

Effect of Financial Incentives on Employee Morale and Motivation of Small and Medium Scale Enterprises in Ekiti State

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Abstract

The study investigated the effect of financial incentives on employee morale and motivation of small and medium enterprises (SMEs) in Ekiti State, Nigeria, to establish whether merit pay and bonuses significantly affect employee morale and motivation of SMEs in Ekiti State, Nigeria. The study employed a survey research method to obtain the needed data. Data on merit pay and bonuses represented the financial incentive measurement, while employee morale and motivation of SMEs represented the dependent variable which was sourced primarily through a well-structured questionnaire. The study administered the structured questionnaire to two hundred and forty respondents who were SME owners, managers, and employees in Ado-Ekiti, Ekiti State, Nigeria. The collated data were analysed through descriptive statistics and ANOVA regression statistics. The result of multiple regression showed that merit positively and significantly affects employee morale and motivation of SMEs with the t-statistics and probability of ($t = 7.288$; $0.000 < 0.05$); bonuses positively and significantly impact employee morale and motivation of SMEs showing t-statistics and probability of ($t = 3.147$; $0.002 < 0.05$). The study concluded that financial incentive has a significant effect on employee morale and motivation of SMEs in Ekiti State, Nigeria.

Keywords

Merit Pay, Bonus, Motivation, Financial Incentive, Employee Morale, Nigeria

1. Introduction

One of the major issues confronting contemporary organisations, whether private or public, in developing countries such as Nigeria, is ensuring that workers are highly motivated to achieve organisational goals and objectives. The ratio-

nale is that most workers in these establishments often have personal goals that are divergent from those of the organisation. Because well-motivated workers are essential assets that carry out organisational activities that enhance the attainments of set goals and objectives, their motivation is therefore crucial. Management of organisations that want to remain vibrant and competitive and achieve set targets and goals must consequently understand the relevance of employees' benefits that motivate propellers to align policies direction towards that effect (Ayandele & Etim, 2020).

The fate of an organisation is usually determined by its employee, so it sounds logical to understand how employees can be motivated (Daniel, 2019). Therefore, organisations require well-motivated workers to be successful in their operations, besides other factors, because they are enthusiastic about the organisation's success. The challenge, then, is ensuring that workers are well motivated to improve and sustain high performance on the job. When deployed, motivating workers is the focus of management; one instrument often deployed to encourage workers is an incentive. An incentive is any resource or means that seeks to persuade, stimulate or drive workers to work harder and improve and sustain high-performance levels on the job. The motivation is subdivided into financial and non-financial.

It is generally believed that the effect of financial incentives is unambiguously positive; a sizeable financial incentive improves employee performance (Nnubia, 2020). According to De Winne et al. (2019), Kiernan (2018) and Watkins & Fusch (2022), higher rates of employee job satisfaction and employee retention lead to greater organizational performance and lower organizational. As such, the knowledge of factors related to employee satisfaction can have a significant effect upon a wide range of issues for employees and employers. Thus, employees of an organisation have motives and inner desires that are expressed in the form of actions and efforts towards job roles to meet their needs. Employee motivation is the energy, commitment, and creativity that a company's workers apply to their job. Researchers divide motivation into two categories, intrinsic and extrinsic. Extrinsic motivation comes from external factors such as financial rewards and must be refilled regularly not to lose its effect. Intrinsic motivation comes from inside an individual and is the kind of motivation every organisation wishes their employees would have (Mundhra, 2010). Ideally, Small and medium-scale enterprises should depend not only on intrinsic and extrinsic motivation to attract employees connected with the job and do much better. This claim is supported by Ojokuku and Oyedoku (2011), who identified the effect of financial incentives on information and communication technology professionals. Profit-sharing plans, premium pay and cash bonus are the economic benefits these professionals enjoy, enhancing their motivation to work.

Contrarily, Nnubia (2020) stated that, in most businesses and other organisations, money is used to keep an organisation adequately staffed and not primarily as a motivator. Any bonus scheme for manual workers should be related to

criteria that are meaningful to the employees and capable of being measured consistently. The incentive to achieve one particular objective, for example, increased volume, should not act as an incentive to worsen other achievement standards like quality. [Serena, Muhammad, and Emran \(2012\)](#) stated that SMEs employees would do their best only when they feel their hard work will be rewarded, especially using the financial incentive method. Motivation through rewards is of crucial importance. Many superiors believe that using motivational techniques encourages employees to produce better output. For example, most technical colleges in Oman select an employee as “Employee of the Month.” This kind of appreciation encourages employees to keep them on the right path.

In any case, motivating employees may enable small business owners to remain competitive. Small business has played a significant role in job creation and economic growth in the United States and worldwide ([U.S. Census Bureau, 2016](#)). Successful small businesses are vital to the economy, and small businesses employ 64% of the private workforce and provide more than 40% of personal sales. Companies can gain a competitive advantage when employees are motivated, positively influencing business profitability ([Kumar & Pansari, 2016](#)). Conversely, lack of motivation can negatively impact the business ([Chukwu, 2021](#)). Hence, financial incentives are instrumental in employee motivation and productivity as they have great benefits and a high potential to motivate workers to do their best in any given task. To this end, the study investigates the effect of financial incentives on employees’ morale and motivation of Small and medium-scale enterprises in Ekiti State.

Business owners experience low employee productivity and lost profits when they cannot motivate employees. An organisation may negatively impact productivity and profitability when employees lack motivation and job satisfaction. [The Bureau of Labor Statistics \(2015\)](#) indicated that the annual employee small business voluntary turnover rate increased from 26.8% in 2010 to 33.5% in 2014, with a national average of 22%. The general business problem is that owners who do not motivate employees to reduce turnover may experience lost profits. The specific business problem is that some small business owners lack strategies for financial incentives to motivate their employees to increase profits ([McManus & Mosca, 2015](#)).

Still, some problems are associated with financial incentives on workers’ performance by workers and managers in various business organisations. These are; poor incentives packages, which have been a significant factor affecting employees’ commitment and productivity; employees’ lack of willingness to increase their performance because they feel that their organisations do not well recognise their contributions and Management also lacks the necessary skills that could help in the formulation of a sound financial incentive policy. Any organisation’s success and survival are determined by how its workers are remunerated and rewarded. The reward system and motivating incentives will evaluate employees’ commitment and attitude to work. According to [Kreitner, Ki-](#)

nicki and Buelens (2007), incentives are the compensation for doing work well given to a worker through financial and non-financial incentives. However, for any Small and medium-scale enterprise to achieve its objective in any competitive society, employers of labour must thoroughly understand what drives the employees to perform efficiently and reward them accordingly. There is an increasing need for organisations to develop reward systems that motivate staff to work harder.

Based on empirical investigation, Adeoye and Sunday (2017), Onuegbu and Ngige (2018), Ekundayo (2018), Nnubia (2020), Chukwuemeka (2020), Ayan-dele and Etim (2020), Elomien, Nchuchuwe, Idowu, Onabote, and Osabohien (2021) have examined nexus between financial and non-financial incentive and employee motivation in the industrial sector, Universities and Polytechnics, Nigeria Electricity Distribution Companies in Nigeria with little empirical studies in Small and medium scale enterprises (Ikupolati, Ijaiya, Adelabu, Olatunle & Ochepe, 2017; Musa, 2018). Amazingly, the study of Ikupolati et al. (2017) addressed employees' motivation on the performance of Small and Medium Enterprises in the Private Sector in Nigeria, and Musa (2018) specifically addressed the effect of motivation on productivity in small and medium enterprises in Kaduna state. It can be observed that these studies specifically failed to address issues around financial incentives as a motivating factor for SME employee performance and productivity, which this study considers quintessential. It is not enough to motivate employees with non-financial incentives; instead, with financial incentives, which is the basis of this study. The importance of merit pay and bonuses as motivation factors for SMEs workers cannot be over-emphasised. This connotes that a well-remunerated and motivated worker financially will put their best into the organisation goal of the business, which has a long run effect on the company's performance. Aside from this, other studies have been directed to Southwest, Kaduna, Lagos, and Southeast, with no traceable study in Ekiti State to the best of the researcher's knowledge. Based on this, it is imperative to investigate the effect of financial incentives on workers' morale and motivation of selected Small and Medium Scale Enterprises in Ekiti State, Nigeria.

Objectives of the Study

The study's main objective is to examine the effect of financial incentives on workers' morale and motivation in selected Small and Medium Scale Enterprises in Ado-Ekiti. The specific goals are to:

H₀₁: examine the effect of merit pay on workers' morale and motivation of selected Small and Medium Scale Enterprises in Ado-Ekiti;

H₀₂: assess the effect of bonuses on workers' morale and motivation of selected Small and Medium Scale Enterprises in Ado-Ekiti.

2. Conceptual Review

Financial Incentives

The most important resources any organisation possesses are its people.

Therefore, it is also crucial for organisations to seek ways to encourage positive attitudes to strengthen themselves and their profit margin. The organisation needs human beings because human nature, though very simple, can also be very complex. This makes it a task for organisations to know how to motivate their employees. Understanding and appreciating human nature is a prerequisite to effectively motivating employees (Nnubia, 2020). The financial incentive stimulates more significant action, inculcates zeal and enthusiasm toward work, and helps an employee recognise achievement (Park, 2010). Likewise, Beretti, Figuières and Grolleau (2013) discussed that financial incentives are used to build a positive environment and maintain a job interest, which is consistent among the employee and offer a spur or zeal in the employees for better performance. For this reason, financial incentive motivate employees and enhance commitment to work performance, psychologically satisfy a person and leads to job satisfaction, and shape the behaviour or outlook of subordinate toward work in the organisation.

Financial incentives involve granting of rewards in terms of money such as commissions, bonuses etc. Examples of financial rewards include base pay, cost of living adjustments, and short-term and long-term incentives (Aguinis, 2013). According to Dessler (2014), financial incentives are rewards or replies in the form of the financial form given to employees whose production level exceeds predefined standards. Novianty and Evita (2018) added that the incentive system connects employee compensation and work performance by paying according to the results of their work and not because of seniority or length of work. Meanwhile, Hasibuan (2013) argues that as a means of incentive, motivation aims to direct and drive the power and potential of employees to want to work hard and be enthusiastic in achieving optimal work to realise the goals that have been determined. The existence of incentives that provide pay based on work performance will enhance employee motivation to achieve the goals set.

The available empirical evidence documents that monetary rewards are among the most potent factors affecting employee motivation and performance. An employee's productivity has increased by an average of 30% after introducing individual financial incentives. Other rewards and interventions do not seem to have such a powerful effect. However, employees say the value of monetary rewards does not always reflect what they think or do. The research by Lee (2015) proves that financial incentives significantly affect medical personnel's performance, undoubtedly resulting in increased motivation based on given financial incentives. Basu and Kiernan's (2016) research adds that financial incentives affect healthy lifestyle changes. The discussion raised is almost identical to this study's subject regarding motivation. Therefore, the analysis can also be the trigger for doing this research. It can be concluded that Financial Incentive is the result of remuneration received by employees in the form of financial based on contributions and work performance that exceeds the average standard of other employees. Financial Incentive is done as a measure of investment by the company to its employees. Besides, incentives aim to motivate employees to do their

work, leading to achieving company goals.

Dimension of Financial Incentives

In the context of this study, the selected financial incentives discussed are merit pay and bonuses.

Merit Pay: Merit pay is an approach that rewards higher-performing employees with additional pay, sometimes called incentive pay. Merit pay helps the employer differentiate between the performance of high and low-performing employees and rewards the performance of the high performers. This can aid retention because no organisation wants to lose its best performers (Heathfield, 2008). Salary entails base pay and adjustable pay. Adjustable compensation can offer motivation for employees' accomplishment. In many offices, the value of any particular employee is subjective and ultimately determined by a supervisor. Without precise measurements, others could easily dispute the outcomes when merit pay is determined. Even offices with measurable results can be challenged (Heathfield, 2008).

Bonuses: Bonus pay is the sum of money employers give to employees beyond their existing wages (Kappel, 2018). Bonuses come in various forms, and there have been arguments about why most organisations prefer to use bonuses to motivate their workforce. Before discussing the diverse reasons institutions use bonuses to inspire workers, there is a need to distinguish how additional benefits are given. To elaborate further, Pink (2009) explains that two procedures exist for satisfying an employee. Firstly, in attendance are the dependent meets or what he referred to as "if-then satisfiers" that assure a direct repayment if a particular form of an act is accomplished or attained. In other words, there are also "now-that" compensations. These payments are given to remember the work done or appraised duty performance.

The reason why most organisations prefer the usage of bonuses is that they are an easy way to thank the workers. Bonus can also increase employee morale and motivate workers to reach goals. When employees are happy, the organisation is primed to perform better than ever (Kappel, 2018). Another pertinent argument is that other benefits offer institutions a flexible emolument possibility. Rendering to (Lazear & Gibbs, 2009), the best vital motive to connect compensation to an act is to intensify or raise workers' outcomes. This is constructed on a presupposition that extrinsic motivation will be geared towards an advanced enactment. Additional benefits are consequently used as a dependent incentive to attract higher work performance by workers. The reasons for employee motivation via other benefits are carefully connected to the perceived reason for supporting the workers. The purpose of motivating through bonuses is also carefully linked to the purpose of supporting the employees' happiness about the institute ones.

Motivation

Motivation in any business organisation should align with the business's goals to promote employee performance (Medsker & O'Connor, 2015). A primary concern for the retail industry is determining how to motivate their employees

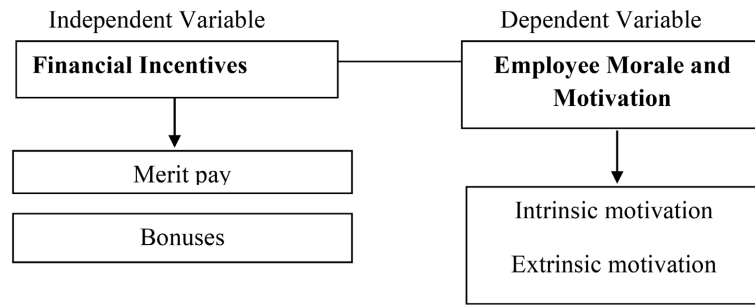
and how to keep them motivated. Research has shown various motivational approaches and employees' acceptance of such techniques. The additive to provide additional energy to help employees overcome fatigue, disinterest, stress, and feelings of quitting the job is motivation. Management generally recognises workplace motivation, but it is not often addressed in practice (Cheng & Scheinkman, 2015; Cowley & Smith, 2014). The performance of employees is significant to understanding the level of motivation the employee has within them. Members of management may choose to use a differential outcome tool to help them study the performance of their employees.

Motivation has been determined to be one of the most critical elements in influencing employee behaviours and how they perform (Medsker & O'Connor, 2015). Word and Carpenter (2013) stated that employees search for numerous things outside of the salary for the profession they choose, and the characteristics of that profession will keep them motivated as they continue their careers. Business organisations must fully understand the importance of these aspects of the chosen profession and continue supporting employee motivation. A study by Word and Carpenter (2013) implicated that including the employees in policy-making helped improve the employee's feeling of being essential and making a difference within the organisation. When an employee has the opportunity for growth or promotion within their job, this can increase the motivation of the employee to improve their job performance. The more an employee is motivated or empowered to perform, the higher the level of engagement that employee will have within the business organisation (Medsker & O'Connor, 2015). It is crucial to the business's long-term success to motivate employees to believe in the changes within the business establishment. Motivational factors occur in two types within the workplace environment, namely, intrinsic and extrinsic factors. Intrinsic motivational factors come from within the individual employee. Extrinsic motivational factors come from the external environment to motivate the employee.

The business organisation must recognise that motivation includes economic and non-economic incentives that stimulate employees to act favourably (Ganesh, 2016; Hitka & Balazova, 2015). Therefore, the organisation needs to implement financial and non-financial incentives to motivate employees and enhance employee performance (Ganesh, 2016). Retail business organisations should ensure the development of skills and help their employees grow and develop.

Conceptual Framework

The conceptual framework for this study is represented in **Figure 1**. The framework considers the role of financial incentives on employees' morale and motivation of Small and medium-scale enterprises in Ado-Ekiti. The dimension of financial incentives (merit pay and bonuses), as documented in the literature review, are represented as explanatory variables, while employee morale and motivation (intrinsic motivation and extrinsic motivation) represent a proxy of the dependent variable. This framework is vital to determine which financial incentive variables contribute more significantly to organisational employee motivation. Also, to ascertain whether financial incentive connects more significantly



Source: Author's Design (2023).

Figure 1. Financial incentive and employee motivation.

to intrinsic or extrinsic motivation factors in SMEs. The target respondents in the research will be the employees of the selected SMEs in Ado-Ekiti, Ekiti State.

Theoretical Review

Maslow's Hierarchy of Needs Theory

Maslow's (1943) hierarchy of needs proposes that individuals must fulfill their lower-order needs (basic needs such as water and housing, safety, belonging, and esteem) before being motivated to achieve the higher-order need for self-actualisation. Usually, the theory of requirements developed by Maslow is captured in a pyramidal shape in which the basic needs are situated at the bottom while the higher conditions are at the top. This portends the order of importance of the needs. Physiological needs are the most vital and comprehensive among them and were placed at the pyramid's base. An individual goes through the hierarchy, beginning with the most basic needs, that is, physiological needs, which include food, air, sleep, shelter, clothing, employee salaries, etc. Such needs are basic and hence absolutely essential to sustain life.

Until the physiological needs are fulfilled, the other needs above the hierarchy will not be considered (Cheema, Shujaat, & Alam, 2013). This is a critical point, considering that most lower-level employees fall at this level of Maslow's hierarchy in most organisations. The second most basic need is for employees to feel safe and secure. Employees who feel insecure at the workplace or feel like they are in harm, which could be environmentally or mentally, will not be able to perform their work above expectation. Instead, they get demotivated, which drives them to seek job offers from other companies (Tanner, 2018).

Social Needs refer to the need for friendships, team togetherness, belonging to associations, clubs or other groups, and the need to give and get love are all social needs. Employees are concerned about esteem needs, including self-respect, achievement, attention, recognition and reputation. They generally need the feeling that others will think better of them or appreciate their efforts at work. This is why motivation is crucial to excellent employee performance and when at this level of the hierarchy, it mainly concerns monetary rewards such as bonuses, pay rises and financial gifts while it concerns non-monetary rewards such as recognising or praising an employee for good performance in the presence of the other employees (Tanner, 2018). Self-Actualisation is the highest level of Mas-

low's hierarchy, where people are looking into their full potential, purpose, truth, wisdom and justice. A tiny percentage of employees ever reach this point. In an organisation, such individuals are very few and may include top management such as company proprietors and directors. Therefore, the theory is suitable for understanding financial incentives' effect on employees' morale and motivation in Small and medium-scale enterprises in Ekiti State.

Empirical Studies

Elomien, Nchuchuwe, Idowu, Onabote, and Osabohien (2021) applied the autoregressive distribution lag (ARDL) econometric approach to examine the long-run effect of employee motivation on industrial output in Nigeria. Data used for the study was sourced from the World Development Indicators (WDI) of the World Bank from 1981 to 2018. Industrial output was proxied by industrial value added (annual % growth) and was used as the dependent variable, while the independent variable is motivation, which was proxied by wage and salaried workers, total (% of total employment), and was modelled on the ILO estimate. The analysis showed that employee motivation is statistically significant and positive in determining Nigeria's industrial output level. This result implies that an increase in the level of employee motivation has the potential to increase industrial output by 98%.

Chukwu (2021) explored the managerial strategies that small business owners used to motivate and retain sales associates to increase profits in the United States of America. The study population included four small business owners in Texas who successfully implemented employee motivation and retention strategies. Data were collected from semi-structured interviews and artefacts, including company websites and social media pages. The transformational leadership theory guided the study. Data were analysed using Yin's five data analysis steps, including compiling, disassembling, reassembling, interpreting, and drawing conclusions. Three themes emerged from the data analysis: provide financial incentives, increase job satisfaction, and enhance job training. The findings showed that small business owners use strategies to motivate and retain sales associates to increase profits.

Chukwuemeka (2020) found out the effects of non-financial incentives on the performance of Staff in Nigeria public organisations with particular emphasis on three federal higher institutions in southeast Nigeria; Federal Polytechnic Uwana, Afikpo, Federal Polytechnic Nekede and Federal Polytechnic Oko. The study's objective was to determine how much career advancement opportunities, Participation in decision-making, and Employee Empowerment affect public servants' job performance. Six research questions and hypotheses were formulated in line with the objectives to guide the study. The methodology used in the study was the survey research design. The population size was 6641, and the sample size of 1276 was determined using Borg and Gall's formula. 1276 copies of the questionnaire were administered to the respondents to collect data, and 1059 were retrieved. Hypotheses were tested using chi-square test statistic at the

0.05 level of significance. Results showed that: Non-financial incentives positively affect public servants' job performance. More so, among the expected factors of non-financial incentives identified in this study, career advancement opportunity, Participation in decision making and employee empowerment positively affected employee motivation and improved job performance.

Cainarca, Delfino and Ponta (2019) addressed the role of monetary incentives concerning the performance of employees and organisations in Italy. The distribution of financial incentives among employees in public administration was investigated. Specifically, the traditional approach of bureaucracy, which pays each employee a premium based on the position held, is compared with a merit approach that tends to recognise and reward individual contributions. A task advice centrality indicator and a value index have been defined and used to study the performance of employees. The results showed a modification of individual behaviours aligned with the theoretical foundations and predictions formulated.

Elvina and Chao (2019), in a study on the nexus between employee motivation and work performance, examined the direction of the relationship between motivation and performance of the employees of VTB Bank of Russia. They also assessed the impact of motivation (both intrinsic and extrinsic) on employee performance. One hundred workers represent the population of the study. A quantitative research design was used for the analysis, and the Pearson product-moment correlation coefficient was used to test the two hypotheses. Findings revealed that VTB Bank employees valued intrinsic and extrinsic motivation for their industrial performance. However, extrinsic motivation, in particular, significantly impacted the employees' performance. Following this, the study strongly challenged employers to improve the payment policies and procedures capable of drawing attention, encouraging, retaining and satisfying workers in the workplace.

Davidescu, Apostu, Paul and Casuneanu (2020) investigated the link between employee development and work time and workspace flexibility as relevant characteristics of sustainable HRM, job satisfaction and job performance among Romanian employees to identify how to redesign HRM in the face of "future work" challenges. The study was achieved using binary logistic regression. The empirical results revealed the role of functional flexibility, working time, and workspace flexibility, along with the composite flexibility indicator, in increasing employee job satisfaction.

Mansaray-Pearce, Bangura and Kanu (2019) found the impact of financial and non-financial rewards on employee motivation case study by the Sierra Leone National Revenue Authority. The study also discusses that employee motivation is imperative for overall organisational performance and how to retain a motivated workforce. Motivation factors such as high and low-level labour may differ from organisation to organisation and class to class of employees. Qualitative as well as quantitative research methodology has been adopted in this study. The researchers surveyed NRA. A questionnaire was developed to guess the opinion

of employees working in this organisation. A semi-structured interview was conducted to get an insight into their motivation. The researchers found that different factors affect employee motivation, which can be classified into financial and non-financial rewards. Although financial rewards are essential for employee motivation in developing countries like Sierra Leone, where the inflation rate is so high that people struggle to retain their social status, the importance of non-financial rewards cannot even be discriminated against.

3. Methodology

The Population of the Study

The population as of when the study was carried out consists of the entire Small and Medium businesses operating in Ekiti State, which numbered about 928 (Ekiti State Ministry of Commerce and Industries, 2017), National Association of Small Scale Industries (NASSI, 2017) offering various products/services to the general public. Most Small and Medium businesses operate as family/sole proprietorship businesses and are generally classified into commercial, industrial and agricultural categories depending on their activities. Based on the peculiarity of this study, the target population covers 5 SMEs with a large number of employees in Ado Ekiti, namely, Dry cleaning and Laundry firms, Printing press, Bakeries, Eateries and Electronics storehouses in Ado Ekiti. Hence, five organisations under each SME were chosen for the study. The reason(s) for selecting the aforementioned SMEs is because they paraded the largest number of employees and they all have their head office in the capital city of Ekiti State (Ado-Ekiti). The population of staff of the firms is presented in **Table 1**.

Sample and Sampling Techniques

A multistage sampling technique was employed for the study. At first, the study selected all SME firms in Ado-Ekiti, which were later reduced to 5 firms. However, the five firms will be purposively selected because they signify a sizeable SME population. The purposive sampling technique was used to determine the appropriate firms from the list of SME firms in Ekiti State. Five SMEs will be selected: Laundry house, Printing house Ado-Ekiti, Bakery, Eatery and Electronics house Ado-Ekiti.

Table 1. Population of staff.

SMEs firm	Population of staff
Laundry house Ado-Ekiti	70
Printing press Ado-Ekiti	90
Bakery Ado-Ekiti	120
Eatery Ado-Ekiti	200
Electronic house Ado-Ekiti	120
Total	600

Source: SMEs Registry and Author's Computation (2023).

The total sample size for the study is 240. A proportionate sampling technique is used to get the total number of respondents from each selected firm. The formula is given, and the sample size was calculated by using the **Yamane Taro model (1967)**.

Sample size:

$$n = \frac{N}{1 + Ne^2}$$

where, n = anticipated total sample size; N = population size; e = acceptable error term (0.05).

$$n = 600 / (1 + 600 \times 0.05^2)$$

$$n = 600 / (1 + 600 \times 0.0025)$$

$$n = 600 / 2.5$$

$$n = 240$$

Source of Data

Primary data was employed for the study, and a self-designed questionnaire was used to gather information from the selected respondents. The questionnaire was validated using content validity. The respondents were chosen from the Laundry house, printing house Ado-Ekiti, Bakery, Eatery and Electronics house Ado-Ekiti.

Model Specification

The following regression model was used to ascertain this study's objective and test for the hypotheses. To examine the effect of financial incentives on workers' morale and motivation of SMEs in Ekiti State, the model of **Nnubia (2020)** is stated as follows:

$$EMP = f(SLW, FRB, BON)$$

EMP = Employee performance;

SLW = Salary and wages;

FRB = Fringe benefit;

BON = Bonuses

The study modified the model by replacing fringe benefits with merit pay. Based on that, the present study added merit pay to the remaining variables in **Nnubia (2020)** model. The study further replaces employee performance with motivation. This study includes these variables to account for the role of financial incentives on employee motivation of SMEs in Ekiti State. Therefore, the model for this study is stated below as;

$$EMPM = f(MRP, BON)$$

Where:

EMPM = Employee morale and motivation;

MRT = Merit pay;

BON = Bonuses;

Estimation Technique

The study was analysed using both inferential and descriptive statistics. Descriptive statistics were used to present and analyse respondents' demographic data in frequency Tables. The demographics involved sex, age, marital status, residence etc. Frequency counts and percentages were used to provide answers to research questions, while inferential statistics, namely multiple regression analysis, was used to test the hypotheses and to achieve the objectives of the study. ANOVA tests will be used to analyse and test the hypothesis 1 - 2, respectively.

To test for the hypotheses, one of the three elements of the variables, which include (MRT and BON), will be used to establish whether there will be any significant effect of the independent variables on the dependent variable.

4. Results and Discussion

This chapter presents the results and discussion of the data analysis. The data were analysed in two stages. Stage one involved the analysis of the demographical data and perception of financial incentives and employee morale and motivation (merit pay and bonuses), while stage two involved the testing of the hypotheses. The general questions were answered using descriptive statistics involving frequency counts and percentages, mean and standard deviation. The research hypotheses were tested at a 5% significance level using inferential statistics involving multiple ANOVA analyses. However, two hundred and forty (240) questionnaires were retrieved from the field representing and analysed.

Results of Descriptive Analysis

The analysis in **Table 2** showed that 113 male respondents accounted for 47.1% of the total respondents in the study, while the remaining 127 female represented 52.9%. This implies that female participants are more significant

Table 2. Descriptive analysis of respondent demographic variable.

S/N	Demographic variable	Grouping	Frequency	Percentage
1.	Gender	Male	113	47.1
		Female	127	52.9
2.	Respondent	Top-level	66	27.5
		Middle level	89	37.1
		Lower level	85	35.4
3.	Religion	Christianity	131	54.6
		Islamic	97	40.4
		Others	12	5.0
4.	Academic qualification	First-degree holder	110	45.8
		Master holder	49	20.4
		Diploma	81	33.8

Source: Field Survey, 2023.

than male participants from the selected SMEs in Ekiti State. More so, 66 (27.5%) of the total respondent are top-level members of staff, 89 (37.1%) are middle-level members of staff, and the remaining 85 (35.4%) are lower-level members of staff. This implies that middle-level members of staff responded well to the administered questionnaire. Furthermore, 131 respondents representing 54.6%, were Christianity, 97 (40.4%) were Islamic, and 12 (5.0%) were other religious groups; therefore, most SME owners and managers in Ekiti State are Christians. Analysis based on academic qualification showed that 110 (45.8%) of the respondent were first-degree certificate holders, 49 (20.4%) were Master's degree certificate holders, and 81 (33.8%) were Diploma certificate degree holders. This implies that SME managers, owners and staff members are educated and learned with at least a diploma certificate in Ekiti State.

Test of Hypotheses

Hypotheses 1 - 2, which stated that merit pay and bonuses have no significant effect on SME employee morale and motivation, were achieved via ANOVA and multiple regression analyses.

Table 3 indicated that the model had a correlation value of 0.848, manifesting an excellent and strong linear relationship between the dependent and independent variables. The table further showed that the goodness of fit (R^2) is 0.721, which depicted that 72.1% of the change in the dependent variable (employee morale and motivation) is accounted for by the independent variables merit pay, bonuses and salary and wages). More so, the adjusted R square is 71%, which explains the importance and contributions of the explanatory variables on the dependent; that is, the explanatory variables of merit pay and bonuses affect employee morale and motivations of SMEs by 71%, leaving the remaining 29% accounted for stochastic error term (other variables outside the regression model). The F value of 10.852, significant at 000, shows an excellent explanatory power of the explanatory variables (**Table 4**). This showed that the model is reliable, error-free and does not suffer from specification bias.

The analysis of variance (ANOVA) was applied to express the model's strength. The F-value 10.852 of ANOVA expressly revealed that the value is statistically significant. The result is corroborated coupled with the f-(probability) value effective 0.00, which is less than a 0.05 significant level. The study established that the regression model is too good to be rejected; hence the model is significant (**Table 5**).

The study showed that merit pay has a positive and significant effect on employee morale and motivation of SMEs in Ado-Ekiti, Ekiti State which implies

Table 3. Model summary of regression analysis.

Model Summary				
Model	R	R Square	Adjusted R Square	Std. The error in the Estimate
1	0.848 ^a	0.721	0.710	0.317

a. Predictors: (Constant), Merit pay, and Bonuses; Source: Author's Computation, 2023.

Table 4. Analysis of variance (ANOVA).

ANOVA ^a						
Model	Sum of Squares	Df	Mean Square	F	Sig.	
1	Regression	3.273	2	1.091	10.852	0.000 ^b
	Residual	23.723	236	0.101		
	Total	26.996	239			

a. Dependent Variable: Employee morale and motivation; b. Predictors: (Constant), Merit pay and Bonuses; Source: Author's Computation, 2023.

Table 5. Regression coefficients.

Coefficients ^a					
Model	Unstandardised Coefficients		Standardised Coefficients Beta	t	Sig.
	B	Std. Error			
1	(Constant)	1.022	0.156	6.536	0.000
	Merit pay	0.289	0.040	7.288	0.000
	Bonuses	0.144	0.046	3.147	0.002

a. Dependent Variable: Employee morale and motivation; Source: Author's Computation, 2023.

that a percent increase in merit pay will bring about 28.9% increases in employee morale and motivation of SMEs in Ado-Ekiti, Ekiti State, Nigeria. Therefore, hypothesis one concluded that merit pay has a positive and significant effect on employee morale and motivation of SMEs in Ado-Ekiti, Ekiti State, Nigeria.

The coefficient of bonuses is 0.144, which is significant and positively related to SME employee morale and motivation in Ado-Ekiti, Ekiti State, Nigeria. This implies that a 1% change in bonuses will positively and significantly improve employee morale and motivation to work, ultimately resulting in SMEs' performance in Ado-Ekiti, Ekiti State, Nigeria by 14.4%. Therefore, it can be concluded that bonus has positive and significant effects on employee morale and motivation of SMEs in Ado-Ekiti, Ekiti State, Nigeria.

Discussion and Implication of Findings

The study empirically investigated the effect of financial incentives on employee morale and motivation of small and medium-scale enterprises in Ado-Ekiti, Ekiti State, Nigeria. Three objectives were designed according to the same research questions and hypotheses to align the study properly. The study employed descriptive analysis using frequency and percentage counts to answer the research questions that emanated from the statement of the problem. Interestingly, the result disclosed that all the financial incentives indicators (merit pay and bonuses) positively contributed to employee morale and motivation of SMEs in Ado-Ekiti, Ekiti State, Nigeria. This implies that if SMEs can apply all these indices to their staff welfare, the workers will be more devoted and com-

mitted and do more to enhance organisational productivity. It, therefore, connotes that a type of human resources practices/programme employed by an organisation will determine the length of commitment by the staff. Hence, management of SMEs is encouraged to motivate their members of staff with good merit pay and bonuses.

The t-test of multiple regression analysis was applied to affirm the test of hypotheses. Summarily, based on the test of hypothesis one, the result explicitly showed that merit pay positively and significantly impacted employee morale and motivation of SMEs in Ado-Ekiti, Ekiti State, Nigeria. This implies that merit pay's importance in differentiating between performing and non-performing staff in an organisation cannot be overemphasised. Hence, business owners and managers must look for a way to give additional income, known as an incentive to an outstanding staff to set other staff members on the same track to increase their performance level to the organisation. Merit pay is so important to workers as it reduces the turnover ratio and increases the retention rate in an organisation; since the cost of recruiting new staff may be outrageous, it is therefore imperative for SMEs business owners and managers to employ merit pay as one of the financial incentive tools to motivate their workers to work. When an employee is satisfied with the job, work environment, work condition, work pay and timely merit pay, it is expected that such staff would go the extra mile to contribute to the company's success, ultimately resulting in the performance of SMEs. This result validates the empirical and existing finding of [Adeoye and Sunday \(2017\)](#) and [Daniel \(2019\)](#) that merit pay as a tool of financial incentive significantly affects employee morale and motivation in Nigeria.

The result of hypothesis two concluded that bonuses positively and significantly impacted employee morale and motivation of SMEs in Ado-Ekiti, Ekiti State, Nigeria. The result implies that employers should attend to employees' needs by giving bonuses against the regular wages and salary, especially when the employees have done beautifully. Bonuses which are part of the financial incentive tool should also be provided to the employees at least once a month, irrespective of the value. This shows a way of gratitude to the employees for the job done well. It is often said that when employees are happy, the organisation is primed to perform better than ever ([Kappel 2018](#)). Thus, employer or management of businesses that employ bonuses indirectly seeks employees to work and perform well next time. With appropriate and adequate financial incentives (bonuses) in place, profitability will not be a problem because it will fall in place with the stated strategy of giving bonuses to employees. However, in formulating a financial incentive (bonuses) strategy, firms must consider internal and environmental factors which may affect the performance; in other words, a policy adopted may either promote or demote a firm. The study empirically associates with the finding of [Nnubia \(2020\)](#) that bonuses positively and significantly impacted employee motivation to work, resulting in increased firm performance.

5. Conclusion and Recommendations

Having established the effect of financial incentives on employee morale and motivation of Small and Medium Enterprises in Ado-Ekiti, Ekiti-State, Nigeria, the study found that financial incentive indicators (merit pay and bonuses) have a positive and significant effect on employee morale and motivation of SME. This connotes that the adaptability of financial incentive tools can increase employee morale and motivation to work more efficiently and effectively, ultimately leading to better performance improvement for SMEs. The study is consistent with Nnubia (2020) conclusion and Elomien, Nchuchuwe, Idowu, Onabote, and Osabohien (2021) conclusion that financial incentive significantly affects employee morale and motivation of SMEs in Nigeria.

Based on the finding of the study, the study recommended that the managers and owners of the SMEs should not rush into business without a proper plan on how to make employees happy at all times, which ultimately would lead to over-performance of employees and, consequently, organisational productivity. Financial incentives like merit pay and bonuses, amongst others, should be provided to attract, retain and motivate employees for better performance and commission to employees should be considered in distributing reward types to deserving employees for maximum employee performance.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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