EFFECT OF STRATEGIC REWARDS SYSTEM FACTORS ON EMPLOYEE PERFORMANCE OF MANUFACTURING FIRMS IN PLATEAU STATE, NIGERIA

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Abstract
This study investigates the effect of strategic reward systems on employee performance in selected manufacturing firms in Plateau State, Nigeria, focusing on financial compensation, target-based incentives, and fringe benefits. The research aims to examine whether these reward systems effectively enhance employee performance in the context of the Nigerian manufacturing sector, which faces challenges like low morale and high turnover due to inadequate reward systems. Using a descriptive-survey research design, the study targeted 1,274 employees across nine manufacturing firms, with a sample size of 365 determined through the Taro Yamane formula and adjusted for a 20% margin of safety. A proportional stratified random sampling technique ensured accurate representation of the firms based on their staff sizes. Primary data was collected using a 5-point Likert scale questionnaire distributed both in person and via digital platforms. Data analysis was conducted using Partial Least Squares – Structural Equation Modeling (PLS-SEM), allowing for an in-depth examination of the relationships between reward systems and employee performance. The findings revealed that while financial compensation had no significant effect on employee performance, target-based incentives and fringe benefits showed significant positive impacts. These results suggest that performance-linked rewards and non-monetary benefits are more effective than financial compensation alone in motivating employees. Based on these findings, the study recommends that firms reassess their compensation structures to better align with employee expectations, continue expanding the use of performance-based incentives, and diversify their fringe benefit offerings to improve overall employee well-being and performance.
Keywords: *Employee's performance, financial compensation, Fringe benefits, Target-based incentives, Manufacturing firms, Plateau state*

INTRODUCTION
Employee performance is essential to organizational success, prompting companies to adopt strategies like strategic reward systems to enhance motivation and retention. Strategic rewards, encompassing financial compensation, target-based incentives, and fringe benefits, are particularly crucial in manufacturing firms, where competitiveness and productivity are vital. In Plateau State, Nigeria, strategic rewards are pivotal due to the manufacturing sector's dynamic and challenging environment. Financial compensation, a key component of strategic rewards, acknowledges employees' contributions and motivates performance. Studies (Chiang et al., 2019; Miao et al., 2021) show that competitive pay and bonuses significantly boost employee motivation and productivity. Similarly, target-based incentives align employee efforts with organizational objectives, fostering accountability and measurable performance improvements (Lawler, 2019). Fringe benefits, including health insurance and housing subsidies, enhance employee well-being, which is particularly important in Plateau State, where socio-economic disparities exist (Gupta & Shaw, 2014). Such rewards contribute to talent retention and satisfaction, critical for sustained productivity in the sector.

The effectiveness of strategic reward systems in improving employee performance remains uncertain, particularly in Nigerian manufacturing firms. While perceived as attractive, the implementation of reward systems in these firms is often flawed, with inadequate attention to financial compensation, limited target-based incentives, and insufficient fringe benefits. In Plateau State, these challenges are compounded by socio-economic conditions, making it unclear whether existing reward systems meaningfully enhance performance or merely create a façade of effectiveness. Although the Nigerian manufacturing sector is perceived as attractive due to its reward systems, challenges persist. Many firms struggle with inadequate recognition programs, limited career advancement opportunities, and insufficient work-life balance initiatives, leading to low employee morale and high turnover (Eze & Chukwuemeka, 2022; Adetunji, 2020). These challenges raise concerns about whether strategic rewards genuinely enhance performance or merely offer superficial appeal. This uncertainty is pronounced in Plateau State, where unique socio-economic dynamics may hinder effective implementation of reward systems.

Existing research provides mixed findings on the impact of strategic rewards on performance. Some studies report positive correlations across industries (Chiang et al., 2019; Miao et al., 2021), while others find limited or no significant effects, particularly in developing economies (Ng et al., 2020; Zhao et al., 2023). Methodological inconsistencies, diverse settings, and varying statistical approaches contribute to these discrepancies. In the context of the manufacturing firms operating in Plateau State, there is limited empirical evidence on how strategic rewards specifically influence performance, creating a knowledge gap.Moreover, prior research on this topic in Nigeria often relies on traditional regression techniques, which may oversimplify complex relationships between rewards and performance. The lack of studies employing advanced methods like Partial Least Squares Structural Equation Modelling (PLS-SEM) highlights a methodological gap that limits nuanced understanding of these dynamics in manufacturing firms.

The mixed results in literature and the reliance on traditional regression methods underscore the need for a contextual and methodological exploration of how financial compensation, target-based incentives, and fringe benefits affect performance in manufacturing firms in Plateau State.This study aims to examine the effect of strategic reward systems on employee performance in selected manufacturing firms in Plateau State, Nigeria, with specific objectives to:

i. Determine the effect of financial compensation on employee performance in selected manufacturing firms in Plateau State, Nigeria.
ii. Examine the effect of target-based incentives on employee performance in selected manufacturing firms in Plateau State, Nigeria.
iii. Evaluate the effect of fringe benefits on employee performance in selected manufacturing firms in Plateau State, Nigeria.

LITERATURE REVIEW

Conceptual Framework

Employee performance is a multifaceted construct deeply ingrained in various dimensions of work execution and outcomes. Shield (2016) defines it as the extent to which employees fulfill their duties and obligations, including the quality, quantity, and effectiveness of their work, as well as workplace behaviors (Ashley & Thompson, 2019). This comprehensive assessment integrates both tangible outcomes and interpersonal interactions, emphasizing a holistic evaluation of performance. Hamali (2016) extends this by describing performance as the execution of tasks and the resulting outcomes, highlighting the importance of achieving meaningful results alongside completing assigned duties. Collectively, these perspectives provide a comprehensive framework for understanding and improving employee performance by addressing individual attributes, workplace behaviours, and organizational influences.

Financial compensation encompasses a wide range of definitions and implications, emphasizing its critical role in employee motivation, satisfaction, and organizational success. Brown and Smith (2015) describe financial compensation as the total monetary benefits employees receive, including base salaries, bonuses, and commissions, highlighting its importance in acknowledging employee performance. Johnson and Williams (2017) expand this view to include stock options, profit-sharing, and retirement contributions, showcasing a broader perspective that aligns financial rewards with organizational goals.
Target-based incentives have been defined and analyzed by various scholars, each presenting unique perspectives on their role and impact. Smith and Anderson (2016) define these incentives narrowly, emphasizing their ability to enhance individual accountability through clear performance targets tied to specific rewards. This approach fosters a work environment where employees are directly responsible for their outcomes, promoting self-regulation and personal accountability. Conversely, Thompson and Lewis (2017) adopt a critical stance, warning that poorly designed incentives can lead to stress, demotivation, unhealthy competition, and unethical behavior, especially if targets are perceived as unattainable. Building on this, Martin (2018) emphasizes the need for alignment between target-based

incentives and both organizational goals and intrinsic employee motivations, suggesting that their effectiveness hinges on this dual alignment.

Fringe benefits, often described as non-wage compensation provided to employees, have been defined in various ways in the literature, reflecting their diverse purposes and implications. Brown (2015) defines fringe benefits as health insurance, retirement plans, and other non-wage compensations that enhance employee satisfaction and loyalty, presenting them as a core part of comprehensive compensation packages addressing employees' broader needs. Similarly, Johnson (2016) views fringe benefits as supplemental offerings like flexible working arrangements and tuition reimbursement programs, aimed at improving employee well-being and work-life balance to boost job satisfaction and reduce turnover. The critical perspectives suggest that while fringe benefits can positively impact organizational outcomes, their design and implementation must align with strategic objectives and workforce needs to avoid unintended consequences.

Empirical Review

Financial Compensation and Employees Performance

The effect of financial compensation on employee performance has been a widely researched topic globally, with various studies shedding light on how different types of compensation impact employee outcomes across various industries and regions. For example, Obiaga and Itakpe (2023) investigated the influence of bonuses on employee performance within the oil and gas sector in Rivers State, Nigeria. Employing a descriptive research design, they surveyed 243 respondents using questionnaires and analyzed the data with descriptive statistics and Pearson's correlation. Their findings revealed significant associations between bonuses, rewards, and promotions with enhanced employee performance and productivity. The study's focus on a specific industry and region may limit the broader applicability of its results.Uzochukwu et al. (2022) examined how wage and salary impact employee productivity in Nigeria's hospitality industry. Using a descriptive survey research design, they sampled 378 respondents from a population of 503, employing Taro Yamane's technique for sampling. The analysis, which included simple percentage, mean, deviation, and regression methods, showed that substantial wage and salary rewards positively affect service quality. However, the study's focus on one sector might not reflect other industries.

Target-Based Incentives and Employees Performance

An extensive review of the literaturereveals a growing interest in understanding the impact of target-based incentives on employee performance across various industries and regions. Target-based incentives, which are rewards tied to the achievement of specific performance goals, have been studied using different proxies such as productivity, sales performance, customer satisfaction, and innovation rates.

Kim and Park (2016) focused on the banking sector in South Korea, examining how target-based incentives affect tellers' performance. The study adopted a cross-sectional survey design with a population of 400 bank tellers and a sample size of 180, selected using systematic random sampling. The researchers applied multiple regression analysis to evaluate the relationship between incentives and performance. The study concluded that target-based incentives led to higher performance levels, particularly in sales and customer service metrics. However, the use of a cross-sectional design does not account for changes over time, potentially skewing the results toward short-term effects rather than sustainable performance improvements.

In the public sector, Martinez and Santos (2017) investigated the impact of performance-based incentives on teachers' effectiveness in Brazil. The study used a longitudinal design with a sample of 150 teachers from various public schools, selected through cluster sampling. The statistical model employed was fixed-effects regression, which controlled for individual differences across teachers. The findings indicated a positive effect of target-based incentives on teaching quality and student outcomes. However, the study's limitation lies in its narrow focus on a single region, which may not represent the diversity of the educational contexts across Brazil or other countries.

An African context is provided by Owusu and Mensah (2018), who examined the effect of target-based financial incentives on employee performance in the telecommunications industry in Ghana. The study utilized a quantitative approach with a descriptive research design. The population comprised 1,200 employees, with a sample size of 300, selected via stratified random sampling. The researchers used path analysis to determine the effect of incentives on performance outcomes. The study found that target-based financial incentives significantly boosted employee performance by increasing effort and reducing turnover intentions. However, the reliance on self-reported data could introduce bias, and the study's context-specific findings might not generalize to other industries or countries.

Fringe Benefits and Employees Performance

In the education sector, Martinez and Ramirez (2015) conducted a study on the impact of transportation allowances on teacher absenteeism in public schools in Mexico. The objective was to examine whether providing transportation allowances could reduce absenteeism rates among teachers. A quasi-experimental design was employed, comparing absenteeism rates between teachers who received transportation allowances and those who did not. The study sampled 150 teachers from a population of 500, using propensity score matching to control for selection bias. The findings revealed a significant reduction in absenteeism among teachers who received transportation allowances, suggesting that such fringe benefits could positively influence attendance. However, the quasi-experimental design may not fully account for all confounding variables, and the study's focus on a specific educational context limits the generalizability of the results.

In the technology sector, Zhang and Wu (2016) explored the effect of flexible work arrangements as a fringe benefit on employee productivity in tech companies in China. The study aimed to determine whether allowing employees to work from home or have flexible hours would enhance their productivity. A cross-sectional survey design was used, with data collected from 400 employees across various tech companies. A sample size of 200 was selected through systematic random sampling, and path analysis was employed to test the hypotheses. The results showed a positive relationship between flexible work arrangements and employee productivity, indicating that such benefits could improve work-life balance and performance. However, the cross-sectional design does not allow for an exploration of the long-term impact of flexible work arrangements, potentially limiting the scope of the findings.

Equity Theory

John Stacey Adams, an American workplace and behavioral psychologist, introduced the Equity Theory in 1963. This theory emphasizes the role of fairness in employee motivation, suggesting that individuals assess their job inputs (such as effort, skills, and experience) against their outputs (like compensation, benefits, and recognition) and compare these ratios to those of their peers. Perceived imbalances can lead to feelings of inequity, potentially affecting motivation and performance. The basic assumptions of Equity Theory include:

i. Perception of Fairness: Employees evaluate the fairness of their work outcomes relative to their inputs and those of others.
ii. Social Comparison: Individuals compare their input-output ratios with those of their colleagues to assess equity.
iii. Equity Distress: Perceived inequities can cause discomfort, leading employees to adjust their inputs, outputs, or perceptions to restore balance.
iv. Motivational Impact: Fairness perceptions influence motivation; equitable situations enhance motivation, while inequitable ones can diminish it.

Equity Theory underpins the hypothetical relationship between strategic reward systems—such as financial compensation, target-based incentives, and fringe benefits—and employee performance. When employees perceive that their rewards are fairly distributed and aligned with their contributions, they are more likely to be motivated and perform effectively. Conversely, perceived inequities in these reward systems can lead to dissatisfaction and reduced performance. For instance, a study examining reward equity found that equitable reward systems positively influence employees' inclination to make creative contributions, thereby enhancing performance.

METHODOLOGY

In this study, a descriptive-survey research design was employed to examine the effect of strategic reward systems on employee performance within selected manufacturing firms in Plateau State. The research focused on independent variables such as financial compensation, target-based incentives, and fringe benefits, and their influence on the dependent variable, employee performance, measured by job efficiency and goal achievement. The study targeted a population of 1,274 employees across 9 manufacturing firms in Plateau State, as reported by the Plateau State Ministry of Commerce and Industry. This approach aimed to provide a comprehensive understanding of the current state of strategic rewards and their effect on employee performance within the manufacturing sector in Plateau State.

Table 1: *Population Distribution of Employees across Manufacturing Firms in Plateau State*

S/N	Business Name	Number of Staff	Percentage %
1	Grand Cereal & Oil Mills-UAC	300	23.55
2	Nesco Nigeria LTD	160	12.56
3	SWAN-UAC	100	7.85
4	ECWA Rural Dev., LTD	154	12.09
5	Zabitex Bottling Company	100	7.85
6	Hamtul Group	120	9.42
7	Pioneer Milling Company LTD	150	11.77
8	Europham LAB Eurolink	120	9.42
9	Highland Bottling Company	70	5.49
	TOTAL	**1,274**	**100**

Source: Plateau State Ministry of Commerce and Industry (2024)

The sample size shall be determined using the Taro Yamane's (1967) formula, expressed as:

$$n = \frac{N}{1+N(e)^2}$$

Where:
N= Sample Size
N= Population Size
e= Desired level of precision (expressed as a decimal).
Given:
Population size (*N*) = 1274 (total number of employees in manufacturing firm),
Desired level of precision (*e*) is typically set at 0.05 for a 5% margin of error,
Substitute these values into the formula:

$1274/ 1 + 1274 (0.05)^2$

$1274/ 1 + 1274 (0.0025)$

1274/ 1 + 3.185
1274/ 4.185
304.42

After applying the Taro Yamane formula, the determined sample size will be 304 number of employees. To account for potential non-responses and unforeseen contingencies, a 20% margin of safety shall be added:
Adjusted Sample Size=304+(0.20×377)
Adjusted Sample Size≈364.8
Therefore, the final sample size for this study shall approximately be 365 employees of the manufacturing firms in Plateau State. The study focuses on nine manufacturing firms in Plateau State, selected based on

available employee data. A proportional stratified random sampling technique was employed to ensure each firm's representation in the sample, with sample sizes determined according to each firm's proportion within the total population. This method enhances the accuracy and representativeness of the findings by accounting for the varying sizes of the firms.

Table2

Computed Sample Size Using Proportional Stratified Random Sampling Technique

S/N	Name of Business	Number Staff	of Percentage (%)	Sample Size (365 * Percentage)
1	Grand Cereal & Oil Mills-UAC	300	23.55	86
2	Nesco Nigeria LTD	160	12.56	46
3	SWAN-UAC	100	7.85	29
4	ECWA Rural Dev., LTD	154	12.09	44
5	Zabitex Bottling Company	100	7.85	29
6	Hamtul Group	120	9.42	34
7	Pioneer Milling Company LTD	150	1fs1.77	43
8	Europham LAB Eurolink	120	9.42	34
9	Highland Bottling Company	70	5.49	20
	TOTAL	1,274	**100**	**365**

Source: Researchers Computations (2025)

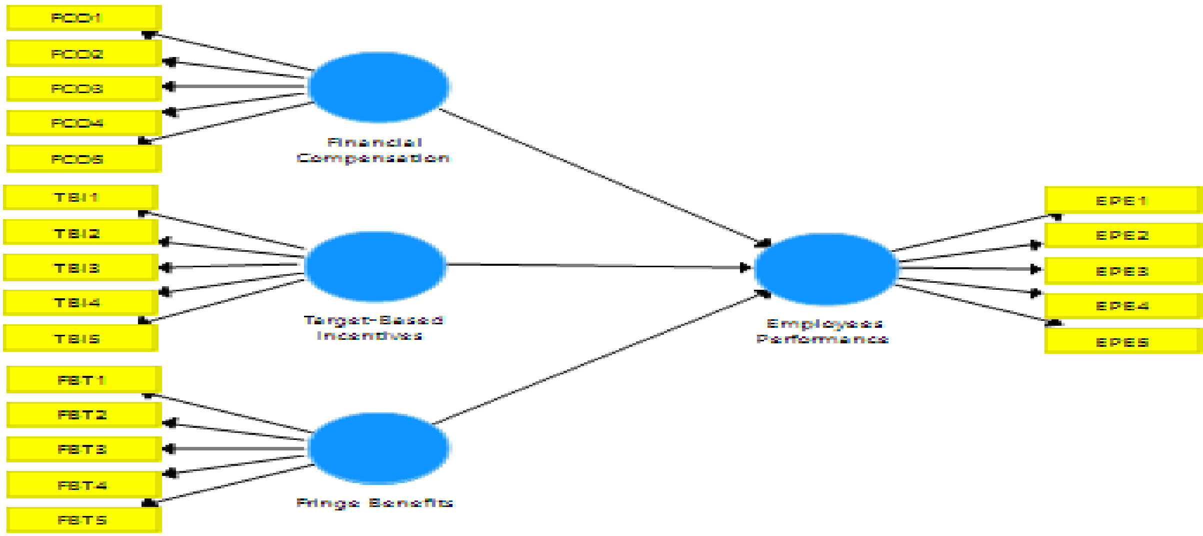
The study focused on nine manufacturing firms in Plateau State, selecting a total sample size of 365 employees. The proportional stratified random sampling technique was employed to ensure each firm's representation was proportional to its staff size. Firms without available staff numbers were excluded from the study.

Primary data collection was the main source of data for this study, with a questionnaire being used (See appendix) to gather insights from employees of the sampled manufacturing firms in Plateau State regarding their perceptions of strategic rewards and their effects on performance. The questionnaire, designed to cover variables such as financial compensation, target-based incentives and fringe benefits as independent variables, and employee performance as the dependent variable, used a 5-point Likert scale ranging from strongly agree (5) to strongly disagree (1). The questionnaire was informed by a thorough literature review. To ensure standardization and quantification, the structured format of the questionnaire facilitate data analysis. A total of 365 questionnaires was distributed, with each firm receiving a number based on its proportion of the total sample size. Distribution methods include in-person delivery during staff meetings, department heads, and digital platforms. The purpose of the study was clearly communicated to ensure high response rates, with reminders and follow-ups planned to encourage timely returns. This approach ensures that the data collected is representative of employee perspectives across the manufacturing firms in Plateau State.

The Partial Least Squares – Structural Equation Model was used to test the hypotheses developed in the study. The model is specified using diagrams as follows:

Fig. 1

PLS-SEM for the Study



Source: Researchers Analysis via SmartPLS (2025)
Keys:
FCO 1 to FCO 5: Responses to the 5 items under the Financial Compensation construct.
TBI1 to TBI 5: Responses to the 5 items under the Target-Based Incentives construct.
FBT1 to FBT5: Responses to the 5 items under the Fringe Benefits construct.
EPE 1 to EPE 5: Responses to the 5 items under Employee Performance construct.

The PLS SEM analysis process involves evaluating both the measurement and structural models. The measurement model ensures reliability and validity through internal consistency (Cronbach's Alpha and composite reliability >0.7), convergent validity (outer loadings ≥0.7, AVE ≥0.5), and discriminant validity (cross-loadings, Fornell-Larcker Criterion, and HTMT <0.85) (Hair et al., 2017; Fornell & Larcker, 1981; Henseler et al., 2015). The structural model examines relationships between constructs using collinearity (VIF <5), explanatory power (R^2), effect size (f^2 with thresholds of 0.02, 0.15, and 0.35), and predictive relevance (Q^2 >0). Path coefficients are tested for strength and significance via bootstrapping for validation (Hair et al., 2014).

RESULT AND DISCUSSIONS

Descriptive Statistics

Table 2 provides a summary of the descriptive statistics for the study variables, including measures such as mean, standard deviation, minimum, and maximum values, offering insights into the central tendency and variability of the data.

Table 2: *Descriptive Statistics*

	Mean	Median	Min	Max	Std. Dev.	Excess Kurtosis	Skewness
FCO1	3.625	4	1	5	1.269	-0.391	-0.866
FCO2	3.5	4	1	5	1.291	-0.797	-0.525
FCO3	3.25	4	1	5	1.377	-1.105	-0.505
FCO4	3.271	4	1	5	1.44	-1.188	-0.482
FCO5	3.542	4	1	5	1.338	-0.755	-0.692
TBI1	3.604	4	1	5	1.365	-0.755	-0.738
TBI2	3.396	4	1	5	1.186	-0.723	-0.579
TBI3	3.5	4	1	5	1.225	-0.688	-0.615
TBI4	4.021	4	1	5	1.07	1.048	-1.27
TBI5	3.812	4	1	5	1.148	0.741	-1.202
FBT1	3.958	4	1	5	1.241	0.861	-1.365
FBT2	3.812	4	1	5	1.202	0.661	-1.226
FBT3	3.708	4	1	5	1.154	-0.139	-0.801

FBT4	3.458	4	1	5	1.19	-0.128	-0.87
FBT5	3.375	4	1	5	1.201	-0.628	-0.609
EPE1	2.625	2	1	5	1.438	-1.451	0.212
EPE2	3.667	4	1	5	1.087	0.251	-0.873
EPE3	3.812	4	1	5	1.093	0.663	-1.065
EPE4	3.917	4	1	5	1.077	0.664	-1.14
EPE5	3.792	4	1	5	1.19	-0.17	-0.859

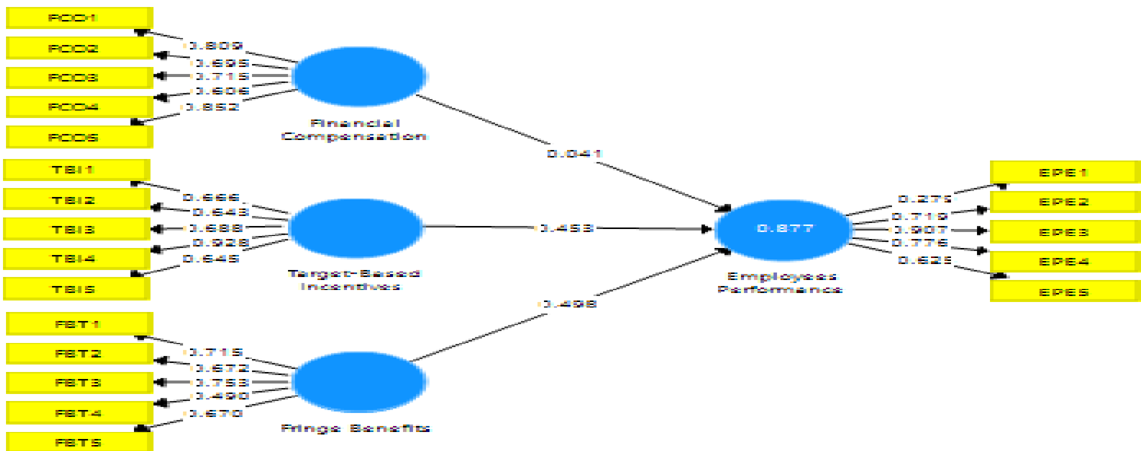
Source: SmartPLS Output (2025)

The descriptive statistics in Table 3 reveal the central tendencies and variability of the variables FCO, TBI, FBT, and EPE. Across the items, the mean values range from 2.625 (EPE1) to 4.021 (TBI4), with medians predominantly at 4, indicating a central tendency toward higher agreement on a 5-point scale. The minimum and maximum scores confirm the full range of responses (1 to 5), while standard deviations (1.07 to 1.44) suggest moderate variability in responses. Notably, skewness values mostly indicate negative skewness, implying that responses tend to cluster toward higher values, except for EPE1, which shows a slight positive skewness (0.212). Excess kurtosis values are predominantly negative, reflecting a flatter distribution compared to the normal curve, except for TBI4, TBI5, FBT1, FBT2, EPE2, EPE3, and EPE4, which exhibit positive kurtosis, indicating more peaked distributions. These findings suggest general agreement across items, with some variations in response patterns and distributions.

Assessment of Measurement Model

The assessment of the measurement model focuses on evaluating the reliability and validity of the constructs within the research framework. This involves examining the internal consistency, convergent validity, and discriminant validity of the latent variables to ensure that the indicators accurately represent their respective constructs. The analysis, conducted using the PLS-SEM Path algorithm, is presented in Figure 2 and discussed in detail below.

Fig. 2: *PLS-SEM Output*



Source: Researchers Analysis via SmartPLS (2025)

Convergent Validity

Convergent validity is a crucial measure in Partial Least Squares Structural Equation Modelling (PLS-SEM) to confirm that each set of indicators effectively represents the construct it is intended to measure.

Table 3

Convergent Validity and Reliability Test

Variables	Indicator	Loadings	Cronbach Alpha	Composite Reliability	AVE
Financial Compensation	FCO1	0.809	0.859	0.857	0.548
	FCO2	0.695			

	FCO3	0.715			
	FCO4	0.606			
	FCO5	0.852			
Target-Based Incentives	TBI1	0.666	0.847	0.842	0.521
	TBI2	0.643			
	TBI3	0.688			
	TBT4	0.928			
	TBT5	0.645			
Fringe Benefits	FBT1	0.712	0.788	0.797	0.521
	FBT2	0.672			
	FBT3	0.753			
	FBT4	0.490			
	FBT5	0.671			
Employees Performance	EPE1	0.279	0.797	0.809	0.582
	EPE2	0.719			
	EPE3	0.907			
	EPE4	0.776			
	EPE5	0.625			

Source: SmartPLS Output (2025)

The convergent validity and reliability test results for Financial Compensation (FCO), Target-Based Incentives (TBI), Fringe Benefits (FBT), and Employees' Performance (EPE) demonstrate acceptable levels of reliability and validity. Cronbach's Alpha values range from 0.788 to 0.859, meeting the recommended threshold of ≥0.7 (Hair et al., 2019), indicating internal consistency among the items. Composite Reliability (CR) values for all constructs (0.797–0.857) also exceed the acceptable threshold of ≥0.7 (Henseler et al., 2018), further confirming reliability. The Average Variance Extracted (AVE) for all the items is above the recommended threshold of ≥0.5 (Fornell & Larcker, 1981), suggesting strong convergent validity for this construct. The indicator loadings are generally above the acceptable level of 0.6, except for FBT4 (0.490) and EPE1 (0.279), which may need further investigation or removal to improve construct validity (Sarstedt et al., 2022).

Indicators with low loadings, such as FBT4 (0.490) and EPE1 (0.279), are retained in this study for several justifiable reasons. Firstly, the constructs' Average Variance Extracted (AVE) values are either above or close to the recommended threshold of 0.5, indicating that the inclusion of these items does not significantly harm the overall convergent validity of the constructs (Fornell & Larcker, 1981). Secondly, removing these items could potentially reduce the reliability metrics, such as Cronbach's Alpha and Composite Reliability, which would negatively affect the internal consistency of the constructs (Hair et al., 2019). Thirdly, these items are theoretically significant and capture unique dimensions of the constructs that are not adequately represented by other indicators, thus preserving the conceptual comprehensiveness of the measurement model (Sarstedt et al., 2022). Lastly, the overall model fit indices, including SRMR and NFI, fall within acceptable ranges (e.g., SRMR ≤0.08 and NFI ≥0.9), which justifies retaining these items to maintain the structural integrity and theoretical robustness of the model (Henseler et al., 2018).Thus, the results indicate adequate reliability and moderate convergent validity for most constructs, with some indicators requiring attention.

Discriminant Validity

Table 4 presents the results of discriminant validity tests, demonstrating the extent to which constructs are distinct from one another in the model.

Table 4: *Discriminant Validity Tests*

	FCO	TBI	FBT	EPE
FCO				
TBI	0.975			
FBT	0.806	0.85		
EPE	0.612	0.705	0.815	

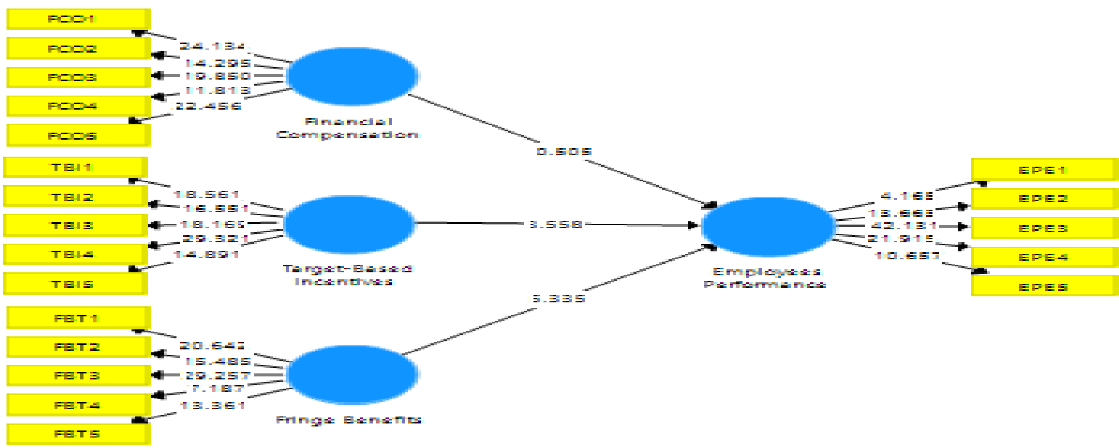
Source: SmartPLS Output (2025)

The discriminant validity results in Table 5 are evaluated using the Fornell-Larcker criterion, which requires that the square root of the Average Variance Extracted (AVE) for each construct should be greater than its correlations with other constructs (Fornell & Larcker, 1981). The diagonal values (e.g., FCO = 0.975, TBI = 0.85, FBT = 0.815, and EPE = 0.815) exceed the corresponding inter-construct correlations, confirming discriminant validity. This indicates that the constructs—Financial Compensation (FCO), Target-Based Incentives (TBI), Fringe Benefits (FBT), and Employee Performance (EPE)—are distinct and measure separate concepts. This finding aligns with the threshold for adequate discriminant validity, which ensures reliable construct differentiation (Hair et al., 2019; Henseler et al., 2018).

Assessment of Structural Model

Before evaluating the structural relationships, it is essential to first assess collinearity to ensure it does not introduce bias into the regression results. Once collinearity assumptions are confirmed, the subsequent steps involve examining the model goodness of fit. Subsequently, the coefficient of determination (R^2), effect size (f^2), and the predictive relevance (q^2) of the endogenous constructs can be assessed. The structural model assessment was conducted using the PLS-SEM bootstrapping procedures. See figure 3 for the output and the subsequent tables for the presentation of the reports from the model.

Fig. 3: *PLS-SEM Bootstrapping Output*



Source: Researchers Analysis via SmartPLS (2025)

Collinearity Analysis

Table 5: *Collinearity Tests*

Variables	Indicators	VIF
Financial Compensation	FCO1	2.260
	FCO2	2.391
	FCO3	2.621
	FCO4	1.691
	FCO5	1.665
Target-Based Incentives	TBT1	2.134
	TBT2	2.138

	TBT3	2.007
	TBT4	1.968
	TBT5	2.018
Fringe Benefits	FBT1	2.228
	FBT2	2.227
	FBT3	2.401
	FBT4	1.547
	FBT5	1.738
Employees Performance	EPE1	1.318
	EPE2	1.971
	EPE3	3.043
	EPE4	2.627
	EPE5	1.830

Source: SmartPLS Output (2025)

The collinearity analysis in Table 6 shows that the Variance Inflation Factor (VIF) values for all indicators of Financial Compensation (FCO), Target-Based Incentives (TBI), Fringe Benefits (FBT), and Employees' Performance (EPE) are below the threshold of 5, indicating an absence of multicollinearity issues (Hair et al., 2019). Specifically, the VIF values range between 1.318 and 3.043, which confirms that collinearity does not significantly inflate the standard errors, ensuring the stability and reliability of the regression coefficients (Sarstedt et al., 2022). These findings suggest that the predictors are independent enough to avoid redundancy and support the validity of the structural model.

Model Explanatory Power

Table 6: *Explanatory Power of the Model*

	R Square	R Square Adjusted
EPE	0.877	0.876

Source: SmartPLS Output (2025)

The explanatory power analysis in Table 6 reveals that the model achieves a high level of predictive accuracy, with an R^2 value of 0.877 and an adjusted R^2 value of 0.876 for Employees' Performance (EPE) as the dependent variable. This indicates that 87.7% of the variance in EPE is explained by the independent variables—Financial Compensation (FCO), Target-Based Incentives (TBI), and Fringe Benefits (FBT)—suggesting a robust model fit (Hair et al., 2019). According to Chin (1998), R^2 values above 0.67 are considered substantial in social science research, which aligns with these results. The small difference between R^2 and adjusted R^2 further confirms the stability and reliability of the model in accounting for variance in the dependent variable (Sarstedt et al., 2022).

Model Goodness of Fit Test

Evaluating model goodness of fit (GOF) in Partial Least Squares Structural Equation Modeling (PLS-SEM) is essential to determine how well the model aligns with the data. Although PLS-SEM does not focus on GOF measures to the same extent as covariance-based SEM, several indicators help evaluate model fit, including the Standardized Root Mean Square Residual (SRMR), d_ULS, d_G, Chi-square, and Normed Fit Index (NFI) (Hair et al., 2019). Table 7 presents the GOF measures for both the Saturated and Estimated Models, providing a comprehensive assessment of the model's alignment with the data.

Table 7: *Model Goodness of Fit*

	Saturated Model	Estimated Model
SRMR	0.0125	0.0125
d_ULS	3.089	3.089

d_G	2.16	2.16
Chi-Square	3383.615	3383.615
NFI	0.509	0.509

Source: SmartPLS Output (2025)

The model goodness of fit in Table 8 demonstrates acceptable performance based on several indices. The Standardized Root Mean Square Residual (SRMR) value of 0.0125, below the threshold of 0.08, indicates an excellent fit between the hypothesized model and the observed data (Henseler et al., 2015). Additionally, the Chi-Square value of 3383.615 and moderate Normed Fit Index (NFI) of 0.509 suggest room for improvement in fit, as NFI values above 0.9 are typically preferred (Hair et al., 2019). The d_ULS (3.089) and d_G (2.16) values further align with an acceptable model fit, although interpretation of these indices often requires comparison across similar studies (Sarstedt et al., 2022). Overall, the model reflects a strong fit based on SRMR but highlights areas for refinement to enhance NFI.

Effect Size (F^2)

The F^2 examines the effect size caused on the endogenous construct's R^2 value because of removal of certain predator construct. Cohen (1988) guideline was used to measure the effect size (>0.02 = small; 0.15= medium; 0.35= large). The result indicates how an exogenous construct has a small, medium or large predictive relevance for a certain endogenous construct. Thus, following Cohen's (1988) rules of thumb criterion, F^2 is evaluated as: 0.02 small, 0.15 medium and 0.35 large.
Indicating the latent exogenous variable has a predictive relevance on the particular latent dependent variable (Hair et al., 2017).

Table 8: *Effect Sze (F^2)*

	EPE
FCO	0.004
TBI	0.273
FBT	0.668
EPE	

Source: SmartPLS Output (2025)

The effect size (F^2) results in Table 8 indicate the relative contribution of each independent variable to the dependent variable, Employees' Performance (EPE). Financial Compensation (FCO) shows a negligible effect size of 0.004, below the threshold of 0.02, suggesting minimal impact (Cohen, 1988). Target-Based Incentives (TBI) demonstrates a medium effect size of 0.273, aligning with thresholds for substantial influence (Hair et al., 2019). Fringe Benefits (FBT) exhibits a large effect size of 0.668, highlighting a strong and significant contribution to EPE. These findings emphasize the varying importance of predictors, with FBT playing a dominant role in explaining EPE variations.

Predictive Relevance (Q^2) of the Model

The Q^2 values of the predictive relevance are used as inputs after running the blindfolding method (Hair et al., 2017). The Q^2 value was used to assess the predictive relevance of the model. The Q^2 values was obtained after running the blindfolding procedure and cross-validated redundancy method. The guideline of the Q^2 value is that it should be above Zero for specific endogenous constructs to exhibit predictive accuracy of the structural model for that construct.

Table 9: *PLS-Predict*

	RMSE	MAE	MAPE	Q^2_predict
EPE1	1.404	1.232	71.37	0.052
EPE2	0.839	0.587	22.985	0.407
EPE3	0.651	0.519	18.565	0.647
EPE4	0.781	0.562	19.067	0.476

EPE5	0.996	0.689	27.696	0.303

Source: SmartPLS Output (2025)

The PLS-Predict results in Table 9 demonstrate the predictive relevance of the model. The Q^2_predict values for EPE2 (0.407), EPE3 (0.647), and EPE4 (0.476) exceed the threshold of 0, indicating medium to high predictive relevance (Hair et al., 2019). Conversely, EPE1 (0.052) and EPE5 (0.303) display lower predictive relevance. The Root Mean Square Error (RMSE) and Mean Absolute Error (MAE) values suggest model accuracy, with lower values indicating better predictive performance. These results highlight the model's strong predictive power for most indicators of employees' performance.

Test of Hypotheses

The hypotheses testing section analyze the structural relationships between the latent variables in the research model. This method evaluates the significance and strength of the hypothesized relationships using path coefficients (β), which reveal the direction and magnitude of the effects. The analysis applies bootstrapping, a resampling technique, to calculate t-statistics and p-values, with significance determined at $p < 0.05$ and t-values expected to exceed 1.96 for a 95% confidence level. The results of this analysis are detailed below, guided by the path model presented in Figure 3.

Table 10

Results of the Structural Model Analysis (Hypotheses Testing)

Hypotheses	Relationship	Path Coeff. (β)	Std. Error	t-Stat.	P-Value
H_{O1}	FCO->EPE	0.041	0.083	0.495	0.621
H_{O2}	TBI ->EPE	0.453	0.127	3.566	0.000
H_{O3}	FBT->EPE	0.498	0.092	5.392	0.000

Source: SmartPLS Output (2025)

The results from Table 10 reveal that the path coefficient for the relationship between Financial Compensation (FCO) and Employees' Performance (EPE) is not significant (β = 0.041, p = 0.621), suggesting no meaningful effect.The non-significant relationship between Financial Compensation (FCO) and Employees' Performance (EPE) (β = 0.041, p = 0.621) contradicts existing research that generally supports a positive link between financial compensation and performance across various industries (Obiaga&Itakpe, 2023; Uzochukwu et al., 2022; Kassim et al., 2020). This discrepancy may indicate that other factors, such as compensation type, organizational culture, or work conditions, may be more impactful in this specific context.

In terms of equity theory, the findings suggest a misalignment, as the theory posits that employee performance is influenced by perceptions of fairness in compensation (Adams, 1965). The non-significant effect of FCO on EPE could imply that employees perceive their compensation as inadequate or unfair, impacting their motivation and performance. Further investigation into compensation fairness is warranted.

However, the relationships between Target-based Incentives (TBI) and EPE (β = 0.453, p = 0.000) showed a positive and significant effect on employees' performance in the manufacturing firms in Plateau State. The significant relationship between Target-based Incentives (TBI) and Employees' Performance (EPE) (β = 0.453, p = 0.000) aligns with several studies highlighting the positive and significant impact of target-based incentives across different sectors (Smith & Brown, 2012; Gupta & Kaur, 2013; Ahmed & Wang, 2014). These studies demonstrate how such incentives enhance motivation, engagement, job satisfaction, and productivity, although limitations like sector-specific contexts and small sample sizes may affect generalizability. The findings suggest that targeted incentives, whether financial or non-financial, can significantly drive performance, though they are often constrained by industry and design-specific factors.

Regarding equity theory, the findings align with its hypothesis, as the theory posits that performance is influenced by the perceived fairness of rewards in relation to efforts (Adams, 1965). The significant positive impact of target-based incentives suggests that employees may perceive these incentives as equitable, motivating higher performance in return.

Also, the effect of Fringe Benefits (FBT) (β = 0.498, p = 0.000) indicate both positive and significant effect on Employees Performance (EPE). The positive and significant impact of Fringe Benefits (FBT) on Employee Performance (EPE) (β = 0.498, p = 0.000) aligns with several studies that emphasize the role of fringe benefits like health insurance, retirement plans, and paid leave in enhancing employee retention and performance (Garcia & Kim, 2012; Johnson & Wei, 2013; Ali & Ahmed, 2014). Regarding equity theory, these findings support its hypothesis. Equity theory suggests that employees' motivation and performance are influenced by their perception of fairness in the rewards they receive relative to their efforts (Adams, 1965). The positive impact of fringe benefits indicates that employees likely perceive these benefits as equitable, which boosts their motivation and performance.

CONCLUSION AND RECOMMENDATIONS

Based on the findings of this study, it can be concluded that the findings indicate mixed results regarding the effect of strategic rewards systems on employee performance in manufacturing firms in Plateau State. Financial Compensation (FCO) did not show a significant relationship with Employees' Performance (EPE), suggesting that in this context, financial rewards alone may not be a strong motivator. However, Target-based Incentives (TBI) demonstrated a significant positive impact on employee performance, highlighting the effectiveness of performance-linked rewards in motivating employees. Furthermore, Fringe Benefits (FBT), was found to have a significant and positive influence on performance, indicating that non-monetary benefits can contribute substantially to employee’s performance.

Based on this, it is recommended that:

i. The studied firms reassess their compensation structure to ensure it is aligned with employee expectations and the marketto enhance employee performance.
ii. The firms continue or expand the use of such performance-based rewards. Ensuring clear, achievable targets and aligning them with organizational goals will further motivate employees and enhance performance outcomes.
iii. **T**he firms should enhance and diversify their fringe benefit offerings, focusing on benefits that improve employees' overall well-being, such as health coverage and retirement plans, to foster long-term job satisfaction and sustainable employees’ performance.

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