
Compensation Management and the Performance of the Small and Medium Enterprises in the Manufacturing Sector in Nairobi County, Kenya

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Abstract:

Purpose: The study aimed to examine the effect of compensation management on the performance of the SMEs in the manufacturing sector in Nairobi County, Kenya. Addressing a critical gap by providing specific evidence.

Methodology: The study was based in the Resource-Based View (RBV) of the firm and employed an explanatory research design. The target population included 1124 managers of the SMES in manufacturing sector operating in Nairobi County, Kenya. A stratified random sampling technique was used to select the respondents. Primary data were collected through structured questionnaires. Validity was ensured through face, content, and construct validity procedures, while reliability was evaluated using Cronbach's Alpha coefficient. Data analysis involved descriptive statistics (means, standard deviations, frequencies, percentages) and inferential statistics, including Pearson correlation and multiple regression analysis.

Findings: The regression analysis revealed that compensation management had a positive significant effect on performance of the firms with all three forms of compensation being statistically significant. Financial compensation for performance ($P=0.000$, $\beta=0.438$), non-financial compensation on performance ($P=0.000$, $\beta=0.411$) and indirect compensation on performance ($P=0.000$, $\beta=0.494$).

Conclusion: The study concluded that compensation management are critical for enhancing performance in the Kenyan manufacturing firms in Nairobi, County, more so in the SMEs sector.

Value: The study offers valuable guidance for policymakers in making informed decisions and promoting fair competition. It also supports practitioners in their decision-making processes and serves as a solid foundation for further theoretical advancements and research by other scholars.

Keywords: Compensation Management; Financial Compensation; Non-Financial Compensation; Indirect Compensation; Firm Performance; Kenya

Paper Type: Research Article

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1. Introduction

Small and medium enterprises (SMEs) are integral to the world economy, representing 90% of the overall businesses, and are pivotal to job creation and economic growth (World Economic Forum, 2023). SMEs are dynamic, innovative, and important to the SDGs, albeit, due to weak finances, inadequate human resources expertise, and limited organizational support, SMEs struggle to adopt effective human resources frameworks, particularly in compensation (World Economic Forum, 2023; OECD, 2023). In Germany, for instance, SMEs account for about 99% of the businesses and are well regarded for their innovative capabilities; however, adapting to the EU stringent environmental policies poses challenges in compliance due to the need for advanced technology and employee training. The comprehensive management of compensation, comprising financial, non-financial, and indirect elements, is necessary for the attainment of organizational objectives and the motivation of employees to practice sustainable behavior (OECD, 2023).

In India, small and medium enterprises contribute more than 30% to the GDP, yet they experience uncertainty in regulations and lack of access to finances, which limits their adoption of sustainability in their business practices. Programs like Zero Defect, Zero Effect (ZED) underscore the significance of connecting pay to employee training and performance as a strategy to promote the adoption of sustainable practices (World Bank, 2024). This shows that even though SMEs have globally become recognized as the engines of innovation and employment, the effectiveness of their compensation management systems is largely a function of technology and the regulatory environment surrounding the business (Emerald Insight, 2023).

In the Sub-Saharan African regions, SMEs make up the majority of the business ecosystem, but they face challenges at a structural level. Within South Africa, SMEs account for more than 98% of registered firms, and they contribute towards innovation and employment. However, the lack of finances, unstable energy, and social and economic inequality prevent the integration of sustainable practices. Structured compensation management systems covering financial, non-financial, and indirect incentives—are effective in driving employee engagement and productivity in sustainability-focused activities, while technological development can help but also create challenges (ILO, 2023). The same can be said for Nigeria, where SMEs account for 50% of GDP and provide 80% of employment. SMEs in Nigeria also face problems from regulatory inconsistencies and rising inflation. Mobile telecommunication technologies facilitate access to finance, but available compensation systems are still exposed to unstable external factors (African Development Bank, 2024).

Among East African countries, Uganda offers a relevant example where SMEs account for nearly 90% of the private sector and are primary engines of industrialization. However, the prevalent informalization constrains the expansion of access to formal systems of pay and training. This also explains, in part, the slow development of operational sustainability. The misalignment of strategic pay systems with fast-evolving technologies also explains the dysfunctional sustainable operation. SMEs in Kenya account for more than 98% of registered businesses, and are especially important for employment and GDP contributions in the Nairobi Central Business District, where the manufacturing and service sectors are most concentrated (Business Daily Africa, 2023). Policy reforms to lower operational costs optimistically proposed by Kenya News

Agency (2025) are yet to bear fruit in terms of trade barrier improvement. SMEs still struggle with the most basic levels of operational sustainability. The strategic use of compensation systems to drive performance and motivate employees (Financial and non-financial compensation integration, *International Journal of Entrepreneurship, Innovation, and Business Strategies*, 2024; Emerald Insight, 2023) is a significant obstacle for SMEs in achieving operational sustainability.

The impact of compensation management on SME performance has been studied before, with varying results, particularly considering technological change and regulatory shifts. This makes it imperative to focus on the impact of financial, non-financial, and indirect compensation on the performance of Kenyan manufacturing sector SMEs. Consequently, the focus of this study aims to assess the influence of these three dimensions of compensation management on SME performance.

2. Theoretical Review

Barney (1991) was the first to reference Resource-Based View (RBV) as a theory positioned within the firm. He argued that a firm's internal resources and capabilities could form a source of 'sustained' competitive advantage, thus leading to supernormal performance, if these internal resources and capabilities are valuable, rare, inimitable, and non-substitutable (i.e., VRIN). The economic, social, and environmental 'triple' bottom lines capture the essence of RBV as it restates the profitability, innovation, and resilience of a firm on internal 'sustainable' resources, (i.e., skilled human capital, proprietary technologies, ethical culture, and eco-efficient practices) (Wernerfelt, 1984; Hart, 1995; Teece, Pisano & Shuen, 1997). By embedding sustainability measures within their strategy, a firm's reputation and stakeholder trust are augmented to the firm's long-term growth. Internal competencies (core competencies) of a firm could transform into 'shrinking' resources of value (sustained) across all domains of performance (Rahman et al., 2021; Kamaruddin et al., 2023).

3. Empirical Review (Hypotheses Development)

Adamo (2023) examined the corporate governance practices of Italian firms using a stakeholder agency perspective, with a particular emphasis on how executive remuneration linked to non-financial performance affects corporate outcomes. The study highlighted governance indicators such as board independence, separation of the Chair and CEO roles, and Chair–CEO interlocked governance structures. Adamo (2023) found that when executive compensation incorporates social and environmental targets, sustainability objectives become embedded within firms' goals, leading to improved social and environmental performance.

Drawing evidence from the UK context, Adu, Flynn, and Grey (2022) analyzed a panel of FTSE 350 firms using OLS regression to determine the connection between CEO remuneration and environmental, social, and governance (ESG) performance. Their findings indicated that ESG performance has a positive effect on executive business practices and that firms adopting sustainable compensation policies tend to invest more in advocacy and environmentally oriented initiatives (Adu et al., 2022). However, research by Orazalin et al. (2024), based on 2,310 firm-year observations of African firms between 2002 and 2022, revealed a more nuanced relationship. While the creation of sustainability committees was positively associated with reductions in greenhouse gas emissions, executive pay was negatively linked to voluntary carbon mitigation efforts, though pay did not affect compliance-driven emission reduction (Orazalin et al., 2024).

Recent reports demonstrate a shifting global landscape regarding ESG criteria in executive compensation. A UK Times article reported that Barclays and NatWest removed climate targets from executive bonuses, shifting focus toward long-term plans but raising concerns about reduced accountability and diminished urgency for climate action (“Times,” 2024). Similarly, global research involving companies such as UBS, Standard Chartered, HSBC, BP, and Starbucks found a trend toward eliminating ESG criteria from executive bonus structures due to internal resistance and challenges in quantifying ESG outcomes, despite criticism that this reflects weakening commitment to climate goals (UBS, Standard Chartered, HSBC, BP, & Starbucks, 2025). From the empirical analysis in this research strand, it was concluded that financial compensation positively influences performance indicators, leading to the hypothesis.

H₀₁: Financial compensation has no significant effect on performance

Elrayah and Semlali (2023) conducted a multinational study titled Sustainable Total Reward Strategies for Talented Employees’ Performance, Satisfaction, and Motivation: Evidence from the Educational Sector using data from the OECD Teaching and Learning International Survey (TALIS), comprising 153,682 teacher responses across 47 countries. Using Pearson’s correlation analysis via SPSS, the study found a positive relationship between sustainable total reward strategies and employee outcomes. In particular, non-financial rewards—including recognition, career development opportunities, and positive workplace culture—significantly enhanced employee performance, satisfaction, and motivation (Musaddag Elrayah & Semlali, 2023).

Further evidence from Africa aligns with these findings. In Nigeria, Tamunomiebi et al., (2020) examined Non-Financial Compensation Systems and Employee Engagement in Public Agencies in Port Harcourt using a cross-sectional survey of 331 respondents from five public agencies. Through Spearman’s Rank Order Correlation Coefficient analysis, the study demonstrated a strong positive association between non-financial compensation systems—such as recognition, responsibility expansion, and opportunities for advancement—and employee engagement (Dagogo & John Junior, 2020). Complementing this scholarship, a 2020 U.S. study titled Non-Financial Performance Measures, CEO Compensation, and Firms’ Future Value found that integrating non-financial performance measures into CEO bonus contracts, alongside equity-based compensation, enhances firms’ future value by promoting the pursuit of long-term organizational objectives

European evidence provides additional insights into the link between compensation structures and sustainability outcomes. Haque and Ntim (2020), in Executive Compensation, Sustainable Compensation Policy, Carbon Performance and Market Value, analyzed 4,379 firm-year observations from 13 industrialized European countries and reported that executive compensation improves process-oriented carbon management systems but does not reduce atmospheric carbon emissions; however, ESG-based sustainable compensation policies intensify the positive effect of executive compensation on carbon management processes. Similarly, a 2023 study titled Market Value, Executive Compensation, Performance, and Say-on-Pay Voting Adoption: Evidence from the STOXX Europe 600 covering the period 2010–2021 found a significant inverse association between carbon emissions and firm value, while executive compensation negatively moderated this relationship by easing the adverse effect of emissions on market value. The study also indicated that Say-on-Pay policies and the Paris Agreement

stimulated firms to adopt sustainable practices that improved market value, providing empirical support that non-financial compensation positively influences organizational performance. Based on this literature, the hypothesis is stated as.

H₀₂: Non-financial compensation has no significant effect on performance

In Evidence from developing countries shows that indirect compensation is a strong predictor of employee performance and motivation. In Nigeria, Udodiugwu, et al., (2024) investigated Motivation through Indirect Compensation: Evaluating Employee Performance in Enugu State Civil Service Commission and collected primary data from civil servants in grades 2–16. Using Pearson’s correlation analysis in SPSS (version 23), the study revealed that indirect compensation—particularly health and retirement insurance significantly enhanced employee performance. Similarly, Nnanna, Odoh, and Okechukwu (2021), in Compensation Strategy and Organizational Sustainability in Pharmaceutical Firms in Port Harcourt, found that well-structured compensation strategies, including indirect compensation components such as health-care packages and career advancement opportunities, improved organizational sustainability through employee satisfaction and retention.

Asian findings reinforce these results. In India, Khan et al. (2024), in Influence of Compensation, Performance Feedback on Employee Retention in Indian Retail Sector, collected data from 571 retail employees in Hyderabad and applied structural equation modeling (SEM) to explore retention dynamics. Their findings affirmed that employee retention is positively influenced by both financial and non-financial compensation, with indirect compensation such as recognition, promotion opportunities, and a positive work environment playing the strongest role in strengthening retention and motivation (Khan et al., 2024).

Research from developed economies shows similar outcomes but with a sustainability-driven perspective. In the study Pay to be Green? The Effect of Corporate Social Responsibility Contracting on Green Innovation Performance, Hou et al., (2021) analyzed 5,603 European firm-year observations and found that linking corporate social responsibility (CSR) to executive compensation significantly enhanced green innovation performance, suggesting that indirect motivators can drive sustainable innovation. Likewise, Phung (2023), in Top-Management Compensation and Environmental Innovation Strategy, analyzed 11,814 firm-year observations of U.S. non-financial firms and concluded that top-management compensation strongly drives eco-innovation, especially when long-term performance incentives are incorporated. Overall, performance

H₃: Indirect compensation has no significant effect on performance

4. Research Methodology

The study employed an explanatory research design, which enabled the examination of causal relationships between the variables, specifically compensation management and performance. The unit of observation comprised 1124 managers from the selected firms, while the unit of analysis was the individual SMEs. To ensure representative selection, the study utilized stratified random sampling, categorizing the firms into distinct strata before sampling.

Sample Size and Data Collection

The study focused on 1,124 managers from Nairobi County's small and medium-sized manufacturing firms. The study employed a quantitative approach and captured data using a structured questionnaire created on a 5-point Likert scale. The target sample size of 295 SME managers out of the total population was calculated using Taro Yamane's (1967) formula. A pilot test was conducted with 30 respondents, which was 10% of the sample size, and for all instruments the Cronbach's alpha was greater than 0.7 which confirmed the instruments were reliable for analysis

Data Analysis and Model Specification

The research employed a purely quantitative approach to data analysis, utilizing descriptive and inferential statistical methods through SPSS Version 25. Demographic and study variables were summarized employing inferential and descriptive statistics, which included means, standard deviations, percentages, and minimum and maximum values. Correlation and regression analyses were conducted; thus, inferential statistics were employed in the study. The following regression equation were adopted to test the proposed hypotheses:

Model1: Testing the effect of the control variables on performance of the SMEs of the manufacturing companies.

$$Y = \beta_0 + C$$

Model 2: Testing the effect of the independent variables on performance of the SMEs of the manufacturing companies.

$$Y = \beta_0 + C + B_1 X_1 + B_2 X_2 + B_3 X_3 + \varepsilon$$

5. Findings

A sample of 295 respondents from a population of 1124 SMEs in Nairobi County provided 291 surveys for the study. An above-average 98% response rate, typical of entrepreneurial research, was obtained from 285 replies that satisfied the predetermined criteria (Anseel et al., 2010). This response rate provided sufficient information to determine the connection between organizational culture, strategic agility, and the manufacturing enterprises' performance in Nairobi County, Kenya. Van Waeyenberg et al. (2015) and Roberts et al. (2020).

Firm Characteristics

The statistics for the control variables indicate the subject firms were mostly young and small to medium-sized. In terms of the size of the firms, measured by the number of employees, responses reflected a moderate level with a mean of 2.986 and a standard deviation of 1.165. This means that most firms were small, with the number of employees in the range of 10 to 50 staff members. In terms of age of the firms, responses recorded a mean of 2.961 with a standard deviation of 1.168. This means that most of the firms were younger, with the majority of firms in the range of 20 to 50 years of age when operating, and fewer firms being above 50 years of age. In summary, the sample largely consisted of moderately aged firms with small to medium sized workforces which may affect operational capacities and resource availability.

Descriptive Statistics for Performance.

Performance variable was measured using 15 items each rated on the Likert scale; 5 = Strongly Agree, 4 = Agree, 3 = undecided, 2 = Disagree, 1=Strongly Disagree. This research aimed to evaluate performance with regard to financial results, customer satisfaction, and revenue generation. To appreciate the assertiveness of the sampled firms with performance statements, descriptive statistics were applied. The results shed light on the performance of youth enterprises concerning varying aspects of sustainability and competitiveness. Regarding whether the company consistently hits its financial performance targets (revenue growth and profit margins), the results returned a mean of 3.07 and a standard deviation of 1.281. This indicates that while a number of firms do succeed in attaining their financial performance targets, a considerable number do not succeed because of resource and market volatility constraints. For profitability as a result of cost control and value creation to the customer being balanced, the mean was 3.05 with a standard deviation of 1.316, suggesting that the practices of cost control and value provision are present, albeit underdeveloped. With respect to the firm continuously recognizing and seizing its most profitable products, services, or customer segments, the mean was 3.11 with a standard deviation of 1.275, indicating moderate engagement in focusing on profitable areas, albeit inconsistently across enterprises. Concerning the firm sustaining profitability in the face of shifting market conditions by changing its pricing, operations, or offerings, the mean was 3.06 with a standard deviation of 1.271, suggesting little to no change in the ability to adapt in flexible market conditions.

Regarding the use of financial data by leadership to inform strategic decisions aimed at enhancing profitability, the average score was 3.11, with a standard deviation of 1.267. This suggests that while there is some use of financial data by leaders, the practice has not been fully embedded. Regarding the evaluation of company performance and customer services satisfaction metrics, the average score of 3.08 and standard deviation of 1.290, indicates presence of customer satisfaction tracking but not consistency in tracking satisfaction metrics. Feedback from customers is used to enhance services, products, and overall customer experience, where the mean of 3.07 and standard deviation of 1.287 suggest that while feedback is collected, the integration into the overall strategy is rather ineffective. Understanding customer needs and expectations is demonstrated in the mean score of 3.09 with a standard deviation of 1.309 which suggests that answering expectations and needs is partial, and that challenges exist in effective service. On the company's ability to consistently meet or exceed customer expectations, indicates that customers' long-term relationships and loyalty is earned, thus, the mean of 3.10 and standard deviation of 1.289 suggest that the organization experiences long term relationships. On the ability of high customer satisfaction to be connected to their repeat patronage and word of mouth, the mean of 3.11 and standard deviation of 1.282 suggests that customer retention practices are not fully exercised even with the repeat patronage.

Considering the company's understanding and monetizing new revenue opportunities to facilitate growth, the mean was 3.09 with a standard deviation of 1.287, indicating that there are moderate efforts toward diversification. Regarding the clarity and differential value proposition within the company toward revenue generation, the mean was 3.07 with a standard deviation of 1.286, suggesting that differentiated value capture is recognized but still underdeveloped. In the context of the organization reviewing and modifying pricing structures consistently to optimize revenue potential, the mean was 3.09 with a standard deviation of 1.302, indicating that there are pricing reviews, but they are not structural. In referring to the organization's use of digital channels and technologies to

extend market access and increase revenue potential, the mean was 3.06 with a standard deviation of 1.293, suggesting preliminary use of digital technologies for revenue generation. Concerning the organization's revenue growth driven by customer acquisition and retention, the mean score was 3.05, with a standard deviation of 1.298, indicating that acquisition and retention strategies are implemented, albeit not in a strategically proportioned manner for sustainability in the long run.

Overall, the aggregate performance index (PF) achieved an average of 3.08, with a standard deviation of 1.214, indicating a moderate performance across profitability, customer satisfaction, and revenue generation. This shows that youth enterprises exhibit an awareness of, and practice, some of the fundamental performance drivers, albeit inconsistently. This indicates that financial management, customer orientation, and levels of digital adoption practiced in management and customer service negatively impact the enterprises' range of practice possible.

Table 1: Descriptive statistics for Performance

N=285	Mean	Std. Dev
The company consistently achieves its financial performance targets, such as revenue growth and profit margins (Kaplan & Norton, 1996).	3.07	1.281
Profitability is driven by a well-balanced combination of cost management and value creation for customers (Porter, 1985).	3.05	1.316
The organization continuously identifies and capitalizes on its most profitable products, services, or customer segments (Rust, Zeithaml, & Lemon, 2000).	3.11	1.275
The company maintains profitability even under changing market conditions by adapting its pricing, operations, or offerings (Grant, 2010).	3.06	1.271
Leadership regularly analyzes financial data to guide strategic decisions that improve profitability (Horngren, Sundem, & Stratton, 2005).	3.11	1.267
The company regularly measures customer satisfaction to evaluate service and product performance (Parasuraman, Zeithaml, & Berry, 1988).	3.08	1.29
Customer feedback is actively used to improve products, services, and the overall customer experience (Oliver, 1997).	3.07	1.287
The organization has a strong understanding of customer needs and expectations (Kotler & Keller, 2016).	3.09	1.309

The company maintains long-term relationships with customers by consistently meeting or exceeding their expectations (Anderson, Fornell, & Lehmann, 1994).	3.1	1.289
High levels of customer satisfaction are linked to repeat business and positive word-of-mouth referrals (Homburg, Koschate, & Hoyer, 2005).	3.11	1.282
The company effectively identifies and capitalizes on new revenue streams to drive growth (Johnson, Christensen, & Kagermann, 2008).	3.09	1.287
Revenue generation is supported by a clear and differentiated value proposition for target markets (Osterwalder & Pigneur, 2010).	3.07	1.286
The organization regularly reviews and adapts its pricing strategies to maximize revenue potential (Nagle & Müller, 2018).	3.09	1.302
The company leverages digital channels and technologies to expand market reach and boost revenue (Chaffey & Ellis-Chadwick, 2019).	3.06	1.293
Revenue growth is driven by both customer acquisition and retention strategies (Kotler & Keller, 2016).	3.05	1.298
Firm Performance	3.0827	1.21387

Descriptive Statistics for Compensation Management

Compensation management variable was measured using 15 items each rated on the Likert scale; 5 = Strongly Agree, 4 = Agree, 3 = undecided, 2 = Disagree, 1=Strongly Disagree. Regarding whether the salary earned adequately reflects the workload, complexity, and responsibility entailed in the position, the average response was 3.00, with a standard deviation of 1.304. This indicates that respondents were neutral, yet with varied responses regarding the sufficiency of one's salary. This was also the case in the study conducted by (Malik et. al 2020). Concerning the fairness and transparency of the compensation structure, respondents gave an average of 3.06, and a standard deviation of 1.262, which signals a moderate level of satisfaction with the fairness of compensation equity across departments (Gupta & Shaw, 2019). Stakeholders also expressed indifference towards performance incentives with an average score of 3.01 and a standard deviation of 1.315, which signals a lack of conviction that such payment increases perform motivational value (Chiang & Birtch, 2020). In terms of satisfaction with financial benefits and allowances such as housing, medical cover, or transport, the average score was 3.08, with a standard deviation of 1.277, indicating moderate satisfaction with these provisions (Chinyio & Suresh, 2021). Finally regarding the influence of the overall compensation package, the average score was 3.05, and 1.263 standard deviation, moderate indicating an impact on the retention decision

Concerning the recognition and appreciation from supervisors and co-workers, the respondents expressed a 3.07 mean and 1.252 standard deviation which indicates moderate recognition of satisfaction with the acknowledgment of the employee

contribution (Nguyen & Malik, 2021). On the perception of promotion and advancement opportunities within the organization, the respondents expressed a 3.09 mean and 1.251 standard deviation which indicates a moderately fair perception on advancement opportunities relative to the organizational policies and structures. Respondents scored the mean as 3.06 and standard deviation as 1.229 about the rating of the training, mentoring and professional development opportunities as moderately supportive toward the advancement of skills and career development. For the supportive and flexible work environment, respondents scored a mean of 3.06 with a standard deviation of 1.218 which suggest moderate perception toward the idea that non-monetary rewards (flexible working hours) increase job satisfaction (Bhave et al., 2020). Finally, the respondents scored mean of 3.08 with 1.242 standard deviation indicating that the non-financial rewards of acknowledgment and autonomy have a positive impact, albeit modest, on employee retention.

In terms of satisfaction regarding the health insurance and medical coverage benefits offered, the mean score was 3.15, with a standard deviation of 1.262. This shows employees appreciated such benefits with reasonable support for the personal and family wellbeing (De Gieter et al., 2021). For retirement and pension plans, employees also assigned a mean score of 3.11, with a standard deviation of 1.290. This suggests employees perceived these benefits as providing a reasonable level of future financial security (Mwangi & Waiganjo, 2021). For annual, sick, and parental leaves, employees also assigned a mean score of 3.15 with a standard deviation of 1.265, implying the policies on leave benefits offered reasonable support for wellbeing, and work-life balance (Bennett et al., 2020). Non-cash benefits such as wellness programs, gym memberships, and counseling services also reflected a mean score of 3.14 and a standard deviation of 1.445, providing reasonable support for employee's motivation (Zaitouni, 2020). The participants in research on compensation management displayed a composite mean of 3.08 and 0.701 a standard deviation. This suggests they had a neutral to moderately positive attitude toward not only financial compensation but also non-financial and indirect compensation. This suggests a lack of retention, motivation and satisfaction.

Table 2: Descriptive statistics for Compensation Management

n=285	Mean	Std. Dev
I believe that the salary I earn in this organization adequately matches the workload, complexity, and level of responsibility associated with my role, especially when compared to the demands of similar positions in the industry (Malik et al., 2020)	3.00	1.304
The compensation structure in this organization is transparent and ensures fairness, as employees in similar roles and with comparable qualifications and experience receive equitable pay across different departments (Gupta & Shaw, 2019)	3.06	1.262
My organization provides consistent and meaningful performance-based incentives, such as	3.01	1.315

bonuses or merit pay, which motivate me to improve my performance and reward my individual contributions toward organizational success		
In addition to basic salary, I am satisfied with the financial benefits and allowances (such as housing, transport, medical cover, or overtime payments) provided by this organization, as they play a critical role in improving my financial security and work-life balance (Chinyio & Suresh, 2021)	3.08	1.277
The overall compensation package offered by this organization, including salary, incentives, and benefits, significantly affects my decision to remain employed here rather than seeking opportunities in other organizations within the same sector (Mensah, Agyemang, & Asiedu-Appiah, 2022)	3.05	1.263
I am satisfied with the recognition and appreciation I receive from my supervisors and colleagues for the effort and contributions I make to the organization (Nguyen & Malik, 2021)	3.07	1.252
Opportunities for career advancement and promotions in this organization are fair, transparent, and based on merit, which motivates me to perform better (Güngör, 2020)	3.09	1.251
I am satisfied with the training, mentoring, and professional development opportunities provided by this organization, as they enhance my skills and career growth (Jehanzeb & Bashir, 2020)	3.06	1.229
The organization provides a supportive and flexible work environment, including non-monetary rewards such as flexible schedules and recognition programs, which improve my job satisfaction (Bhave et al., 2020)	3.06	1.218
Non-financial rewards such as autonomy in decision-making, recognition, and opportunities to take on challenging assignments play a significant role in my decision to remain in this organization (Alhmoud & Rjoub, 2020)	3.08	1.242
I am satisfied with the health insurance and medical coverage benefits provided by this organization, as they significantly support my personal and family well-being (De Gieter et al., 2021)	3.15	1.262
The retirement and pension plans offered by this organization give me a sense of financial security and stability for the future (Mwangi & Waiganjo, 2021)	3.11	1.29

The organization provides adequate paid leave benefits such as annual leave, sick leave, and parental leave, which enhance my work-life balance and job satisfaction (Bennett et al., 2020)	3.15	1.265
Wellness programs and non-cash benefits such as counseling services, gym memberships, and staff welfare initiatives positively influence my motivation and commitment to the organization (Zaitouni, 2020)	3.14	1.245
The indirect compensation package, including insurance, retirement benefits, and other non-cash perks, plays an important role in my decision to remain in this organization	3.14	1.282
Compensation Management	3.084	0.701

Correlation Analysis

Table 3 shows the correlation analysis examining the relationship between compensation management and performance. The findings indicate that compensation management is strongly and positively associated with the performance of SMEs in manufacturing sector in Nairobi, Kenya ($\rho = .764$, $p = .000$), with the relationship being statistically significant

Table 3: Pearson Correlation Coefficients

		PF	CM
PF	Pearson Correlation	1	
	Sig. (2-tailed)		
CM	Pearson Correlation	.764*	1
	Sig. (2-tailed)	.000	

Source: Author,2025

Regression Analysis (Hypotheses Testing)

To analyze the impact of several independent variables on firm performance, multiple regression analysis was used. Initially, firm age (FAAA) and firm size (FSS) were predictors of performance (PF), and a significant model was produced. F value and R-squared were 15.753 ($p < 0.001$) and 0.317, with an 0.100 adjusted R-squared. Thus, these variables were said to explain 10% of the variance in performance. Along with the aforementioned results of the model, firm size ($\beta = 0.294$, $t = 5.210$, $p < 0.001$) and age ($\beta = 0.122$, $t = 2.159$, $p = 0.032$) were said to positively and significantly impact performance. Absence of multicollinearity was exhibited with values of 1.000 for both tolerance and VIF. Further, the predicted values of 2.287 with mean of residuals around 0 and a standard deviation of 1.151 and were said to range 3.959 implying no significant deviations. Thus, all assumptions for the model were met. It was concluded the model was appropriate.

In the pursued analysis, the components attributed to compensation in the scope of study, such as indirect compensation (INC), non-financial compensation (NFC), and financial compensation (FCC), as well as firm size and age, were included. The adjusted model reflected an appreciable improvement, reporting $R = 0.829$ and $R^2 = 0.687$, elucidating that the included variables explained 68.7% of the variation in performance. The results from ANOVA confirm the model's statistical significance ($F = 122.659$, $p < 0.001$). Each independent variable individually provided a considerable predictive contribution to performance, where indirect compensation had the most relative impact ($\beta = 0.489$, $t = 14.534$, $p < 0.001$), followed in order by non-financial ($\beta = 0.405$, $t = 11.992$, $p < 0.001$), and financial compensation ($\beta = 0.422$, $t = 12.586$, $p < 0.001$). Firm size and age were also positively significant, with $\beta = 0.237$ and $\beta = 0.211$, respectively, indicating positive tilts. The evaluation of multicollinearity with VIF values between 1.003 and 1.021, as well as the analysis of the residuals, confirmed that the variable exhibited well-defined dispersion with only a small amount of deviation.

Table 4: Regression Model

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	-2.878	0.246		-11.718	0.000
Firm Size	0.224	0.034	0.215	6.621	0.000
Firm Age	0.219	0.034	0.211	6.539	0.000
Financial compensation	0.42	0.032	0.421	13.113	0.000
Non-financial compensation	0.433	0.034	0.416	12.849	0.000
Indirect compensation	0.476	0.033	0.472	14.588	0.000

Model Summary Statistics

R	0.829
R Square	0.687
Adjusted R Square	0.682
Std. Error of the Estimate	0.682

b. Dependent Variable: Firm Performance

6. Discussions

This research study analyzed the relation between different types of compensations- financial compensations, non- financial compensations, and indirect compensations and their effects on firm performance. For the study to be robust, firm size and firm age were controlled variables. For the main goal of studying the direct and conditional relations of compensations used within an organization and the performance of the organization, the author used regression analyses and the PROCESS macro for SPSS. Analyzed under the scope of Hypothesis 1 (H01), the assumption that financial compensations have an influence on positive performance of the firm was proven correct. In the regression analyses, the FCC was 0.438 in terms of standardized coefficient (Beta), and showed $t = 8.201$ with a level of significance was $p < 0.001$. In terms of R squared (R^2) of 0.192, the model accounted for 19.2% of variance in firm performance and the model was statistically valid concerning the ANOVA results ($F(1, 283) = 67.248$, $p < 0.001$). This implies that firms with better financial rewards achieved better performance. This was in line with the values in research done by Armstrong and Taylor (2020). Based on the values in their research, financially competitive rewards for employees improve productivity greatly, and in turn, organizational performance, for the organization in general.

Hypothesis 2 (H02) sought to determine whether non-financial compensation impacts firm performance. Results showed that NFC positively impacts performance (Beta = 0.411, $t = 7.593$, $p < 0.001$) and explains 16.9% of the variation in PF score ($R^2 = 0.169$). An ANOVA confirmed the model significance ($F(1, 283) = 57.661$, $p < 0.001$), and collinearity diagnostics and residual statistics showed no multicollinearity or anomalies. Findings demonstrate that non-financial incentives, such as recognition, professional development, and promotion opportunities, motivates employees and improves performance. This is consistent with Deci and Ryan (2017), who argued that intrinsic motivators are needed to sustain employee engagement and productivity in a firm.

The influence of indirect compensation (H03) on performance remained positive and statistically significant as well. INC maintained a standardized coefficient of 0.494 ($t = 9.554$, $p < 0.001$), which accounted for 24.4% of the performance variance ($R^2 = 0.244$). This variance explaining performance value was statistically significant per the model's F-test ($F(1, 283) = 91.281$, $p < 0.001$). This implies the performance-driving value of indirect rewards consisting of health insurance, retirement plans, and employee welfare benefits. This aligns with the findings of Milkovich and Newman (2021) on the importance of value-based comprehensive compensation packages concerning employee

satisfaction and retention.

7. Conclusions

This study focused on the effects of three types of compensation on organizational performance: financial, non-financial, and indirect compensation. All compensation types studied improved performance at the organization level. Financial compensation improved motivation, followed by the non-financial compensation, which promoted commitment through recognition, developmental, and professional opportunities, and indirect compensations which consisted of health and retirement benefits increased employee satisfaction and overall productivity. The results of this study emphasize the importance of firm performance in comprehensive compensation strategies, and the adoption of integrated and strategic human resource initiatives in order to maintain competitive advantage.

8. Recommendations of the Study

Managerial Recommendations

Research of this kind encourages managers to formulate a balanced system of all three forms of compensation, hoping to maximize employee motivation, engagement, and performance. As for monetary compensation, it should be tailored to the organization's objectives, and its economic climate. Nevertheless, non-financial incentives such as recognition, non-cash awards, career development opportunities, and flexible work arrangements will help garner commitment and work to retention. Incentives of a type not directly tied to work effort such as cash equivalents, health, and retirement plans assist in the enhancement of organizational climate and sustainability. Managers should be encouraged to adopt teleology to facilitate their systems of compensation to improve its transparency. A system of compensation aligned to a strategy based on the use of teleology stands to improve organizational performance, competitive edge, and growth potential.

Policy recommendation

This study suggests pursuing comprehensive policy compensation structures financial, non-financial, and indirect raise the performance of every organization on every level. Employees respond with more motivation, satisfaction, and productivity to policies that include equitable and competitive wage structures with equitable performance-related pay increases prize and equitable benefits which includes health insurance and retirement plans. Productivity improvements and increases the organizational reward system. Policies that include technology for easier compensation admin digital payrolls, automated benefits systems, and renavigation improves systems and info accessibility. Policies that reinforce the adoption of the comprehensive balanced system compensation yield improvement of m workforce motivation the organizational performance and growth of the economy on a sustainable level.

Theoretical implications

This study addresses the gaps within the Strategic Human Resource Management (SHRM) Theory, Pay-for-Performance Theory, Technology-Enabled Performance Theory, and Resource-Based View (RBV). Findings indicate that financial, non-financial, and indirect compensation affect glow of firm performance positively, confirming the SHRM Theory which posits the significance of HR practices at the level of motivating, engaging, and productive employees. Extending the Pay-for-Performance

Theory, this study reveals that non-financial and indirect rewards operate alongside in strengthen the value of financial rewards. Furthermore, the study sustains the Technology-Enabled Performance Theory by asserting that technological resources amplify the effectiveness of all forms of compensation. In the end, the findings uphold the RBV as the study classifies compensation and technology as core strategic, valuable, and inimitable resources that contribute to sustained competitive advantage and performance of the firm.

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