SMEs contribute significantly in employing the mass unemployed youth (ILO, 2007). It was estimated that about 70% of the people in sub-Saharan Africa rely on small and informal establishments for their livelihood. For example, in South Africa, the share of employment stood at 60% and generated about 40% output (Lukacs, 2005). In Bostwana, small businesses contributed between 30-45% to the nation's GDP and accounted for more than 60% of wage employment. Nigeria's SMEs accounted for 70% of jobs for both formal and informal sectors and contributed 10-15% of manufacturing output (NBS, 2005).

According to Iguisi (2002), as reported by Kurya and Kurfi (2010), the contribution of SMEs to job creation and employment in Sub-Saharan Africa is enormous. Apart from employment generation, as depicted in the table below, SMEs have three significant contributions to reducing moral poverty and serve as the main sources of economic growth and innovation. SMEs are also responsible for innovative activities and development of entrepreneurial talent and increase competition (which promotes greater economic dynamism and contributes to the dispersion of industries and income distribution and reduces economic disparities between urban and rural areas).

Concept of Organizational Performance

Bates and Holton (1995) define the concept of performance as "a multidimensional abstract concept whose measurement depends on a variety of factors". Performance may refer to both enterprise "organizational performance" and activity / a department / a manager / a performer. The authors say it is essential to determine whether the measurement objective assesses the effects of performance or the performing behaviour. The drawback of this definition is that it does not contain a rating with a downwards applicability. The general description given by Bates and Holton to performance underlines its ambiguous nature, whose measurement depends on a variety of factors. Because Bourguignon (1997) fails to define the concept of performance in a single way, he distinguishes three basic meanings of the term:

- The performance was a resounding success. Performance is not a thing in and of itself. It differs depending on how businesses or actors are depicted as successful. Performance measurement is an assessment of achieved outcomes, activity in the course of a process.

- Performance is the result of the action. This meaning contains the only value.

- Performance in action. In this regard, performance is a process, and not a result that occurs at a particular time. Performance is achieving organizational objectives, according to Bourguignon (1997).

This definition applies to all management fields (management control, general politics, human resources management). The performer is the one who achieves their goals. As a result, performance is determined by the goal or aim. When goals are diverse, performance is multidimensional; performance is a subset of action; performance is subjective because it is the result of operation, which is by definition the process of bringing reality closer to a wish. According to Bourguignon (1997), performance is inextricably tied to objectives, making a standard definition of this notion unachievable. As a result, achieving any goal or purpose necessitates a particular level of performance. We should note that the concept of performance cannot be properly defined because there is no default classification of the objectives. Performance, according to Bourguignon, can only be accomplished when specific goals are met.

Linkage of Rewards and Productivity in SMEs

According to Andrew (2004), the commitment of all employees is based on rewards and recognition. Lawler (2003) argued that the prosperity and survival of the organizations is determined through the human resources how they are treated. Most of organizations have gained the immense progress by fully complying with their business strategy through a well-balanced reward and recognition programs for employees. Deeprose (1994) stated that effective recognition can promote employee engagement and productivity, resulting in improved organizational performance. The entire success of a business is determined by how it keeps its people motivated and how it evaluates employee performance for job compensation. Managing Performance of employee is an important part of every company's strategy and human resource management (Drucker as cited in Meyer & Kirsten, 2005).

Theoretical Explanations of Motivation (Rewards)

Process theory

Theory The psychological or mental aspects that influence an employee's motivation are the focus of process theory. Managers can use process theories to create a valuable performance-based reward scheme for their staff.

• It places a major emphasis on Expectations (Porter & Lawler, 1968; Vroom, 1964), objectives (Lathom & Locke, quoted in Armstrong, 2006b), and equity theory are all utilized to explain how psychological processes influence motivation (Adams, cited in Armstrong, 2006a).

• It places a strong emphasis on psychological processes.

• It's also called as a cognitive theory because it's about people's perceptions of their workplace and how they interpret and comprehend it.

• The processes manage:

Employees' expectations

Goal achievement (Armstrong, 2006a)

Feelings of being fairly treated

Model of Expectancy

Vroom's (1964) theory explains how an employee's effort, performance, and rewards are linked. Employees in this model have some expectations that the efforts they put in would result in a certain degree of performance. If an employee believes that their efforts will not result in the desired level of performance, he or she is unlikely to try very hard. If an employee believes that their efforts will result in the desired performance outcome, they will put forth the effort in the belief that they will succeed. The more likely their efforts will result in the desired level of performance, the more motivated they will be to put forth an effort. Next, the performance result should lead to a reward. Rewards can be good or bad. If you get a good salary, there is a good chance that the employee will be more motivated to achieve the level of performance provided. Conversely, the worse the reward, the less likely the employee is to be encouraged. Employees make their own decision-making decisions based on estimates of how the expected results of certain behaviors will lead to the desired level of performance linked to the rewards that bring the best benefits to them (Vroom, 1964)

Theory of Instrumentality

This states that if one action is taken, another will follow. People can be encouraged to behave or act in desirable ways by utilizing rewards or penalties (carrots or sticks). The approach emphasizes the need for work and economic outcomes to be rationalized. It assumes that if rewards and penalties are directly linked to a person's performance, they will be motivated to work (Armstrong, 2006a).

Theory of Objectives

According to this hypothesis, when employees are given particular goals, they are more motivated and perform better. The goals can be stretched, but if they are accepted and performance evaluation is provided, the goals will provide direction and drive staff to succeed. As a result, goals provide a great foundation for motivating yourself. In organization, the managers and employees can set goals for themselves and then work toward them. Both parties would benefit from a joint goal-setting process in which organizational goals are converted into personal job objectives. These should be reinforced with appropriate incentives to boost employee engagement and drive to execute and achieve the objectives.

Theory of Equity

This states that if people are treated fairly, they will be more motivated, and if they are treated unfairly, they will be demotivated. To be treated fairly in compared to other individuals (a reference group) is to be treated equally (Adams cited in Armstrong, 2006a).

Empirical Review

Ojokuku et al. (2014) explored human resource management practices in small scale business and their performance. They revealed that compensation (reward) extensively contributes to a firm's performance. According to Kuldeep (2004) a significant relationship exists between rewards and organizational performance of the firms'. Ilias (2004) studied human resource practices with firm's growth. His research shows that a stronger pay (reward) program is the biggest predictor of a company's sales growth. He came to the conclusion that having a fair remuneration policy and allowing employees to express their opinions are important factors in a company's growth. Human resource management techniques and financial performance of small and medium-sized firms in India were studied by Sathyanarayana and Kishore (2013). They concluded that by adopting reward and benefits practices, organizations can reduce employee turnover. Malaysian SMEs' HRM practices and organizational performance were investigated by Nazlina et al. (2011). They discovered that compensation (reward) policies are crucial to the survival of small and medium-sized businesses. They came to the conclusion that implementing compensation policies can improve a company's productivity.

3 Methodology

The study employed survey research design. Data were collected through the primary source with the aids of the questionnaire used to elicit the opinion of 100 respondents randomly selected among managers and employees in the SMEs sector of the economy in Lagos State. Data collected were processed using both descriptive and inferential statistics. While demography of respondents was analyzed using percentages, mean etc., their responses were analyzed using Pearson Co-Efficient Correlation and regression analysis.

4 Result and Discussions

Hypothesis One: There is no significant relationship between employee reward system and Small and Medium Scale Enterprise performance.

Table 1: Correlation analysis measuring the relationship between employee rewarding system and Small and Medium Scale Enterprises' performance

		Employee Rewarding System	Small and Medium Scale Enterprises' Performance
Employee Rewarding System	Pearson Correlation	1	.327**
	Sig. (2-tailed)		.000
	N	100	100
Small and Medium Scale Enterprises' Performance	Pearson Correlation	.327**	1
	Sig. (2-tailed)	.000	
	N	100	100

** Correlation is significant at 0.01 level (2-tailed)

Interpretation of Result

From the table, the correlation co-efficient value of .327 shows the degree of relationship between Employee Rewarding System and Small Scale Enterprise Performance. It shows that there is .327 or 32.7% level of coefficient of determination of the variables. The result summarizes that a significant relationship exists between employee rewarding system and small and medium scale enterprises performance in Lagos State.

In support of this theory, Kuldeep (2004) claims that there is a link between rewards and firm organizational success, while Ilias (2004) claims that a better compensation (reward) policy is the biggest predictor of firm sales growth in his study.

Hypothesis Two: Employees' direct financial reward has no effect on Small and Medium Scale Enterprise performance in Lagos State.

Table 2: Summary of Linear Regression Analysis of direct financial reward and Small Scale Enterprise Performance.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.466[a]	.217	.209	.41094

Model	Sum of Squares	Df	Mean	F	Sig.
Regression	4.591	1	4.591	27.189	.000[b]
Residual	16.549	98	.169		
Total	21.140	99			

a. Dependent Variable: Small and Medium Scale Enterprise performance

b. Predictors: (constant), Employees' direct financial reward..

The result from Table 2 which shows a value of $F = 27.189 < 0.05$ informs that employee direct financial reward has a significant positive effect on small and medium scale enterprise performance in Lagos State. Also, the value of $R^2 = .217$ further confirms the level of significant effect of employee direct financial reward on small and medium scale enterprise performance. In support of the argument, it was posited that the organizational reward system has a significant impact on the level of employee job satisfaction (Onah, 2008).

Hypothesis Three: Employees' non-financial benefit has no effect of Small and Medium Scale Enterprise performance in Lagos State.

Table 3: Summary of Linear Regression Analysis of Employee Reward System and Small Scale Enterprise Performance.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.757[a]	.573	.569	.4024

Model	Sum of Squares	Df	Mean	F	Sig.
Regression	21.288	1	21.288	131.440	.000[b]
Residual	15.872	98	.162		
Total	37.160	99			

a. Dependent Variable: Small and Medium Scale Enterprise performance

b. Predictors: (constant), Employee Non-Financial Benefits

Table 3 result shows that $F = 131.440 < 0.05$ which implies that employees' non-financial benefit has a positive significant effect on small and medium scale enterprises' performance. The R^2 value of .573 further confirms the result. It is therefore shown from the result that other benefits accrued to employee apart from salaries significantly affect the performance of Small and medium scale enterprises they work for.

The result was corroborated by other researchers. According to Andrew (2004), the commitment of all employees is based on rewards and recognition. Lawler (2003) argued that the prosperity and survival of the organizations is determined through the human resources how they are treated. Most of organizations have gained the immense progress by fully complying with their business strategy through a well-balanced reward and recognition programs for employees. Deeprose (1994) stated that effective recognition can promote employee engagement and productivity, resulting in improved organizational performance.

5 Conclusion and Recommendations

Managing the human element is the most tasking function for the success of small and medium scale enterprises. This is because a great connection exists between SMEs and the nature of reward given to employees as agent of productivity. The findings of the study draw a conclusion that Small and Medium Scale Enterprise performance is influenced by both financial and non-financial benefits. The study thus conclude that SMEs will witness growth when the right reward is given in exchange for job done. The study thus recommends that for SMEs to attain optimality in performance, adequate attention should be given to employees' welfare.

6 Declaration

6.1. Conflict of Interest

There is no conflict of interest in this study.

6.2. Authors' Contributions

The authors stated that they contributed equally to the study.

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