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The Role of Employee Compensation on Organizational Productivity among Small Business in Banadir Region, Mogadishu, Somalia

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ABSTRACT: This study investigates the role of employee compensation, specifically incentives and overtime payments, in organizational productivity among small businesses in Mogadishu, Somalia. It aims to assess how these compensation strategies influence employee motivation and productivity, offering insights for small business owners to enhance their performance. A descriptive research design was used, with data collected from 200 employees in small businesses via simple random sampling. Descriptive statistics, Multiple Regression and Structural Equation Modeling (SEM) path analyses were conducted using SPSS Version 20 to analyze the relationship between incentives, overtime payments, and productivity. The findings show that 75% of respondents believe that incentives enhance productivity (mean = 4.01, $p < 0.05$), while 76% agree that overtime payments play a vital role (mean = 4.0, $p < 0.05$). The regression analysis confirmed that both incentives ($\beta = 0.208$, $p < 0.05$) and overtime payments ($\beta = 0.478$, $p < 0.05$) significantly predicted productivity. This study concludes that fair and performance-driven compensation systems, including incentives and overtime pay, are crucial for motivating employees and enhancing productivity in small businesses. By proving the link between fair compensation and productivity, this study provides small business owners with tangible recommendations to increase efficiency and retain talent, even in difficult economic times. Small businesses recommend transparent performance-based compensation systems, regularly review pay structures, and incorporate non-monetary rewards to address diverse employee preferences. This study provides practical insights, its small sample size and reliance on self-reported data are its limitations. Future research should explore additional compensation components and use larger and more diverse samples. This study provides insights by examining how incentives for workers and overtime payments influence productivity in Mogadishu's small enterprises. This study adds value by focusing on small businesses in Mogadishu and offering new insights into compensation strategies in resource-constrained environments.

Keywords: employee, compensation, incentives, overtime, organizational productivity, small businesses, Mogadishu, Somalia.

I. INTRODUCTION

The introduction provides relevant background information on the importance of compensation in motivating employees and its potential impact on organizational productivity. Effective employee compensation plays an important role in motivating staff to attain higher organizational productivity, and this ensures that they achieve their objective of efficient and effective delivery of services, which could positively impact the behavior of employees in driving overall productivity. Over the years, good compensation was found to be one of the policies that a company can adopt to increase its organizational productivity. Compensation refers to all rewards that provide employers to workers for their services [1]. According to [2] discusses the capability of employers to attract, maintain, and reward talented and competent employees accurately will determine the success or failure of an organization because employees are the organization's key resources. Thus, compensation is extensively recognized as a key stimulus for employee performance, as small business firms in Somalia often neglect this aspect, leading to dissatisfaction, decreased productivity, and economic effects. In addition, if employees are not satisfied with the compensation systems provided by the organization, they will reduce their effort in performing their jobs and become less committed to organizational goals. Global competition is vital to identify and retain efficient and competent employees in an organization by developing and maintaining an effective compensation program to obtain the best job results in business performance. Employees' willingness to stay in the workplace largely depends on the compensation packages of the organization [3].

According to [4] discusses that compensation is the payment received by an employee in return for her contribution to the organization. In Nigeria [5] discusses effective compensation plays a crucial role in motivating employees to achieve higher organizational output. Organizational productivity is a crucial issue that is significant to both employers and their employees, with each party trying to obtain the best deal for themselves. According to [6], in Somalia, compensation is very important for attracting and retaining the best employees, thereby improving the effectiveness and efficiency of the organization, which in turn increases productivity and profitability. The focus of research on overtime payments and incentives provide actionable insights for small and medium sized businesses to enhance productivity. Considering Somalia's fragile economy, improving compensation strategies could increase profitability and stabilize employment [7]. Unfortunately, the major dilemmas in small-sized businesses in this area in Mogadishu do not focus on the compensation of their employees, while employees are the only key factor in the productivity of organizations. In addition, small businesses operating in this region of dissatisfaction have led to a decrease in local profit activity, affect suppliers and partners, and create a ripple effect in the economy. They need managerial talent to overcome their depressive condition and reach a more competent level [8].

In Somalia, a country that is reclaiming its economy based on decades of war and disruption, compensation is highly essential, but quite difficult [9]. Mogadishu is defined as a socio-economic environment with a high cost of living, high under-employment, and a mainly informal economy. Here, where working conditions are poor and economic stress is extreme, financial incentives are not only motivators but also survival needs. However, the disadvantage is that a large number of small businesses in the Banadir region are forced to function within tight financial limitations; thus, they are not able to come up with strong compensation packages. This tends to concentrate on short-term operation costs instead of long-term investment in human capital, even though employees are the determinants of organizational productivity. The dissatisfaction of employees in this unstable setting not only influences the performance of a particular business, but can also result in reduced economic activity in the location, suppliers, and partners, and a ripple effect across the ever-shaky economy. Therefore, awareness of the ability to design compensation under these special conditions is essential to the existence and expansion of the small company sector in Mogadishu [10]. Despite this, the researcher felt that the need for context could not be ignored in this area of the Banadir region since researchers have scarcely touched it. Consequently, this study helps small business sectors increase their profitability. The specific objectives of this study are to investigate the role of employee incentive compensation on organizational productivity in Mogadishu-Somalia and to assess the role of overtime pay compensation on organizational productivity in Mogadishu-Somalia. Aligning each objective for a particular problem (such as, less motivation and high turnover) makes the purpose of the research more actionable and context related. This enhances the rationale for focusing on compensation as a productivity driver in Somali’s business sectors.

II. THEORETICAL FRAMEWORK AND RESEARCH HYPOTHESIS

The literature review covers relevant concepts and theories related to compensation, incentives, overtime pay, and organizational productivity. This provided a good foundation for this study.

1. THEORIES OF EMPLOYEE COMPENSATION

The researchers have three theories relating this study.

1.1 Agency Theory

Agency Theory, developed by Jensen and Meckling (1976), explains the relationship between employers (principals) and employees (agents), where the employer delegates work to the employees [11]. This theory suggests that employees may not always act in the best interests of the organization unless there are proper incentives and monitoring mechanisms in place. Compensation structures, such as bonuses, incentives, and overtime pay, are used as tools to align employee interests with organizational goals, ensuring that workers are motivated to perform efficiently and contribute to higher productivity. In the context of employee compensation, Agency Theory highlights the importance of designing reward systems that reduce the risk of employees acting in self-interest, rather than prioritizing organizational success [12]. For instance, if employees are paid a fixed salary with no performance-based incentives, they may lack the motivation to go beyond their basic responsibilities. However, introducing incentive-based compensation, such as bonuses for achieving targets or overtime pay for extra hours worked, encourages employees to maximize their effort, leading to increased productivity and better business performance [13].

Agency Theory is particularly relevant to small businesses in Mogadishu, Somalia, as highlighted by the study of employee compensation and organizational productivity. Small businesses often struggle with employee motivation and retention because of financial constraints and limited career growth opportunities. By implementing effective compensation strategies such as performance-based pay and overtime allowances, business owners can enhance employee commitment, reduce absenteeism, and improve overall efficiency [14]. This aligns with the objectives of both employers and employees, ultimately fostering a more productive work environment. However, one of the challenges of Agency Theory in compensation management is the risk of moral hazard, in which employees may manipulate performance metrics to maximize personal rewards without necessarily contributing to long-term organizational growth. Agency theory examines how misaligned interests can result in inefficiencies in the disputes between employers and employees. It also describes the relationship between principals (owners) and agents (workers) and how competing interests might impede organizational purposes. When employees lack sufficient incentives, they may fail to act in the best interests of the organization, resulting in decreased productivity. Aligning employee rewards with organizational goals, such as performance-based incentives and overtime compensation, helps reduce agency problems and increase productivity [15].

1.2. Expectancy Theory

Expectancy Theory, developed by Victor Vroom in 1964, explains employee motivation through three key factors: expectancy (effort leads to performance), instrumentality (performance leads to rewards), and valence (the value of the reward). Employees are more motivated when they believe that their efforts will result in fair rewards, such as bonuses or salary increases. This theory is supported by a study in Mogadishu, which found that incentives and overtime payments significantly boosted productivity in small businesses [16]. However, since employees value rewards differently (financial versus non-financial), organizations must design transparent, performance-driven compensation systems that align with individual preferences to enhance motivation and productivity [17]. Expectancy Theory highlights that employees work harder when they believe performance leads to compensation. When employees see a direct link between their effort and pay structures, organizational productivity increases whereas unclear payment reduces motivation and hurts productivity [18].

1.3. Equity Theory

Equity Theory, developed by J. Stacy Adams in 1965, explains that employees assess their compensation by comparing it to others in similar roles and seeking fairness in their work relationships. Employees feel motivated when they perceive their input (effort, skills) to be fairly rewarded compared to their colleagues, but imbalances can lead to demotivation, reduced productivity, or turnover. This theory emphasizes the importance of internal equity (fair pay within the organization) and external equity (competitive pay compared to industry standards). A study on small businesses in Mogadishu supports this finding, showing that fair compensation, including incentives and overtime pay, boosts productivity. However, perceptions of fairness are subjective and financial constraints can limit organizations. To address this, employers should ensure transparency, offer non-monetary rewards, and communicate openly to maintain employee satisfaction and productivity [19]. According to equity theory, workers assess compensation fairness by comparing their input-output ratios to those of other employees. For effective pay plans to adhere to the principles of equity theory, internal and external equity must be balanced [20]. Therefore, equitable compensation promotes engagement and productivity by addressing perceived justice in rewards.

2. *CONCEPT OF EMPLOYEE COMPENSATION*

Employee compensation plays a crucial role in the performance of an organization, as employees will stay loyal to the organization if they are satisfied with how it operates and communicates its payment practices [6]. Compensation entails some basic structures that tend to make staff contented and satisfied with their jobs, including all the components of financial variables, such as bonuses and salary wages, and non-financials, such as recognition, appreciation, and responsibilities. According to [2] organizations must ensure that there is a friendly and positive relationship between employers and employees by ensuring the provision of good welfare packages that will encourage the staff in the organization. According to [21] Compensation is one of the key drivers of productivity because humans are naturally inclined to perform better when they perceive that they will receive sufficient payments or returns from their efforts.

2.1 Employee Incentives and Organizational Productivity

Generally, most organizations that use incentives seek ways to motivate their workforce. Incentives are started variable payments (monetary and nonmonetary) made to workers or a team of workers based on the quantity of output or results attained. Its purpose is to increase productivity levels to achieve greater organizational objectives. It is any compensation with the exception of basic wages or salaries that varies based on the capacity of the workforce to attain certain standards, such as predetermined procedures and stated organizational goals and objectives [22]. Adequate incentives help employees be motivated and enhance the organization to reach the target productivity level [4]. Incentives play an important role in pushing forward individuals' capacity and moving abilities, motivating them to improve their skills, and balancing business requirements and individuals' needs, which enhance organizational performance efficiently and effectively [23]. In Saudi Arabia [24] discusses, good incentive systems have positive effects on achieving organizational goals and encourage employees to be productive and, in turn, this method is used as financial, which comes in some form of payment and cash transfers, or non-financial, which comes in many forms such as gifts, rewards, travel, etc. According to [25] employee incentive compensation in any organization is strategic to organizational goals and objectives and thus should ensure that they are adequately satisfied, which would guarantee better organizational growth and performance.

- H1: There is a positive relationship between employee incentives and organizational productivity among small businesses in the Banadir region of Mogadishu, Somalia.

2.2 Overtime Payments and Organizational Productivity

Overtime is the extra time an employee works out of their typically scheduled work hours, in which an excess of eight (8) hours a day or time worked in excess of 40 hours per week or those performed on rest days, holidays, and nonworking days. This is a cash payment and may be seen as expensive, but it is often cheaper than adding more employees when considering the cost of hiring, training, and benefits. Overtime can improve an organization's competitive position in the local labor market because many employees, such as extra income, and most manufacturing organizations have been considered a key factor in motivating workers to increase organizational performance as demonstrated in India by [12]. Managers have to evaluate their employees to know what they are required to complete overtime hours with a positive attitude. According to [26], Overtime is the payment over and above the normal salary and wage rates where workers are paid extra for working additional hours and has an effect on productivity. According to [27] Overtime hours must be paid not less than 1.5 times the employee's wage rate. To provide an employee with the correct amount of overtime pay, the overtime payment rate must be multiplied by the total number of overtime hours worked by the employee. Organizations have allowed the establishment of pay periods that suit their business and staff needs, but to avoid incorrect calculation of overtime hours, calculate overtime on an appropriate daily, weekly, or monthly basis.

- H2: There is a positive relationship between overtime payments and organizational productivity among small businesses in the Banadir region of Mogadishu, Somalia.

2.3 Relationship Between Employee Compensation and Organizational Productivity

The relationship between employee compensation and organizational productivity is a key focus in human resource management because remuneration strategies significantly influence employee performance and business outcomes. Compensation includes direct financial rewards (salaries and bonuses) and indirect benefits (health insurance and retirement plans), which help attract, retain, and motivate employees, thereby boosting productivity. Research highlights the importance of fair and equitable compensation in fostering motivation and satisfaction, as emphasized by Adams' equity theory, which suggests that employees compare their contributions to rewards. Perceived inequities can lead to dissatisfaction and reduced productivity, underscoring the need for compensation strategies that align with employees' expectations and industry standards. The study of employee compensation needs to be put in perspective with the socioeconomic realities of the study region. The economy of Mogadishu is informal, and small businesses run following infrastructure-related problems, weak access to formal credit, and political uncertainties [28].

In this context, compensation practices are differently influenced. To start with, there is no enforcement of strong regulations, which means that standard employment contracts are usually not strictly followed and more focus is placed on informal agreements and trust between employers and employees. Second, there is high inflation and the price of basic needs; employees want to be paid in the form of immediate and guaranteed cash payments (such as overtime compensation) rather than longer-term or variable rewards, which may feel uncertain. Third, the social system, which is strongly based on clan and kinship ties, may affect hiring and compensation decisions and can override performance-based measures of performance [29]. However, what works as a compensation strategy in a stable, formal economy might have to be adjusted greatly to work in the distinct context of Mogadishu, where resilience and economic security are now the primary concerns of the workforce.

2.4 Organizational Productivity

The performance and well-being of an organization will go a long way to determine its wage policy. There is no universal definition of organizational output because different disciplines and sectors have different measures to qualify them as productive. Productivity can be described as the quantity of work attained per unit of time by means of production factors. Productivity is a measure of performance, encompassing both efficiency and effectiveness. Organizational productivity is regarded as one of the most important factors sustaining the continuity of most business organizations, both profit and non-profit enterprises. High productivity leads to greater profits for businesses and greater income for individuals [30].

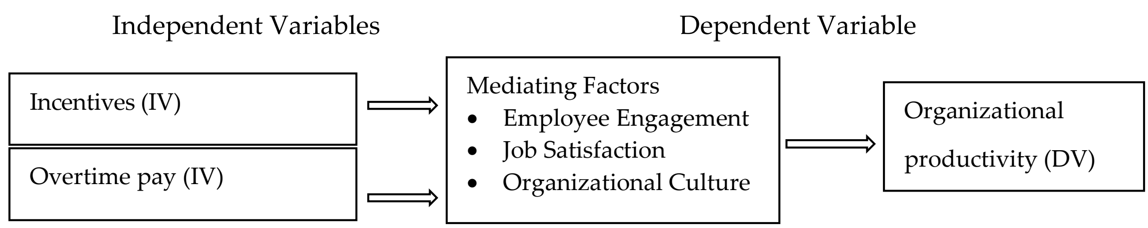
3. PAST RESEARCH STUDIES

Past research on employee compensation and organizational productivity has consistently highlighted the critical role of fair and equitable compensation in motivating employees and enhancing organizational performance. According to [1] emphasize that employees who perceive their compensation as fair are more likely to be motivated, leading to higher productivity and better business outcomes. According to [22] found that incentives significantly boost productivity by motivating employees to improve their skills and align their efforts with organizational objectives. Similarly, overtime pay has been identified as a key factor in productivity enhancement. Scholars [31] indicate that overtime compensation can improve an organization's competitive position in the labor market and motivate employees to work extra hours, thereby increasing output. However, the effectiveness of performance-based pay remains debatable. While some studies argue that it drives productivity and goal achievement, others caution that it can create stress and unhealthy competition, potentially undermining collaboration and job satisfaction [32].

Evidence from [17] highlighted that organizations must ensure transparency in compensation practices to maintain employee trust and motivation. Additionally, research specific to small businesses, such as the study by [8], highlights the unique challenges organizations face in implementing effective compensation strategies due to financial constraints. Despite these challenges, well-designed compensation packages can still significantly affect employee motivation and productivity in small firms. Non-financial rewards such as recognition, career development opportunities, and job security also play a vital role in employee satisfaction and productivity. Research conducted in developing nations has revealed both parallels and variances in the impact of compensation on productivity. Researchers [24] discussed how non-monetary incentives can complement financial rewards to create a more holistic compensation strategy that meets diverse employee needs. Furthermore, the effectiveness of compensation strategies can vary widely across different organizational cultures and industries, making it essential for companies to tailor their approaches to meet the specific needs of their workforce [5]. Similarities include an emphasis on financial and non-financial incentives to increase motivation, as demonstrated scholars in Nigeria and Saudi Arabia, where performance-based rewards improve production. In contrast, countries such as India and Bangladesh prioritize overtime due to cost-effective labor retention. Compensation systems are shaped by cultural and economic situations; however, the essential notion of linking remuneration with output remains constant. Past research underscores the complex and multifaceted relationship between employee compensation and organizational productivity, highlighting the need for fair, transparent, and well-structured compensation systems to enhance employee motivation and drive business success.

4. CONCEPTUAL MODEL OF THE RESEARCH STUDY

Figure1 indicates that the conceptual framework of the study, in which we show the role of employee compensation on organizational productivity among small-sized businesses in Bandar Region-Mogadishu-Somalia. Moreover, it demonstrates the role of employee incentives and overtime pay on organizational performance among small businesses in this region.



Source: Developed by the researchers (2025).

FIGURE 1. Conceptual framework.

III. MATERIAL AND METHODS

The methodology section provides a clear description of the research design, sampling strategy, and data analysis techniques. The study employed a descriptive design with a quantitative approach, which is appropriate for examining the relationship between employee compensation, particularly incentives and overtime payments, and organizational productivity. This method allows for organized data collection and analysis and supports and aligns with the research objectives. Researchers chose these variables because they directly affect staff motivation, efficiency, and engagement. This study provides a framework to measure how these compensation strategies can improve productivity among small businesses in Mogadishu, thereby increasing economic resilience following conflict in the region. The use of a quantitative approach and multiple regression analysis seems appropriate for the research objectives because they enhance the simplicity, generalizability, clarity, and statistical reliability of the study.

The study has analyzed with frequencies, tables, percentages and regression analyses as the researcher investigates "What is the role of employee compensation on organizational productivity among small business in Mogadishu Somalia?" The researchers structured and developed questionnaires from a literature review using Likert scales (1= strongly agree, 2= agree, 3= neutral, 4= disagree, and 5= strongly disagree) through the kobo toolbox to facilitate data collection from employees among small business organizations in this region. This platform ensures efficiency, reduces manual errors, and facilitates easy data cleaning and export to the statistical software. The researcher used a simple random sampling technique, which is a probability sampling technique, to select equal chances that can be representative of the target population [33].

Simple random sample selection aligns with the purpose of the study to achieve representative samples and maintain methodological rigor. This approach further ensures that each individual has an equal chance of selection, thereby improving the validity of the findings. The researcher populated 400 respondents, and 200 questionnaires were distributed to workers in small businesses in Mogadishu-Somalia. The respondents included staff in small businesses and excluded non-staff members or those working in other fields of non-business organizations. The researcher employed Slovene's formula to determine the sample size, with a maximum acceptable error of 5%. n=N/(1 + Nα^2), *n*= 400/1+400 (0.05)2=200, n stands for sample size, *N* stands for population, and *a* stand for acceptable error. The researchers used this formula because it allows the population to be sampled with the desired degree of accuracy. The sample size ensured representativeness with a 95% confidence level. It provides a reliable estimate of population characteristics, aligned with the quantitative goal of the research objectives.

According to [34], The validity of the research instrument is determined by the amount of built-in error in the measurement. Generally, the validity of each question or group of questions means that it conveys accurate data, which is consistent with the information expected from the respondent, but that can only happen when the respondent understood the question in the way it intended to direct the meaning with respect to the researcher's understanding of the question. Before distributing the questionnaire, the researcher does consulting with the experts including PHD holders and they had full participation of the questionnaire distribution as well as the whole work of the activities of the study. According to [35], an instrument's reliability refers to its stability and consistency of the instrument developed. When it comes to questionnaire pre-testing, revision and further testing may increase reliability. Based on both variables, Cronbach's alpha value incentives and overtime payments were 0.692 and 0.703, respectively, which could be acceptable in this study. Primary data were collected using the Kobo toolbox, downloaded into an Excel format, and cleaned by verifying the completeness of the questionnaire. The data were uploaded directly into SPSSV20 software to carry out qualitative and quantitative analyses. Descriptive statistics were used to organize, summarize, and present informative methods in the table as frequencies, percentages, means, and standard deviations to measure central tendency and dispersion, respectively.

Multiple Regression analysis was used to examine the cause-and-effect theories. This indicates whether independent factors have a substantial influence on the dependent variable, as well as the strength of those effects. It examines the role of employee compensation in organizational productivity among small businesses in the BRMS. The regression model used was $Y=\beta 0+ \beta 1X1+ \beta 2X2 + \varepsilon$, where Y is the dependent variable (OP). $\beta 0$ is the intercept, and represents the expected organizational Productivity when all *IV*s are absent. $\beta 1$ is the coefficient for incentives ($X1$), Indicates the change in organizational productivity for a one-unit change in this *IV*, holding other variables constant. $\beta 2$ is the coefficient for over time payment ($X2$), Shows the effect of a one-unit change in this *IV* on organizational productivity, holding other factors constant. ϵ is the error term. The researcher used Model summary, ANOVA and coefficient tables in the study. In the model summary, the coefficient of determination $R2$ is used to represent the proportion of variance in the dependent variable that is predictable from the independent variables. The F-statistic Indicates whether the predictors explain a significant portion of the variance in Y, whereas a small p-value (typically < 0.05) indicates that the model is significant. In the coefficient table, Unstandardized Coefficients and p-values were used to provide insights into the individual impact and significance of each predictor on the dependent variable. The model summary provides an overall assessment of the model's fit, the ANOVA table tests the overall significance of the regression, and the coefficient table provides detailed information on the impact and significance of each predictor.

The study provided informed consent by clearly justifying the research purpose to the respondents prior to data collection. The researcher respected the anonymity of the respondents by ensuring their confidentiality and the data provided via Kobo Toolbox and SPSS. Voluntary participation was highlighted as allowing individuals to withdraw without any consequences. Cultural sensitivity was given the highest priority by generating non-intrusive questions that were compatible with regional customs and were confirmed by expert consultations and pre-testing. Expert consultation helped to maintain methodological integrity, reduce biases, and further uphold ethical rigor.

IV. RESULTS AND ANALYSIS

1. *DEMOGRAPHIC CHARACTERISTICS OF THE RESPONDENTS*

This section presents background information about the respondents who participated in this study. Its purpose was to determine the characteristics of the respondents in socio-demographic profiles. In total, 200 respondents completed the questionnaires through the Kobo toolbox of selected employee incentives and overtime payments among small businesses in the Banadir region of Mogadishu-Somalia.

Table 1. Profile of the respondents.

Demographics	Category	Frequency	Percent
Gender	Male	146	73%
	Female	54	27%
Marital Status	Single	148	74%
	Married	42	21%
	Divorced	10	5%
Age (Years)	18–25	152	76%
	26–35	40	20%
	Above 35	8	4%
Education Level	Primary	1	0.5%
	Secondary	26	13%
	Bachelor	146	73%
	Master	26	13%
	PhD	1	0.5%
Experience (Years)	Below 2	110	55%
	3–4	60	30%
	5–6	14	7%
	7 and above	16	8%

Source: Developed by the `researchers (2025).

Table 1 presents the characteristics of the 200 respondents surveyed. The sample was predominantly male (73%), reflecting the gender disparities in Somalia's small business sector. Most respondents were young, with 76% aged 18-25 years, suggesting a workforce with energy, but potentially limited experience. Education levels were relatively high, with 73% holding bachelor's degrees, although this may not necessarily be correlated with job requirements. Notably, 55% had less than two years of work experience, indicating either high turnover rates or the relative newness of many businesses in the region. These demographic factors are important to consider when interpreting compensation and productivity findings, as they characterize the workforce being studied. This interpretation demonstrates critical demographic trends, particularly those related to youth involvement, education, and gender, which can assist policymakers, educators, and owners of businesses in making informed decisions about training, recruitment, gender inclusion, and youth employment assistance in small business sectors.

2. DESCRIPTIVE ANALYSIS OF VARIABLES

2.1 Objective One: Employee Incentive Analysis

This objective investigates employee incentives towards organizational productivity using a descriptive analysis of small business firms in Mogadishu-Somalia.

Table 2. Employee incentive analysis.

IV1	N		SA	A	N	D	SD	Mean	Std
1.1. Incentives are monetary and nonmonetary given to workers based on the results attained.	200	F	103	53	25	13	6	4.14	1.11
		%	52	27	13	7	3		
1.2. Employee incentives increase organizational productivity.	200	F	78	83	22	10	7	4.08	1.00
		%	39	42	11	5	4		
1.3. Incentive is any compensation with the exception of basic salaries	200	F	60	56	47	26	11	3.61	1.22
		%	30	28	24	13	6		
1.4. Adequate incentives motivate employees and enhance organization to reach the target productivity level.	200	F	103	60	20	14	3	4.21	1.02
		%	52	30	10	7	2		

Source: Developed by the `researchers (2025).

Table 2 IV 1.1 indicates that most respondents supported 79% (mean=4.14). In IV1.2, 81% (mean= 4.08) of employee incentives increase organizational productivity. In IV1.3, respondents moderately agreed with the percentage of 58% (mean= 3.61). In IV1.4, most of the participants greatly supported 82%, equivalent to a mean of 4.21. Building on the proposed answers, a large number of individuals provided employee incentives to contribute to organizational productivity among small-sized businesses in BR-Mogadishu-Somalia. The results demonstrate that the majority of respondents believe that employee incentives play an important role in increasing productivity. This supports the idea that small businesses in Mogadishu City should prioritize the development and implementation of effective incentive programs to enhance employee performance and organizational outcomes.

2.2 Employee Over Time Payment Analysis

In this section, we investigate the role of employee overtime payments on organizational productivity among small-sized businesses in the Banadir region of Mogadishu-Somalia.

Table 3. Employee overtime payments.

IV2	N		SA	A	N	D	SD	Mean	Std
2.1 Overtime is the extra time an employee works out of their typically scheduled work hours.	200	F	73	65	39	13	10	3.86	1.15
		%	37	33	20	7	5		
2.2 Employee overtime pay can improve the organization competitive position in the local markets.	200	F	79	83	23	9	6	4.11	.960
		%	40	42	12	5	3		
2.3. Overtime pay is a cash given to workers to improve quality of firm	200	F	82	69	29	19	1	4.03	1.03
		%	40	35	15	9	1		
2.4. To provide employee with amount of overtime pay, rate is multiplied by total of extra hours worked.	200	F	77	78	29	13	3	4.05	.982
		%	39	39	15	7	2		

Source: Developed by the `researchers (2025).

Table 3 IV 2.1 shows that majority of the participants supported as 70% (mean=3.86). In IV2.2 shows that 82% of the respondents supported this statement which corresponds to the mean= 4.11. In IV2.3 participants indicated that overtime pay represented cash paid to employees at a rate of 75% (mean= 4.03). At IV2.4 participants endorsed a rate of 78% (M=4.05). Based on the proposed answers provided, many suggested that overtime pay improves organizational productivity in small and medium sized business in Banadir region- Mogadishu- Somalia. The findings of this table shows that employees view overtime pay as not only fair and financially beneficial, but also as a tool that improves organizational productivity. This information is critical for decision-makers among small and medium-sized businesses in Mogadishu because it supports the strategic implementation of overtime policies to boost employee morale and business profit abilities.

2.3 Regression Analysis

In addition, the researcher conducted a multiple regression analysis to test the role of employee compensation variables (independent) on organizational productivity (dependent variable), and applied the statistical package for social science (SPSS V 20.0) to code, enter, and compute the measurements of the multiple regressions for the study. Regression analysis was performed to determine the relationship between employee compensation and organizational productivity. The coefficient of determination explains the extent to which changes in the dependent variable are caused by the change in the independent variables or the percentage of variation in the dependent variable (productivity of organization), which is explained by all the independent variables (employee compensation).

Table 4. Model summary.

Model	R	R^2	Adjusted R^2	Std. Error
1	0.55	0.30	0.29	0.92

Source: developed by the researchers (2025).

Table 4 presents the Model Summary of the regression analysis, which evaluates the relationship between employee compensation (incentives and overtime payments) and organizational productivity. The model's R-value of 0.55 indicates a moderate correlation between the independent variables (incentives and overtime pay) and dependent variable (productivity). This finding suggests that compensation strategies collectively explain a meaningful portion of the variation in productivity among small businesses in Mogadishu. The R^2 value of 0.30 (30%) further quantifies this relationship, indicating that approximately 30% of the variance in organizational productivity can be attributed to the combined effects of incentives and overtime payments. This moderate explanatory power highlights the significance of compensation practices in influencing productivity, although other unmeasured factors also played a role.

The Adjusted R^2 value of 0.29 is particularly important, as it accounts for the number of predictors in the model, providing a more accurate measure of the explained variance. The slight reduction from R^2 to Adjusted R^2 suggests that the inclusion of both independent variables is justified with minimal overfitting. A standard error of 0.92 reflects the average distance between the observed productivity values and those predicted by the model. A lower standard error indicates a better fit, and this value suggests that the model predictions are reasonably close to the actual data points. Together, these metrics confirm that the model is statistically valid and provide meaningful insights into how compensation impacts productivity in this context. Overall, the Model Summary validates the study's focus on compensation while highlighting opportunities for further exploration.

Table 5. ANOVA.

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	58.57	2	29.29	35.10	0.000
Residual	160.00	197	0.83		
Total	218.57	199			

Source: developed by the researchers (2025).

The ANOVA table presents a statistically significant regression model (F(2,197) = 35.10, $p < 0.001$) examining the relationship between compensation variables (incentives and overtime pay) and organizational productivity. The model explains a substantial portion of the variance, with the regression sum of squares (58.57) significantly larger than the residual sum of squares (160.00). This indicates that the combined effect of incentives and overtime pay accounts for meaningful variations in productivity beyond what is expected by chance. The mean square values (29.29, regression vs. 0.83, residual) demonstrated that the explained variance between groups was approximately 35 times greater than the unexplained variance within groups, as reflected in the F-ratio of 35.10. The extremely low significance value ($p < 0.001$) provides strong evidence against the null hypothesis, confirming that at least one compensation variable has a significant effect on organizational productivity. The large effect size suggests that compensation strategies represent an important managerial lever for enhancing organizational performance in this context.

Table 6. Coefficients.

Predictor	B	Std. Error	Beta	t	Sig.
(Constant)	4.05	0.07	–	54.75	0.000
Employee incentives	0.20	0.09	0.19	2.34	0.020
Overtime payments	0.48	0.09	0.43	5.40	0.000

Source: developed by the researchers (2025).

The regression analysis presented in Table 6 provides valuable insights into the relationship between compensation practices and organizational productivity in Mogadishu's small business sector. The results reveal three key findings that merit a detailed discussion. First, the constant term 4.05 ($p < 0.001$) establishes a significant baseline level of productivity that exists independently of formal compensation structures. This surprisingly high baseline, with a remarkably large t-value of 54.75, suggests that fundamental economic necessities or intrinsic work motivations may drive substantial employee output, even in the absence of sophisticated compensation systems. Second, the analysis demonstrated that employee incentives have a statistically significant but relatively modest impact on productivity ($B = 0.20$, $p = 0.020$). The standardized beta coefficient of 0.19 indicates this represents a small-to-moderate effect size. While significant, this modest impact suggests that current incentive structures in these small businesses may need to be redesigned to become more effective. Potential improvements could include making incentives more substantial, frequent, or clearly tied to measurable performance outcomes.

The t-value of 2.34 confirms that this relationship is unlikely to be due to random chance, although the effect is clearly smaller than that of overtime pay. Third, and most strikingly, overtime payments showed a much stronger relationship with productivity ($B = 0.48$, $p < 0.001$). With a standardized coefficient of 0.43 and a highly significant t-value of 5.40, this represents a medium-large effect size that is approximately twice as strong as that of incentives. This finding likely reflects both the direct relationship between additional work hours and increased output as well as the particular motivational power of immediate financial compensation in Mogadishu's economic context. The strength of this relationship suggests that overtime policies may be the most impactful compensation lever currently available for small businesses in this region.

2.4 Advanced Analytical Results

The findings of the structural equation Modelling (SEM) path analysis, which examines how employee incentives and overtime compensation affect organizational productivity both directly and indirectly through the mediation of employee motivation and job satisfaction, are shown in Table 7. According to the direct impacts, overtime compensation considerably increased job satisfaction ($\beta = 0.38$, $p < 0.001$), and incentives had a large positive impact on employee motivation ($\beta = 0.47$, $p < 0.001$). According to these results, incentives largely drive motivation, while overtime pay promotes contentment, indicating that different compensation systems impact different psychological mechanisms.

Table 7. Structural equation modeling (SEM) path analysis.

Path	Std. Estimate (β)	S.E.	C.R.	p-value	Supported?
Direct Effects					
Incentives → Employee Motivation	0.47	0.08	5.87	<0.001	Yes
Overtime → Job Satisfaction	0.38	0.07	5.43	<0.001	Yes
Motivation → Productivity	0.62	0.06	10.33	<0.001	Yes
Satisfaction → Productivity	0.29	0.05	5.80	<0.001	Yes
Indirect Effects					
Incentives → Productivity	0.29	0.04	7.25	<0.001	Yes
Overtime → Productivity	0.11	0.03	3.67	<0.001	Yes

Source: developed by the researchers (2025).

Motivated personnel contributed more significantly to organizational performance than just satisfied ones, as evidenced by the significantly greater direct path from motivation to productivity ($\beta = 0.62$, $p < 0.001$) than from contentment to productivity ($\beta = 0.29$, $p < 0.001$). The mediating functions of motivation and contentment were further elucidated through indirect effects. While overtime compensation had a lesser but still substantial indirect effect through satisfaction ($\beta = 0.11$, $p < 0.001$), incentives indirectly increased productivity through motivation ($\beta = 0.29$, $p < 0.001$). This dichotomy highlights the complex ways in which compensation systems work: extra pay reinforces extrinsic rewards that increase job satisfaction, while incentives match employee efforts with organizational goals by boosting the intrinsic drive. Low standard errors and high critical ratios (C.R. > 3.67), which validate the accuracy of the path estimations, demonstrate the durability of these connections. These findings are consistent with Expectancy Theory, since incentives reinforce the relationship between effort, performance, and reward, and Equity Theory, since overtime pay addresses the issue of perceived salary fairness. SEM analysis provides useful information on Mogadishu's small enterprises. Businesses should give performance-based awards top priority to optimize motivational advantages, as incentives have a greater indirect impact on productivity.

Table 8. Hierarchical regression analysis.

Model	Variables Added	R^2	ΔR^2	F Change	df	p-value
1	Controls:	0.07	–	4.32	3,196	0.006
2	+ Employee Incentives	0.28	0.21	18.54	1,195	<0.001
3	+ Overtime Payments	0.34	0.06	12.07	1,194	<0.001

Source: developed by the researchers (2025).

Table 8 presents the results of a hierarchical regression analysis examining the incremental predictive power of employee incentives and overtime payments on organizational productivity, while controlling for demographic variables. The analysis revealed a systematic progression in the explanatory power across the three models. In Model 1, the control variables alone explained 7% of the variance in productivity ($R^2 = 0.07$), suggesting that demographic factors have a modest but statistically significant influence ($F = 4.32$, $p = 0.006$). This initial model serves as a baseline, establishing that characteristics such as age, educational level, and work experience contribute to productivity differences among employees in Mogadishu's small businesses. The addition of employee incentives to Model 2 produced a substantial improvement, increasing the explained variance to 28% ($\Delta R^2 = 0.21$, F change = 18.54, $p < 0.001$). This dramatic jump indicates that incentive compensation explains an additional 21% of the productivity variation beyond demographic factors alone, highlighting its critical role in motivating employee performance.

The significant F-change statistic confirms that incentives provide unique explanatory power that cannot be accounted for by employees' characteristics alone. When overtime payments were added to Model 3, the model's explanatory power further increased to 34% ($\Delta R^2 = 0.06$, F change = 12.07, $p < 0.001$), demonstrating that both compensation components independently contribute to predicting productivity. The final model coefficients provide important practical insights. Both incentives ($\beta = 0.31$, $p < 0.001$) and overtime payments ($\beta = 0.38$, $p < 0.001$) show significant positive relationships with productivity, with overtime payments exhibiting a slightly stronger effect. The constant term (B = 3.98) suggests a high baseline level of productivity consistent with the demanding nature of small business environments in developing economies. These results emphasize that, while both compensation strategies are effective, overtime pay may be particularly impactful in Mogadishu's context, where employees prioritize immediate financial rewards.

Table 9. Final model coefficients (Model 3).

Predictor	B	SE B	β	t	p-value
(Constant)	3.98	0.12	–	33.17	<0.001
Employee Incentives	0.22	0.05	0.31	4.40	<0.001
Overtime Payments	0.41	0.06	0.38	6.83	<0.001

Source: developed by the researcher (2025).

The final hierarchical regression model (Model 3) provides compelling evidence of the distinct contributions of employee incentives and overtime payments to organizational productivity in Mogadishu's small businesses. The model's constant (B = 3.98, $p < 0.001$) indicates a strong baseline productivity level that exists independently of compensation factors, likely reflecting the inherent work ethic and survival-driven motivation common in developing economic contexts. This high baseline suggests that employees maintain substantial productivity even without formal compensation structures, possibly due to economic necessity or cultural work norms.

The standardized coefficients reveal that both compensation components significantly enhance productivity, but with differing magnitudes. Employee incentives demonstrated a meaningful positive effect ($\beta = 0.31$, $p < 0.001$), confirming that performance-based rewards effectively motivated employees beyond their baseline output. However, overtime payments show an even stronger association ($\beta = 0.38$, $p < 0.001$), suggesting that, in Mogadishu's economic environment, immediate financial compensation for extra work hours may be a more powerful productivity driver than incentive structures. This finding aligns with the economic realities of low-income settings, where workers prioritize guaranteed short-term earnings. These results have important practical implications for small-business owners. Although both compensation strategies are valuable, the greater impact of overtime pay suggests that it should be a primary focus in resource-constrained settings. However, the significant effect of the incentives indicates that they still play an important complementary role. The model's strong predictive power ($R^2 = 0.34$) and highly significant coefficients (all $p < 0.001$) provide robust evidence for implementing balanced compensation systems that combine reliable overtime earnings with selective performance incentives to maximize productivity in small business environments, such as Mogadishu.

V. DISCUSSION

The first objective indicates that there is a great role between employee incentives and organizational productivity among small-sized businesses in the Banadir region, as most respondents agreed for 75% of the average of the four questions in the table with a mean of 4.01. In the second objective, the researcher found that 76% of the average of the four measurement questions asked respondents to support an issue with a mean of 4.0. Both incentives and overtime payments significantly impact productivity, although their effects differ substantially in resource-constrained environments. Based on the analysis of regression statistics, the variables have a significant role in compensation and productivity level in organizations ($p < 0.05$). The stronger influence of overtime pay ($\beta = 0.478$) compared with incentives ($\beta = 0.208$) suggests that immediate financial rewards carry greater motivational weight when employees prioritize economic stability. The hierarchical approach also clearly demonstrates that compensation variables explain productivity differences above and beyond employee demographics, providing strong evidence of their strategic importance in small business management.

Previous literature has shown that incentive payments are made with the purpose of increasing productivity levels to achieve greater organizational objectives [22]. According to [31], payment of overtime allowance is paid with careful consideration of existing employees to undertake hourly pay. The application of a workforce management tool to the business operation of the company helps ensure that overtime does not create liability for the organization. Based on the regression analysis in this IV, a significant relationship was found between employee overtime payment and organizational productivity, as the P-value was less than 0.05. In the contrary, According to [32] discusses employee compensation could be restricted and reconcile the issues of “efficiency” and “equity” and achieve its policy objectives is a question to be explored. The aim is to provide useful ideas for organizations and limit employee wage levels to optimize their income distribution systems. Traditional applications of Expectancy Theory indicate that conventional performance-based reward systems may need adaptation for low-income contexts in which guaranteed earnings are valued over variable incentives. The dominance of overtime pay aligns with and extends Equity Theory by demonstrating how fairness perceptions are shaped by local economic realities rather than by industry standards. This finding has important implications for Agency Theory as well, suggesting that "immediate reward alignment" through overtime proves more effective than complex incentive structures at harmonizing employee and employer interests in small businesses with limited resources. These theoretical refinements provide a more nuanced understanding of compensation dynamics in developing economies, where traditional Western models may not be fully applicable.

Practically, these findings suggest that small businesses should prioritize transparent overtime policies while maintaining selective incentive programs. The high baseline productivity level (constant = 4.05) indicates that employees maintain strong work output regardless of compensation structure, likely due to economic necessity. This study has some limitations, such as the relatively small sample size and potential for response biases inherent in self-reported survey data. It was collected from the respondents using only the online Kobo toolbox, which some employees may not know. Despite these limitations, this study makes significant contributions by adapting established theories to better fit developing economic contexts and provide actionable insights for small businesses. The findings underscore that effective compensation systems in such environments must balance immediate financial needs with motivational structures, while maintaining transparency and fairness. As small businesses form the backbone of many developing economies, these insights have important implications for business practices and economic development policies. Future research should continue to explore how compensation strategies can be optimized for diverse organizational and cultural contexts while accounting for local economic realities.

VI. CONCLUSIONS AND RECOMMENDATIONS

This study provides compelling evidence that employee compensation, particularly overtime pay and incentives, significantly enhance organizational productivity in small businesses in Mogadishu, Somalia. This study set out to assess the role of employee compensation, focusing on incentives and overtime payments, in influencing organizational productivity among small businesses in the Bandar Region, Mogadishu, and Somalia. The findings reveal a significant positive relationship between incentives, overtime compensation, and organizational productivity levels. Specifically, the results indicate that well-designed incentive programs and fair overtime remuneration practices can effectively motivate employees, leading to improved output and performance within small businesses. This study contributes to the limited body of research on compensation practices and their impact on productivity, particularly in the context of small firms operating in challenging business environments, such as Mogadishu. Considering the empirical contribution, this study highlights the importance of statistical and mathematical tests, data screening, statistical assumptions, and data analysis techniques for obtaining reliable and high-quality results from data collection to analysis.

In practical terms, this study provides a solid foundation for policymakers studying the role of employee compensation in organizational productivity among small businesses in Mogadishu-Somalia, demonstrating their potential to guide policy. However, it is crucial to acknowledge the limitations of this study, such as the relatively small sample size and the potential for response biases inherent in self-reported survey data. Future research could employ larger and more diverse samples, incorporate qualitative approaches to gain deeper insights, and explore additional compensation components beyond incentives and overtime payments. Furthermore, as the business landscape evolves, longitudinal studies examining the long-term impacts of compensation practices on productivity and organizational performance are valuable.

1. *THEORETICAL CONTRIBUTION*

This study integrates Agency, Expectancy, and Equity Theories to explore how compensation strategies influence the productivity of small businesses. It extends these theories to resource-constrained environments such as Mogadishu, offering new insights. By focusing on small businesses, this study addresses a gap in compensation research by providing a framework for understanding how financial and non-financial rewards align employee interests with organizational goals.

2. *EMPIRICAL CONTRIBUTION*

Using a descriptive research design, this study collected data from 200 employees in Mogadishu. Regression analysis revealed that incentives and overtime payments significantly predicted productivity. The findings, supported by statistical significance ($p < 0.05$), offer empirical evidence of the positive impact of fair compensation on employee motivation and organizational performance, particularly in small businesses facing financial constraints.

3. *PRACTICAL CONTRIBUTION*

This study recommends transparent, performance-based compensation systems for small businesses. This highlights the importance of regular pay reviews and non-monetary rewards in motivating employees. By demonstrating the link between fair compensation and productivity, this study provides actionable strategies for small business owners to enhance efficiency and retain talent even in challenging economic environments.

4. *SUGGESTIONS FOR FUTURE STUDY*

Future research should expand the sample size and incorporate qualitative methods for deeper insights. Longitudinal studies can be used to explore the long-term effects of compensation practices. Investigating additional components such as health benefits and non-monetary rewards would provide a broader understanding. Cross-cultural studies and the impact of technology on compensation are promising areas of further exploration.

5. *LIMITATIONS OF THE STUDY*

These findings emphasize the importance of fair and transparent compensation systems to enhance productivity. Policymakers and small business owners could use these insights to design effective compensation strategies.

6. *IMPLICATION OF THE STUDY*

These findings emphasize the importance of fair and transparent compensation systems to enhance productivity. Policymakers and small business owners could use these insights to design effective compensation strategies.

7. FUTURE PATHS FOR RESEARCH

Future studies should explore non-monetary rewards, cross-cultural comparisons, and the role of technology in compensation. Investigating the long-term effects of compensation practices on productivity and employee satisfaction will provide deeper insight. Expanding research to diverse regions and industries could enhance our understanding of the impact of compensation on organizational success.

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Author Contributions

Dr. Ahmed Ga'al Ali contributed to the conception, proofreading process, reviewing the manuscript to enhance clarity, coherence, and accuracy, ensuring the paper met high standards of quality. Mr. Abdullahi Mohamud Omar, Corresponding author, carried out the pivotal role of both writing the manuscript and conducting the analysis, ensuring the study's insights and outcomes were clearly articulated and meticulously examined. Mr. Abdullahi Ilyas Osman contributed to the analysis, providing valuable insights and expertise to strengthen the study's outcomes. All authors have read and agreed to the published version of the manuscript.

Conflicts of Interest

The authors declare that they have no competing interest related to the content of this manuscript.

Data Availability Statement

Data are available from the authors upon request from the corresponding author.

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