

Reward systems, employees' engagement, and customer service quality of small and medium enterprises

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ABSTRACT

This survey-correlational research aimed to determine the relationship among reward systems, employees' engagement, and customer service quality in small and medium enterprises (SMEs). The respondents of the study were employees from selected SMEs who have been employed for at least one year and are involved in customer-facing operations. The respondents were selected based on the inclusion criteria established by the researcher. The data of this study were gathered using a researcher-made questionnaire composed of four parts. The first part was used to collect the personal information of the respondents, such as age, sex, and length of service. The second part of the questionnaire was intended to measure the level of reward systems. The third part was designed to assess the level of employees' engagement. The fourth part aimed to determine the level of customer service quality. Descriptive statistics such as frequency count, percentage, mean, and standard deviation were used to determine the levels of the variables, while inferential statistics such as Pearson r correlation were employed to test the significant relationships among reward systems, employees' engagement, and customer service quality. Results revealed that there is a significant positive relationship between reward systems and employees' engagement. However, no significant relationship is found between reward systems and customer service quality. Likewise, employees' engagement and customer service quality are not significantly related. Therefore, the null hypothesis stating that there is no significant relationship between reward systems and employees' engagement is rejected, while the null hypotheses which states that there is no significant relationship between the reward systems and customer service quality is accepted.

Keywords: Rewards systems, employee's engagement, customer service quality, SMEs, business, workplace motivation, customer satisfaction.

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INTRODUCTION

Small and Medium Enterprises (SMEs) play a vital role in local economic development by generating employment opportunities, providing essential goods and services, and stimulating business growth. In the Municipality of Lemery, Iloilo, SMEs are closely linked to the area's agriculture-based economy and encompass various enterprises such as retail stores, food service establishments, resorts, and other service-oriented businesses. Given the nature of these enterprises, employees frequently interact with customers, making workforce motivation and engagement critical factors in ensuring service excellence and organizational sustainability.

The success of SMEs largely depends on employees' ability to deliver quality service and contribute positively to organizational goals. One of the key mechanisms influencing employee behavior is the reward system implemented by the organization. Reward systems encompass both financial and non-financial incentives, including salaries, bonuses, recognition programs, and opportunities for career advancement. According to Armstrong and Taylor (2020), an effective reward system promotes employee motivation, satisfaction, and organizational commitment by aligning employee contributions with organizational objectives.

Previous studies have consistently highlighted the importance of reward systems in enhancing employee outcomes. Lawal and Ojokuku (2022) found that both monetary and non-monetary rewards significantly improve employee motivation, commitment, and organizational performance among SMEs. Similarly, Hafeez et al. (2021) reported that well-designed reward systems contribute to higher levels of employee engagement, leading to improved productivity and organizational effectiveness.

Employee engagement refers to the degree of emotional and psychological attachment employees develop toward their work and organization. Engaged employees are characterized by enthusiasm, dedication, and a willingness to exert extra effort in performing their responsibilities (Saks & Gruman, 2018). Research has shown that transparent and equitable reward practices positively influence employee engagement and job satisfaction (Ang & Rabo, 2018). In the Philippine context, the adoption of total rewards strategies that integrate compensation, recognition, professional development, and work-life balance has been associated with higher employee commitment and productivity (Binghay, 2022).

Customer service quality is another critical determinant of SME competitiveness, particularly in businesses that rely heavily on direct customer interactions. Studies have demonstrated that organizations that consistently provide reliable and responsive service achieve higher levels of customer satisfaction and loyalty (Baidoo & Odum-Awuakye, 2015). Conversely, deficiencies in service delivery may create gaps between customer expectations and actual experiences, ultimately affecting business performance and sustainability (Wiid et al., 2015). Since employee engagement influences employees' willingness to provide exceptional service, understanding its relationship with customer service quality remains an important area of inquiry.

Despite growing evidence linking reward systems and employee engagement, limited studies have examined how these variables collectively relate to customer service quality within SMEs, particularly in local business settings such as Lemery, Iloilo. Investigating these relationships can provide valuable insights for SME owners and managers seeking to strengthen employee motivation, improve service delivery, and enhance organizational performance.

This study is anchored on Herzberg's Two-Factor Theory, Vroom's Expectancy Theory, and Adams' Equity Theory. These theories collectively explain how employee motivation is influenced by rewards, perceptions of fairness, and expectations regarding the outcomes of

work performance. They provide a useful framework for understanding how reward systems may affect employee engagement and, ultimately, customer service quality among SMEs.

Statement of the problem

This study aimed to determine the relationship among reward systems, employees' engagement, and customer service quality of small and medium enterprises (SMEs) in the Municipality of Lemery, Iloilo.

Specifically, it sought to answer the following questions:

1. What is the profile of the respondents in terms of age, sex, and length of service?
2. What is the level of reward systems among SMEs in the Municipality of Lemery, Iloilo in terms of monetary and nonmonetary rewards?
3. What is the level of employees' engagement in terms of vigor, dedication, and absorption?
4. What is the level of customer service quality in terms of responsiveness, reliability, communication, professionalism, and problem solving?
5. Is there a significant difference in the level of customer service quality when employees are grouped according to their level of reward systems and employees' engagement?
6. Is there a significant relationship between reward systems and employees' engagement, reward systems and customer service quality, and employees' engagement and customer service quality?

METHODOLOGY

This study employed a survey-correlational research design to assess the reward systems of SMEs in the Municipality of Lemery and determine their relationship with employee engagement and customer service quality. The descriptive component was used to examine existing organizational practices, while the correlational component investigated the relationships among the study variables without manipulating them (McCombes, 2023; Jorden & Sanders, n.d.). This research design has been widely applied in organizational and human resource studies examining workplace factors such as reward systems, employee engagement, retention, and turnover intentions (Bartaula, 2023; Fernando & Nishanthi, 2021).

Using purposive sampling, 35 actively operating customer-facing SMEs in the Municipality of Lemery were selected based on the following criteria: having at least two employees with a minimum of one year of service and owners willing to participate in the study. All eligible employees from the selected SMEs were included through total enumeration. To assess customer service quality, two customers who had recently interacted with each employee were selected and asked to evaluate the service they received. This approach enabled the examination of the relationships among employees' perceptions of reward systems, engagement levels, and customer service quality.

Data were collected using a researcher-developed questionnaire consisting of four sections: respondents' profile, reward systems, employee engagement, and customer service quality. The reward systems scale measured both monetary and non-monetary rewards, while employee engagement was assessed through the dimensions of vigor, dedication, and absorption. Customer service quality was evaluated in terms of responsiveness, reliability, communication, professionalism, and problem-solving. All items were measured using a five-point Likert scale. The instrument underwent face and content validation by experts in the field, and their recommendations were incorporated into the final version. A reliability test yielded a

Cronbach's alpha coefficient of 0.93, indicating high internal consistency and confirming the suitability of the instrument for the study.

Data were analyzed using the Statistical Package for the Social Sciences (SPSS). Frequency count and percentage were used to describe the respondents' demographic characteristics, while mean and standard deviation were employed to determine the levels of reward systems, employee engagement, and customer service quality. Analysis of Variance (ANOVA) was used to determine significant differences in the study variables when respondents were grouped according to selected profile characteristics. Pearson product-moment correlation (Pearson r) was utilized to examine the relationships among reward systems, employee engagement, and customer service quality. All hypotheses were tested at the 0.05 level of significance.

RESULTS AND DISCUSSION

This section presents the results derived from the data gathered through a survey correlational research design conducted among employees of small and medium enterprises (SMEs) in the Municipality of Lemery, Iloilo. Thirty-five SMEs were purposively selected based on established inclusion criteria, and all eligible employees from these enterprises were included through total enumeration, with two customers per employee subsequently asked to evaluate the service they received. Data were gathered using a researcher developed questionnaire composed of four parts measuring respondents' profile, reward systems, employees' engagement, and customer service quality, and were analyzed using descriptive statistics such as mean and standard deviation, as well as inferential statistics including Analysis of Variance (ANOVA) and Pearson product moment correlation (Pearson r), all tested at the 0.05 level of significance. The discussion that follows is grounded entirely in the data gathered and is interpreted in direct relation to the objectives of the study concerning the levels of reward systems, employees' engagement, and customer service quality, as well as the significant differences and relationships among these variables.

The findings revealed generally high levels across the three variables examined. Reward systems obtained a mean of 4.24, described as very high, with a standard deviation of 0.49, indicating that SMEs in Lemery, Iloilo provide competitive compensation, incentives, recognition, and non-monetary benefits that are positively perceived by employees. This reflects the strong emphasis of SME owners and managers on rewarding employee contributions as a means of sustaining motivation, engagement, and performance. These findings are consistent with existing literature, as the International Labour Organization (2016) noted that well-structured reward systems enhance productivity and support SME sustainability, while WorldatWork (2019) emphasized that total rewards improve employee motivation, engagement, and retention. Similarly, Armstrong and Taylor (2017) stressed the importance of combining financial and non-financial rewards in strengthening employee morale and performance, and Manzoor et al. (2021) found that effective reward systems foster employee motivation and engagement, which in turn enhance productivity, workplace positivity, and organizational success.

Employees' engagement likewise registered a very high level, with a mean of 4.50 and a standard deviation of 0.51, indicating strong emotional commitment, dedication, and active involvement in their work. This suggests that employees are highly motivated, aligned with organizational goals, and willing to exert extra effort, reflecting a positive workplace environment. These results are consistent with previous studies highlighting that employee engagement is strengthened by organizational support, fair reward systems, job satisfaction, and overall employee well-being (Saks, 2017; Gallup, 2022; Torres & Bingham, 2019).

Customer service quality also yielded a very high level, with a mean of 4.46 and a standard deviation of 0.37, indicating that employees consistently deliver efficient, responsive, and satisfactory service. This suggests that high employee engagement contributes to improved service delivery and positive customer experiences within SMEs. This result is supported by the SERVQUAL model of Parasuraman et al., which identifies reliability, responsiveness, assurance, empathy, and tangibles as key dimensions of service quality. Similarly, Chinomona (2016) found that employee motivation and engagement significantly influence perceived service quality and customer satisfaction in SMEs, while more recent evidence from Phan and Trung (2024) further shows that strong service quality dimensions lead to higher customer satisfaction and loyalty, emphasizing that consistent delivery of quality service is essential for SME competitiveness and long-term success.

Differences in customer service quality across levels of reward systems and engagement

When employees were grouped according to their levels of reward systems, the Analysis of Variance yielded an F value of 3.718, significant at p equals 0.028, which is below the 0.05 level of significance, leading to the rejection of the null hypothesis. This indicates that variations in how reward systems are implemented are associated with meaningful differences in how employees deliver service to customers, suggesting that better-structured reward systems tend to correspond with higher service quality outcomes. These findings imply that reward systems play an important role in shaping employee behavior in service delivery. Employees who perceive fair and motivating rewards are more likely to demonstrate responsiveness, reliability, empathy, and professionalism in their interactions with customers, resulting in improved service quality. This is consistent with the SERVQUAL framework of Parasuraman, Zeithaml, and Berry, which highlights these dimensions as key indicators of service quality, and aligns with Chinomona (2016), who emphasized that employee motivation and engagement significantly influence service quality and customer satisfaction.

Conversely, when employees were grouped according to their levels of engagement, the Analysis of Variance produced an F value of 2.448, not significant at p equals 0.092, which is above the 0.05 level of significance, leading to the acceptance of the null hypothesis. This suggests that variations in employee engagement levels do not correspond to meaningful differences in how employees deliver service to customers. Despite this non-significant result, existing literature consistently underscores the importance of employee engagement in service delivery. Engaged employees are generally more attentive, responsive, and proactive in meeting customer needs, which enhances service experiences (Gallup, 2022; Saks, 2006; Anitha, 2014). Similarly, studies by Tuan (2020) and Islam et al. (2018) highlight that employee engagement is associated with improved performance and customer satisfaction, indicating its potential relevance in strengthening service quality outcomes even though such relevance was not statistically confirmed in the present study.

Relationships among reward systems, employees' engagement, and customer service quality

Pearson correlation analysis revealed a significant positive relationship between reward systems and employees' engagement, with a computed r value of 0.733, significant at p equals 0.000, which is below the 0.05 level of significance, leading to the rejection of the null hypothesis. This indicates that SMEs with more effective and fair reward practices tend to have more engaged employees, suggesting that when employees perceive compensation, incentives, and recognition as meaningful and equitable, they are more likely to be emotionally and

cognitively invested in their work. This finding is consistent with Kuvaas et al. (2017) and Saks (2017), who emphasized that perceived reward fairness and organizational support are key drivers of employee engagement.

However, the relationship between reward systems and customer service quality yielded a Pearson r value of 0.068, not significant at p equals 0.493, which is above the 0.05 level of significance, leading to the acceptance of the null hypothesis. Likewise, the relationship between employees' engagement and customer service quality produced a Pearson r value of 0.017, not significant at p equals 0.863, which is also above the 0.05 level of significance, leading to the acceptance of the null hypothesis. These results suggest that, within the context of SMEs in this study, improvements in rewards and engagement do not directly translate into better service quality, possibly due to other influencing factors such as training, supervision, or service standards that were not directly measured in the present study. This contrasts with previous studies such as those of Chinomona (2016) and Gallup (2022), which reported positive links between these variables, highlighting the importance of contextual factors in shaping service outcomes in different organizational settings.

Overall, the findings partially support the assumption that reward systems influence employees' engagement, as a significant relationship was established between the two variables, with the null hypothesis stating that there is no significant relationship between reward systems and employees' engagement being rejected. However, there is insufficient evidence to conclude that reward systems and employees' engagement have a significant effect on customer service quality within the SMEs studied, with the corresponding null hypotheses being accepted.

The findings as a whole suggest that SMEs in Lemery, Iloilo exhibit very high levels of reward systems, employees' engagement, and customer service quality, indicating that employees generally perceive reward practices as fair and motivating, demonstrate strong emotional and psychological commitment to their work, and consistently provide reliable, responsive, and professional service to customers. Taken together, these results reflect a generally positive organizational environment where both employee-related practices and service delivery outcomes are rated highly. The significant positive relationship between reward systems and employees' engagement reinforces the premise, anchored on Herzberg's Two-Factor Theory, Vroom's Expectancy Theory, and Adams' Equity Theory, that effective and well-implemented reward practices are associated with higher levels of employee engagement, implying that when employees feel that their efforts are recognized and fairly compensated, they are more likely to become invested in their roles and responsibilities. At the same time, the absence of significant relationships between reward systems and customer service quality, as well as between employees' engagement and customer service quality, indicates that improvements in rewards and engagement alone may not be sufficient to directly enhance service performance. This pattern of results directly addresses the study's objectives by clarifying that while reward systems substantially shape engagement, their influence on customer service quality is not statistically direct within this sample, suggesting that the link may be indirect or moderated by other intervening factors such as training, supervision, or organizational service standards. These findings contribute to the broader literature on SME human resource management by demonstrating that reward and engagement strategies, although essential for cultivating a motivated workforce, must be complemented by other management practices to fully translate into enhanced customer service outcomes and sustained competitive performance. These insights set the foundation for the succeeding chapter, which presents the summary of findings, conclusions, and recommendations drawn from the totality of the results discussed in this section.

CONCLUSION

Based on the findings of the study, it can be concluded that SMEs in the Municipality of Lemery, Iloilo maintain very high levels of reward systems, employee engagement, and customer service quality, reflecting a generally positive organizational climate where employees perceive their compensation and recognition practices as fair and motivating, feel strongly committed to their work, and consistently deliver responsive and professional service to customers.

The study further established that reward systems are significantly and positively related to employee engagement, affirming that effective and equitable reward practices serve as a key driver of employees' emotional and psychological investment in their work. This supports the premise drawn from Herzberg's Two-Factor Theory, Vroom's Expectancy Theory, and Adams' Equity Theory that perceived fairness and meaningful incentives strengthen motivation and engagement.

However, the study found no significant relationship between reward systems and customer service quality, nor between employee engagement and customer service quality. This suggests that, within the SME context examined, high levels of reward satisfaction and engagement do not automatically translate into superior customer service outcomes. Service quality appears to be shaped by additional factors beyond rewards and engagement alone—such as employee training, supervision, service standards, and operational practices—that were not directly measured in this study.

Taken together, these findings indicate that while reward systems are essential for cultivating an engaged workforce, SME owners and managers should not rely on reward and engagement strategies alone to improve customer service quality. A more holistic approach—one that combines fair reward systems with structured training, supervision, and clearly defined service standards—is necessary to ensure that high employee engagement is consistently translated into superior customer experiences and sustained SME competitiveness.

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