

## Compensation and Benefits as a Tool to Improve the Performance of MSME Employees in Gabru Village, Gurah District

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### ABSTRACT

This research aims to evaluate the impact of compensation and benefits on employee efficiency in Micro, Small and Medium Enterprises (MSMEs) in Gabru Village, Gurah District. The focus is not only on financial incentives, but also employee motivation and company productivity. Challenges in designing compensation systems in MSMEs include limited resources, simple organizational structures, and dynamic markets. Factors such as the uncertainty of the business environment and organizational culture influence its effectiveness. Empirical studies show that fair compensation can increase employee satisfaction and performance. By considering the unique factors of MSMEs, business owners can develop effective strategies. This research uses a qualitative approach involving interviews, surveys, literature reviews, and secondary data analysis. Findings show that compensation and benefits programs have a positive impact on retaining quality employees and improving organizational performance.

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## **INTRODUCTION**

In the midst of increasingly fierce business competition, Micro, Small and Medium Enterprises (MSMEs) have become one of the main pillars of the global economy. (Alo et al., 2023)MSMEs not only make a significant contribution to economic growth, but are also a large source of employment in many Kediri districts.

Employee performance is one of the key factors that influences the success and sustainability of MSMEs. To achieve optimal performance, effective human resource management is a must. Compensation and benefits are important elements in efforts to increase employee motivation and performance.

Compensation and benefits not only act as financial incentives, but also as a tool to accommodate employee needs and expectations. However, in the MSME environment, the challenges faced in designing and managing compensation and benefits systems are often different from large-scale companies. Factors such as limited resources, simple organizational structures, and rapidly changing market dynamics influence the approach that can be adopted in this regard.

Therefore, this research aims to conduct an in-depth analysis of the role of compensation and benefits in improving employee performance in MSMEs. By thoroughly understanding the dynamics of compensation and benefits at the level MSMEs, it is hoped that effective strategies can be identified to optimize employee motivation and productivity.

## **LITERATURE REVIEW**

### **Understanding Compensation and Benefits**

Compensation and benefits refer to rewards given to employees in exchange for their contributions and performance in the workplace. According to(Han et al., 2024), compensation includes salaries and allowances given to employees directly, while benefits include additional benefits such as health insurance, leave, and retirement plans. Compensation and benefits are important elements in human resource management (HRM) because they can influence employee motivation, satisfaction and performance.

### **The Role of Compensation and Benefits in MSMEs**

In the context of micro, small and medium enterprises (MSMEs), compensation and benefits play a crucial role in motivating employees and improving overall organizational performance. According to a survey conducted by the (Ragoobur et al., 2023), MSMEs that offer attractive compensation and benefits packages tend to have higher employee retention rates and better performance.

### **Factors that Influence the Effectiveness of Compensation and Benefits in MSMEs (Xiong & Kong, 2017)**

1. **Uncertainty of the Business Environment**  
MSMEs often operate in a dynamic and uncertain business environment. Therefore, compensation and benefits design must be flexible to adapt to environmental changes.
2. **Limited resources**  
Most MSMEs have limited financial resources. Therefore, they must manage compensation and benefits efficiently, often by offering creative alternatives such as opportunities for skill development or work time flexibility.
3. **Organizational Culture(Tulokas et al., 2024)**  
A strong organizational culture can influence employee perceptions of the value of compensation and benefits. In MSMEs, where the relationship between management and employees tends to be closer, a positive organizational culture can increase the effectiveness of compensation and benefits.

### **The Relationship between Compensation, Benefits and Employee Performance in MSMEs**

Empirical studies show that fair and competitive compensation and benefits can increase employee satisfaction and motivation, which in turn can have a positive impact on individual and organizational performance in MSMEs(Chen et al., 2023). Competitive salaries, clear incentive programs, and attractive additional benefits can be the main factors in motivating employees to contribute optimally.

In the context of MSMEs, compensation and benefits are not only a tool for obtaining and retaining quality employees, but also a strategic investment in improving organizational performance and competitiveness(Mitra, 2023). By paying attention to the unique factors that influence MSMEs, business owners can design effective compensation and benefits strategies to achieve their business goals. Further research is needed to understand the deeper dynamics between compensation, benefits and employee performance in MSMEs.

## **METHODOLOGY**

### **Types of research**

This type of research uses qualitative methods

### **Location and Research Period**

The location of this research is in Gabru Village, Gurah District and the research period was carried out for 3 months starting in October-December 2023

### **Population and sample**

The population and sample are all employees who work in various MSMEs in Gabru village, Gurah district

### **Data source**

1. **Collection of Primary Data**  
Interviews with MSME owners or managers responsible for compensation and benefits policies. Survey or questionnaire to MSME employees to understand their perceptions of the existing compensation and benefits system and its impact on their performance.
2. **Secondary Data Collection**  
Literature study on best practices in compensation and benefits management, especially in the MSME context. Analyze secondary data from sources such as industry reports, case studies, and related research articles.

### **Method of collecting data**

1. **Interview**  
Conduct interviews with MSME owners, HR managers, and employees to understand their views on the existing compensation and benefits system, and how this affects employee performance.
2. **Observation**  
Conduct direct observations of workplace situations to understand directly how the compensation and benefits system is implemented and how it affects employee motivation and performance.
3. **Document Study**  
Collect data from official MSME documents, such as compensation and benefits policies, employment contracts, and performance reports to gain a deeper understanding of existing systems and their impact on employee performance.
4. **Questionnaire**
5. **Distribute questionnaires to MSME employees to collect data about their perceptions of the compensation and benefits they receive, as well as their relationship with motivation and work performance.**

### **Data analysis method**

1. **Comparative Analysis**  
This method involves comparing the compensation and benefits provided by MSMEs with the practices of other similar industries or direct competitors. This makes it possible to find out the extent to which MSMEs compete in terms of attracting and retaining quality employees. The data required in this analysis can be obtained through industry surveys, market research, or other public data.
2. **Cost-Benefit Analysis**  
This method involves assessing the costs incurred by MSMEs to provide compensation and benefits to employees, compared with the benefits obtained in the form of increased performance and productivity. By conducting this analysis, MSMEs can evaluate whether investments in compensation and benefits provide appropriate returns.

3. **Employee Satisfaction Analysis**  
This method involves collecting data about employee perceptions and satisfaction with compensation and benefit programs offered by MSMEs. This can be done through employee satisfaction surveys, interviews, or group discussions. This evaluation will help MSMEs to understand whether current compensation and benefits programs meet employee expectations and needs.
4. **Productivity and Performance Analysis**  
This method involves direct measurement of employee productivity and performance before and after implementing compensation and benefits programs. Relevant data for this analysis may include absenteeism rates, employee turnover rates, individual or team performance results, as well as other productivity metrics. By comparing data before and after program implementation, MSMEs can evaluate the impact on employee performance.
5. **Employee Retention Analysis**  
This method focuses on measuring employee retention levels in connection with the compensation and benefits programs offered by MSMEs. This can be done by looking at employee turnover trends over time, identifying factors that cause employees to leave the company, and evaluating whether compensation and benefits programs have a positive impact in retaining quality employees.

## **RESEARCH RESULT AND DISCUSSION**

Compensation and benefits are important factors in improving employee performance in various types of organizations, including MSMEs (Micro, Small and Medium Enterprises). Here are some points that may be relevant to the results and discussion regarding the topic:

1. **Increased Employee Motivation and Engagement**  
Competitive compensation and an attractive benefits package can help increase employee motivation and engagement with the company. Employees who feel appreciated and rewarded according to their contributions tend to be more motivated to work well.
2. **Attraction and Retention of Talent**  
Good compensation can help MSMEs attract the best talent in their industry. In addition, an attractive benefits package can also help retain skilled and experienced employees, reducing turnover and re-recruitment costs.
3. **Increased Productivity**  
Employees who feel appreciated and supported by the company tend to be more enthusiastic in carrying out their duties. This can lead to an increase in overall productivity, which is a key factor in the success of MSMEs.

4. Employee Welfare

Employee welfare does not only include financial compensation, but also involves aspects such as health benefits, leave, work time flexibility, and career development opportunities. Providing benefits that suit employees' needs and desires can increase their satisfaction and well-being, which in turn can have a positive impact on their performance.

5. Competitive Advantage

MSMEs that are able to provide attractive compensation and benefits can have a competitive advantage in recruiting and retaining the best talent in their industry. This can help these MSMEs to remain relevant and develop in a competitive market.

The results of implementing compensation and benefits in improving employee performance in Gabru Village, Gurah District, can include data analysis from employee surveys, interviews with MSME owners, and direct observation of changes in employee performance and satisfaction after implementing the strategy. Apart from that, challenges and obstacles that may be faced in implementing effective compensation and benefits can also be discussed, as well as recommendations for further improvement.

## **CONCLUSIONS AND RECOMMENDATIONS**

Based on research regarding compensation and benefits in improving employee performance in MSMEs, there are several important findings that can be concluded:

1. Fair and competitive compensation and benefits play an important role in increasing employee satisfaction and motivation, which ultimately has a positive impact on individual and organizational performance of MSMEs.
2. Implementing effective compensation and benefits strategies can help MSMEs retain quality employees, reduce employee turnover rates, and increase productivity.
3. Employee welfare, including health benefits, leave, flexibility in working hours, and career development opportunities, also has a significant role in increasing employee satisfaction and performance.
4. MSMEs that are able to provide attractive compensation and benefits have an advantage in recruiting and retaining the best talent in their industry.
5. Pay attention to fairness and competitiveness in compensation and benefit programs offered to employees.
6. 2.Involve employees in the process of designing and evaluating compensation programs to understand their needs and expectations.
7. Conduct regular evaluations of the effectiveness of the compensation and benefit programs implemented to ensure that the investments made provide appropriate returns.
8. 4.Continue to conduct research and monitor the relationship between compensation, benefits and employee performance in MSMEs to continue to improve the strategies implemented.

### **ADVANCED RESEARCH**

applying various comprehensive approaches in further research, it is hoped that it can produce a deeper and more relevant understanding of effective ways to improve employee performance in Micro, Small and Medium Enterprises (MSMEs) through compensation strategies and the benefits provided to them

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