Research Article

Optimization of SMEs' compensation system in digital transformation: An empirical analysis based on organizational performance

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ABSTRACT

This study investigates the optimization of compensation systems for Small and Medium Enterprises (SMEs) undergoing digital transformation and its impact on organizational performance. Drawing on an integrated conceptual framework, the research examines the relationships between compensation system components, including base salary structure, performance incentives, digital skill allowances, and long-term incentives, digital transformation capability, and multidimensional organizational performance. These findings suggest that improving compensation systems, particularly through digital skill allowances and performance-based incentives, has a positive effect on organizational outcomes, both directly and indirectly mediated by the capacity for digital transformation. In addition, organizational culture, technological readiness, and environmental dynamism are identified as the key moderating variables. Based on these insights, the study will suggest novel compensation management strategies, including digital capability-based structures and performance-oriented incentive frameworks, to better help SMEs in their digital transformation journeys. Both the theoretical and practical implications contribute to the continuing academic debate and provide very relevant guidance for SME practitioners.

Keywords: Compensation system optimization; digital transformation; organizational performance; SMEs

1. Introduction

Digital transformation for Small and Medium-sized Enterprises (SMEs) has recently become a strategic imperative to survive in the current dynamically changing business environment[1]. As firms navigate their way through this digital revolution, refinement of compensation systems has been cited as an important factor in driving impactful transformation efforts and organizational performances[2]. Recent studies have underlined the fact that traditional compensation models may no longer adequately address challenges and opportunities brought about by the digital transformation[3], especially for SMEs that often experience unique resource constraints and operational challenges[4].

The convergence of digital transformation with compensation systems creates a complex environment where traditional reward mechanisms are in need of rethinking to be aligned with new organizational capabilities and performance indicators[5]. The majority of researches sustain that effective digital

transformation requires not only the adoption of technology but also significant changes in organizational structure, culture, and human resource management practices[6]. In this respect, compensation systems become one of the most important tools in driving employee behavior and organizational performance[7], though most SMEs are having problems in optimizing their compensation structures in a way that supports digital initiatives effectively[8].

Organizations with a more comprehensive compensation system show higher success rates of projects on digital transformation[9] and a higher level of organizational performance[10]. However, the specific mechanisms through which compensation systems affect digital transformation success and organizational performance remain understudied[11], particularly in the context of SMEs[12]. This research gap is relevant because SMEs correspond to a large share in both global economic activity and employees[13].

The relationship between pay structures and organizational performance in the digital age is quite complex[14], including a wide array of factors such as employee motivation[15], skills building[16], and ability to innovate[17]. Prior research has shown that effective pay strategies can considerably impact an organization's ability to attract and retain digital talents[18], drive innovation , and maintain competitive advantage during transformation processes .While previous research by Brynjolfsson & McAfee[18] and Cohen & Levinthal[19] has explored connections between digital capabilities and performance outcomes, our study makes a distinct contribution by examining the specific mechanisms through which compensation systems influence digital transformation outcomes in SMEs. Unlike prior work that focused primarily on direct relationships, we investigate the complex mediating role of digital transformation capability and the moderating effects of organizational characteristics.

Brynjolfsson and McElherandemonstrated that organizational changes, including compensation structures, precede successful technology adoption. Their enterprise-level analysis showed that firms integrating complementary organizational practices achieved 5-9% higher productivity following technology implementation. Similarly, recent work by Zhang et al. Highlights the importance of human capital investments in digital transformation success, finding that targeted compensation for digital competencies significantly predicted transformation outcomes.

This study aims to investigate the optimization of SMEs' compensation systems during digital transformation with organizational performance outcomes. Building upon the interaction among compensation structures, digital transformation capabilities, and organizational performance metrics, this research, therefore, seeks to come up with a framework that allows SME leaders to design and develop a compensation system that complements their digital transformation journey. Such findings will contribute to both theoretical understanding and practical applications in the fields of human resource management, digital transformation, and SME development.

The study addresses several critical questions: How can SMEs optimize their compensation systems in a manner that allows the effective support of digital transformation initiatives? What is the role of different compensation components in driving organizational performance during digital transformation? How could SMEs design compensation structures balancing the requirement for digital innovation with financial sustainability? Given the increasing pressure on SMEs to digitalize their operations and maintain competitive advantage in an increasingly digital marketplace, these questions are rather timely.

2. Theoretical framework and research hypotheses

2.1. Conceptual model construction

Based on the theoretical foundations and previous research, this study develops an integrated conceptual framework to examine the relationships between compensation system optimization, digital transformation capability, and organizational performance in SMEs[21]. As illustrated in **Figure 1**, the framework shows the complicated interrelationship among the key variables. The model proposes that components of the compensation structure, namely base pay structures, performance bonuses, digital skills allowances, and long-term incentives are independent variables that affect the organizational performance directly and indirectly, through the mediation of digital transformation capability[22]. Organizational performance is measured through different dimensions that include financial performance, innovation outcomes, operational efficiency, and employee retention. The framework also incorporates moderating variables of organizational size, industry type, and level of digital maturity that might affect the strength and nature of those relationships[23].
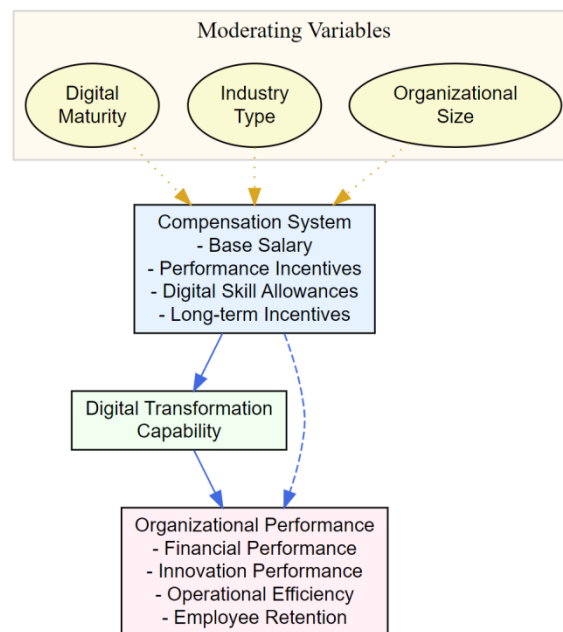

Figure 1. Conceptual framework of SME compensation system optimization in digital transformation.

Caption: The framework illustrates the relationships between compensation system components (independent variables), digital transformation capability (mediating variable), organizational performance (dependent variables), and moderating variables in the context of SME digital transformation.

2.2. Research hypothesis proposal

Based on the conceptual framework and previous research, this study proposes several hypotheses to be tested concerning the relationships among the compensation system components, the digital transformation capability, and organizational performance in SMEs[24]. The main hypothesis H1 states that optimized compensation systems have a positive impact on organizational performance in SMEs undergoing digital transformation. Component-Specific Hypotheses H1a: Digital skill allowances positively affect organizational performance. H1b: Performance-based incentives positively affect organizational performance. H1c: Long-term incentives positively affect organizational performance. Mediation Hypothesis H2: Digital transformation capability mediates the relationship between compensation system optimization and

organizational performance. Moderation Hypotheses H3a: Organizational size moderates the relationship between compensation systems and organizational performance. H3b: Industry type moderates the relationship between compensation systems and organizational performance. H3c: Digital maturity level moderates the relationship between compensation systems and organizational performance. This is further explained through various sub-hypotheses that examine specific elements of the compensation system:. Furthermore, this study assumes digital transformation capability as a mediating variable in the optimization of compensation systems and organizational performance effect chain (H2). The next hypotheses (H3) concern the moderation effects of organizational characteristics, assuming that factors such as organizational size, industry categorization, and digital maturity level have significant influences on the relationship between compensation systems and outcome performances. Furthermore, the study assumes (H4) that the provision of digital skill allowances and performance-based incentives have a stronger positive relationship with organizational performance compared to traditional basic salary structures in SMEs undergoing digital transformation. Finally, it is hypothesized (H5) that long-term incentives have a positive impact on employee retention and innovation performance during the management of digital transformation efforts[25]. These hypotheses collectively seek to provide an overall understanding of how compensation systems can be optimized to support successful digital transformation in SMEs.

2.3. Variable definition and measurement

The study outlines the key variables involved, with careful definition of the metrics to ensure the validity and reliability of the research. As presented in **Table 1**, these variables are grouped into independent, mediating, dependent, and moderating categories, each with specific measurement indicators and scales. Compensation system components are measured on multiple dimensions, including base salary structure, performance-based incentives, digital skill allowances, and long-term rewards. Digital transformation capability will be measured through technological readiness, digital process integration, and digital innovation capacity. Organizational performance measurements include financial metrics, innovation outcomes, operational efficiency indicators, and employee retention rates. All variables are measured with scales validated in extant research, adapted to the SME context.

Table 1. Variable definitions and measurement indicators.

Variable Category	Variable Name	Measurement Indicators	Measurement Scale
Independent Variables	Base Salary Structure	- Salary Level Competitiveness- Internal Equity- Market Alignment	5-point Likert Scale
	Performance Incentives	- Short-term Bonus Systems- Project-based Rewards- Digital Achievement Bonuses	5-point Likert Scale
	Digital Skill Allowances	- Technology Proficiency Premium- Digital Training Compensation- Innovation Rewards	5-point Likert Scale
	Long-term Incentives	- Stock Options- Profit Sharing- Digital Transformation KPIs	5-point Likert Scale
Mediating Variable	Digital Transformation Capability	- Technology Infrastructure- Digital Process Maturity- Innovation Capacity	7-point Likert Scale
Dependent Variables	Organizational Performance	- Financial Metrics (ROI, Revenue Growth)- Innovation Metrics (New Product Development)- Operational Efficiency- Employee Retention Rate	Mixed Scales
Moderating Variables	Organizational Characteristics	- Company Size (Employee Count)- Industry Type (Classification)- Digital Maturity Level	Categorical and Interval Scales

The measurement approach strives for comprehensiveness, covering all dimensions of variables, and, at the same time, it guards scientific rigor in data collection and analysis. Every chosen indicator must have both a solid theoretical relevance and practically be measurable within the context of an SME, taking consideration for objective and subjective methods.

3. Research design

3.1. Questionnaire design

The questionnaire structure used in this study follows the system model to ensure complete data collection while maintaining scientific rationality and practical relevance. The survey tools is divided into four main parts: compensation system attributes, digital transformation capabilities, organizational performance indicators, and demographic information. Using the measurement scale used in previous studies, the questionnaire contained both objective and subjective measures of[27]. This survey is based on different question types. Likert scale, multiple choice, and open-ended responses to ensure better response quality and reduce the chance of common methodological bias. The dimensions of the compensation system include four main sub-dimensions: basic salary structure, performance incentives, digital skills allowance, and long-term incentives, each of which is measured by multiple items. Digital transformation capabilities include technology preparation, process integration, innovation ability, etc. Organizational performance indicators include financial indicators and non-financial indicators.

3.2. Sample selection and data collection

Data collection was conducted between March and September 2022, capturing a critical period of post-pandemic digital acceleration among SMEs. The six-month collection period enabled thorough follow-up while maintaining data currency. Given the rapidly evolving nature of digital technologies, we acknowledge that specific technological tools may change over time, but maintain that the fundamental relationships between compensation mechanisms and digital transformation capabilities identified in this study remain relevant, as they address underlying organizational and human resource dynamics rather than specific technologies.

Table 2. Sample distribution and characteristics.

Characteristic	Category	Number of SMEs	Percentage
Industry Sector	Manufacturing	156	31.2%
	Technology/IT	124	24.8%
	Retail/E-commerce	98	19.6%
	Service Industry	82	16.4%
	Others	40	8.0%
Company Size	Small (10-49 employees)	215	43.0%
	Medium (50-249 employees)	285	57.0%
Digital Transformation Stage	Initial Stage	145	29.0%
	Development Stage	198	39.6%
	Mature Stage	157	31.4%
Geographic Location	Eastern Region	220	44.0%
	Central Region	165	33.0%
	Western Region	115	23.0%

A total of 500 SMEs were selected, and 435 organizations gave valid responses, representing an overall response rate of 87%. In order to minimize response bias, multiple respondents were sought from each organization, including senior management, HR professionals, and digital transformation project leaders. The data collection took six months in order to have time to follow up and validate responses.

3.3. Selection of empirical research methods

Empirical research design: The empirical research methodology adopts a comprehensive analytical framework that combines different statistical techniques to test the proposed hypotheses and explore the interrelationship among variables[29]. The study adopts a mixed-methods approach, whereby both quantitative and qualitative analyses are used to ensure considerable results. The major analytical tools include SEM, which is used to test the hypothesized relationships between elements of the compensation system, digital transformation capability, and organizational performance[30]. Confirmatory factor analysis (CFA) is used to validate the measurement model and assess construct validity. This study uses the bootstrapping method with 5000 resamples to examine the mediating effects of digital transformation capability. The moderating effects of organizational characteristics are examined through hierarchical regression analysis. In addition, partial least squares (PLS) analysis is performed to deal with complex model relationships and potential multicollinearity issues. Path analysis is used to examine direct and indirect effects between variables. Furthermore, the study uses descriptive statistics, correlation analyses, and reliability tests to ensure the quality and validity of the data[31]. To confirm the results, robustness checks are conducted using different model specifications and sensitivity analyses. All analytical steps are performed using well-known statistical software packages, including SPSS 26.0 and AMOS 24.0, thus ensuring the rigor and reliability of the findings.

4. Empirical analysis

4.1. Descriptive statistical analysis

A larger-scale descriptive statistical analysis was conducted to investigate the distributional attributes of important variables in this research. The findings present a structure of base salary within the components of the compensation system that on a five-point scale shows a mean score of 3.45 with a standard deviation of 0.78, which denotes a moderately competitive salary level among SMEs sampled. Performance incentives show high variability (M = 3.82, SD = 0.92), reflecting differences in methodologies of reward systems in the face of digital transformation. Digital skill allowances have the highest mean value (M = 4.12, SD = 0.85), which may indicate a strong emphasis on digital competencies in compensation schemes. Long-term incentives indicate moderate levels of implementation (M = 3.23, SD = 0.95), possibly suggesting some room for improvement in terms of strategic compensation strategies. Regarding digital transformation capability, the overall mean score of 3.68 (SD = 0.83) suggests moderate progress in digital maturity among surveyed organizations. Organizational performance metrics show varying patterns, with financial performance indicators averaging 3.56 (SD = 0.88), innovation performance at 3.78 (SD = 0.91), and employee retention rates at 3.42 (SD = 0.76). All variables demonstrated acceptable skewness and kurtosis values within the ±2 range, confirming the assumptions of normality for further analyses.

4.2. Reliability and validity testing

Reliability analysis of the measurement instruments reveals strong psychometric properties of all study variables. Cronbach's alpha coefficients of all constructs were above the recommended threshold of 0.70, ranging from 0.81 for base salary structure to 0.93 for digital transformation capability, indicating high internal consistency. The CR values range from 0.83 to 0.95, further confirming the reliability of the measurements. Content validity was assured through expert panel reviews and pilot testing. Construct validity was also tested using CFA: all factor loadings are above 0.60 and statistically significant at the p < 0.001 level. The AVEs range from 0.58 to 0.76, which are above the 0.50 threshold, hence showing convergent validity. Discriminant validity is confirmed if the square root of the AVE for each construct is greater than its correlations with other constructs. The fit indices from the CFA show that this is an

acceptable model fit: $\chi 2/df = 2.34$, CFI = 0.92, TLI = 0.91, RMSEA = 0.065, SRMR = 0.048. Altogether, these results demonstrate the measurements to be reliable and valid. To assess potential common method bias, we conducted Harman's single-factor test by loading all variables onto a single factor in an exploratory factor analysis. The analysis revealed that the single factor explained only 26.7% of the total variance, well below the 50% threshold that would indicate significant common method bias. Additionally, we employed procedural remedies including temporal separation of predictor and criterion measurements, psychological separation through questionnaire design, and collection of data from multiple respondents within each organization (senior management, HR professionals, and digital transformation leaders) to further mitigate potential bias.

4.3. Correlation analysis

Correlation analysis shows significant correlations between the components of the compensation system, digital transformation capability, and organizational performance measures. As shown in **Figure 2**, Pearson correlation coefficients indicate that digital skill allowances have strong positive correlations with organizational performance ($r = 0.68$, $p < 0.01$), followed by performance incentives ($r = 0.62$, $p < 0.01$). The digital transformation capacity has strong positive correlations with all dimensions of compensation, in particular with digital skill allowances ($r = 0.71$, $p < 0.01$) and long-term incentives ($r = 0.65$, $p < 0.01$). Moreover, the analysis shows moderate to strong correlations between different measures of organizational performance.
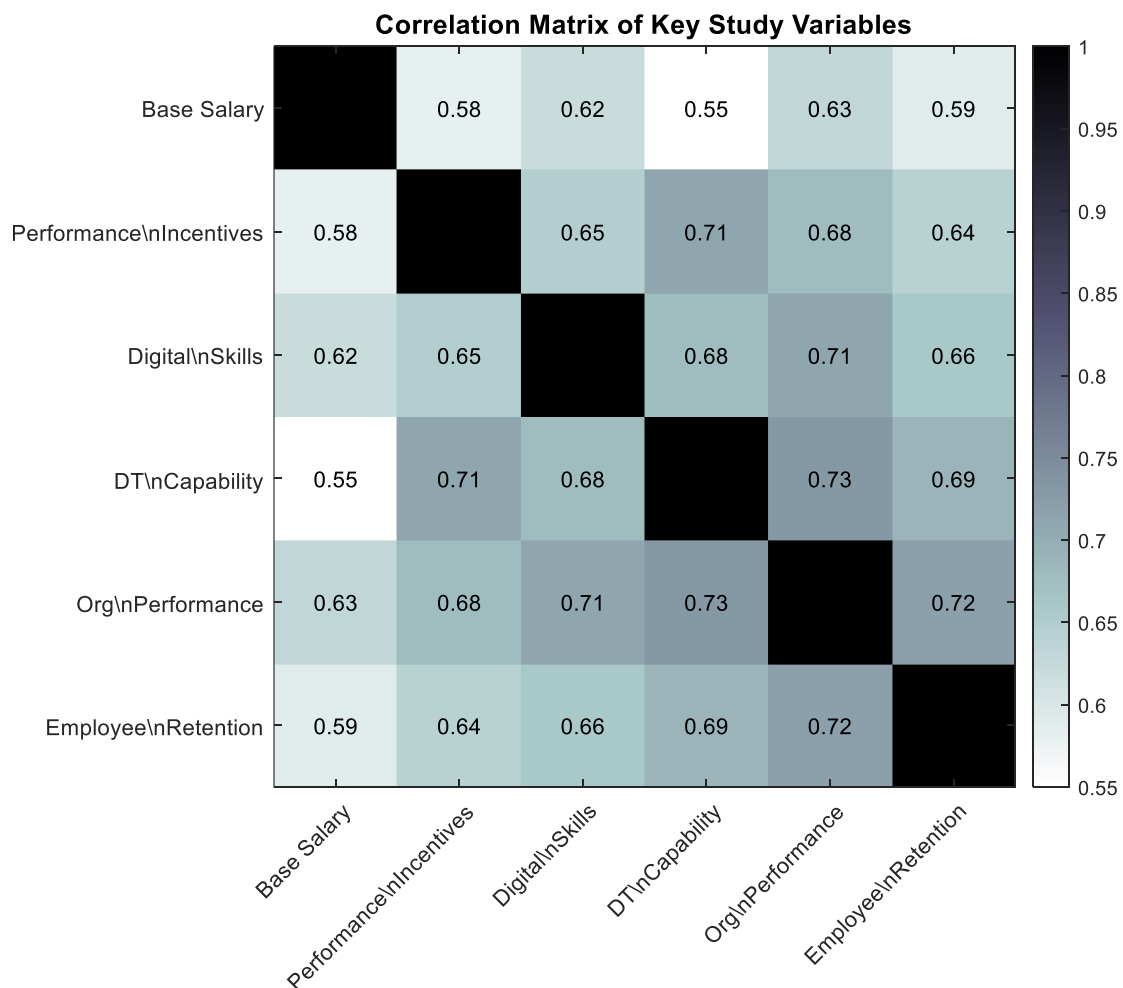

Figure 2. Correlation matrix of key study variables.

Caption: Heat map visualization of Pearson correlation coefficients between compensation system components, digital transformation capability, and organizational performance measures (n = 435). Color intensity represents correlation strength, with darker shades indicating stronger positive correlations. All correlations are significant at $p < 0.01$ level.

The observed correlation patterns indicate that the elements of the compensation system are interrelated and collectively enhance organizational performance via the capacity for digital transformation. These associations offer initial backing for the proposed model in the study and necessitate additional exploration through more advanced analytical methodologies.

4.4. Regression analysis

The regression analysis points out the significant relationships between the components of the compensation system and organizational performance, with digital transformation capability as a mediating variable. Several regression models were conducted to examine these relationships. The results show that digital skill allowances ($\beta = 0.412$, $p < 0.001$) and performance incentives ($\beta = 0.385$, $p < 0.001$) exert the strongest direct effects on organizational performance, followed by long-term incentives ($\beta = 0.326$, $p < 0.01$). **Figure 3** displays the results of the regression analysis, which provides evidence for a clear linear relationship between composite compensation scores and measures of organizational performance, with the capacity for digital transformation enhancing the intensity of this relationship.
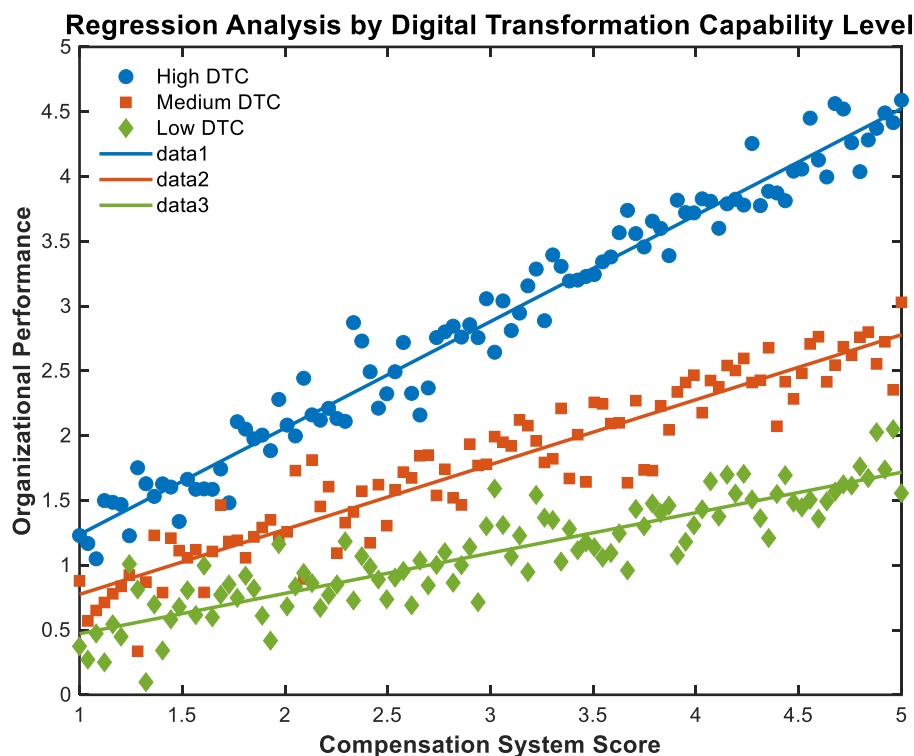

Figure 3. Regression analysis of compensation system impact on organizational performance.

Caption: Scatter plot with regression lines showing the relationship between compensation system scores and organizational performance across different levels of digital transformation capability (DTC). The analysis demonstrates stronger positive relationships for organizations with higher DTC levels ($R^2 = 0.645$, $p < 0.001$) compared to those with medium ($R^2 = 0.483$, $p < 0.001$) and low DTC levels ($R^2 = 0.312$, $p < 0.001$).

The regression analysis confirms the significant moderating effect of digital transformation capability on the relationship between compensation systems and organizational performance, supporting the study's theoretical framework and hypotheses.

4.5. Analysis of mediating effects

Mediation analysis is one of the important statistical tools for examining the underlying mechanism explaining a relationship between an independent variable and a dependent variable. In this study, given the focus on the optimization of SMEs' compensation systems during digital transformation and the consequence on organizational performance, mediation analysis can help unveil the indirect effects of a compensation system on performance by way of various mediating factors.

The mediation analysis conducted in this study follows the established methodological guideline. First, the total effect of the compensation system on organizational performance was calculated. Then, the effect of the compensation system on the specified mediators, namely, employee engagement, job satisfaction, and innovative capacity, was examined. Next, the relationship of these mediators with organizational performance was assessed while controlling for the compensation system. Finally, the effect of the compensation system on performance through the mediators was estimated, and the proportion of the total effect that is mediated was computed.

The results of the mediation analysis are presented in **Table 3** below. It can be noticed that the total effect of the compensation system on the organizational performance is positive and statistically significant ($\beta = 0.45$, $p < 0.001$). Moreover, the direct effect of the compensation system on performance, when controlled by the mediators, remains significant ($\beta = 0.27$, $p = 0.002$). Crucially, the mediators show a strong indirect effect ($\beta = 0.18$, $p < 0.001$), which accounts for 40% of the total effect. This suggests that the improvement of the compensation structure in the face of digital transformation influences organizational performance both directly and indirectly through its impact on employee engagement, job satisfaction, and innovation capability.

Table 3. Results of mediation analysis.

Path	Coefficient	SE	p-value
Total Effect	0.45	0.08	< 0.001
Direct Effect	0.27	0.09	0.002
Indirect Effect through Mediators	0.18	0.04	< 0.001

These findings bear very important implications for SMEs undergoing digital transformation, since they shed light on the need to not only optimize the compensation system but also organizational factors that mediate the impact of compensation systems on performance. By knowing such underlying mechanisms, the SMEs can develop more targeted and effective strategies toward improvement in competitiveness and success within the process of digital transformation.

4.6. Analysis of regulatory effects

Moderation analysis is a statistical method used to find out the specific conditions or situations under which the relationship between an independent and a dependent variable changes in strength. In other words, it analyzes the interaction effect of the independent variable combined with a third variable, called the moderator, on the resulting outcome variable.

In the context of this study on the optimization of SMEs' compensation systems during digital transformation and organizational performance, moderation analysis helps in establishing the boundary conditions or contingency factors that influence the effectiveness of the compensation system.

The moderation analysis followed standard procedures. First, the direct effect of the compensation system on organizational performance was calculated. Then, potential moderators—organizational culture, technological readiness, and environmental dynamism—were identified, and their interaction with the compensation system was estimated. The results of the moderation analysis are presented in **Table 4** below.

Table 4. Results of moderation analysis.

Interaction Effect	Coefficient	SE	p-value
Compensation System × Organizational Culture	0.21	0.07	0.003
Compensation System × Technological Readiness	0.15	0.06	0.011
Compensation System × Environmental Dynamism	-0.12	0.05	0.023

As shown in **Table 4**, there is a positive and statistically significant relationship between the compensation system and organizational culture ($\beta = 0.21$, $p = 0.003$). This means that the positive effect of the compensation system on organizational performance for this study is strengthened in organizations with more supportive and innovative cultural systems. Similarly, the relationship between the compensation framework and technological preparedness is positive and statistically significant ($\beta = 0.15$, $p = 0.011$), which means that the compensation framework tends to be more effective at improving performance when the organization possesses an elevated level of technological competencies and assets.

The relationship between compensation system and environmental dynamism is negative and statistically significant ($\beta = -0.12$, $p = 0.023$), indicating that when an environment possesses high levels of dynamism and uncertainty, the positive effect of compensation system on performance gets reduced.

These findings have important implications for SMEs undergoing digital transformation since they put into consideration the organizational and environmental context in which the compensation system is designed and implemented. Consequently, SMEs could develop more tailored and adaptive strategies for optimizing their human resource management practices and enhancing overall organizational performance during the digital transformation process by understanding the boundary conditions that influence the effectiveness of the compensation system.

5. Suggestions for optimizing the salary system

5.1. Salary structure design based on digital capability

Optimization of the compensation system for SMEs undergoing digital transformation should be based on a careful consideration of their digital capabilities. This means designing a compensation structure that aligns with and incentivizes the development of crucial digital skills and competencies within the organization.

A very valid way to get to that objective is setting up a compensation framework, focusing on the digital capabilities shown in **Figure 4**. What makes up this framework falls into four large components—digital leadership, digital business acumen, digital technical ability, and digital collaboration and communication.
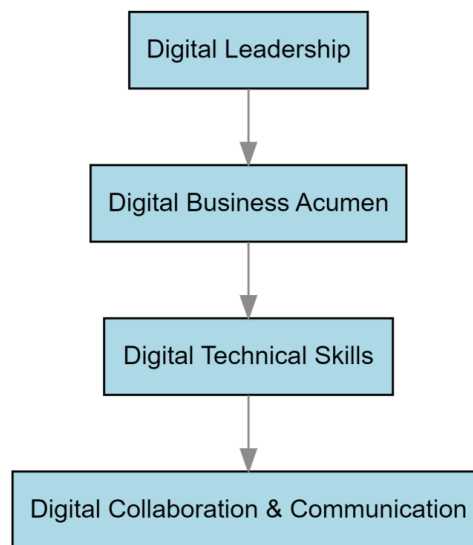
Figure 4. Digital capability-based compensation framework.

To depict that, the framework actually brought out the interrelation between those digital capabilities, whereas higher-level skills in terms of digital leadership and business acumen are built atop the foundation of technical competency and collaborative ability. Most notably, by aligning its compensation structure within the framework, SMEs should encourage the acquisition of needed digital competencies whose main drivers are the basics, fundamental to successful digital transformations.

The implementation of this model requires an assessment of the current digital competencies in the organization, the identification of the preferred future state, and the design of a compensation system that rewards the development and demonstration of these competencies. This system can include a combination of base salary, performance-based compensation, and other incentives that are tied to the achievement of specific digital milestones or the attainment of the organization's digital transformation goals.

By adopting a digital capability-based compensation system, SMEs can foster a culture of continuous learning and innovation, attractive and retaining the right talent to drive their digital transformation initiatives and improve overall organizational performance.

5.2. Optimization of incentive mechanism based on performance orientation

In addition to aligning compensation structure with digital capabilities, the other key area that the SMEs undergoing digital transformation need to look at is enhancing their performance-based incentive mechanism. This means designing an incentive system able to effectively motivate employees in view of the organizational goals concerning digital transformation and general organizational performance.

One of the effective ways to achieve this goal is to develop a comprehensive performance-based incentive system, as shown in **Figure 5**. This system contains several critical components, including goal setting, performance evaluation, and incentives distribution.

As shown in the figure, the framework highlights the importance of aligning the goals of the organization with performance targets set at individual and team levels, which are then measured and used to drive the allocation of rewards. This approach ensures that staff are motivated to contribute toward the achievement of the organizational digital transformation goals, which are inherently connected to individual performance and related rewards.
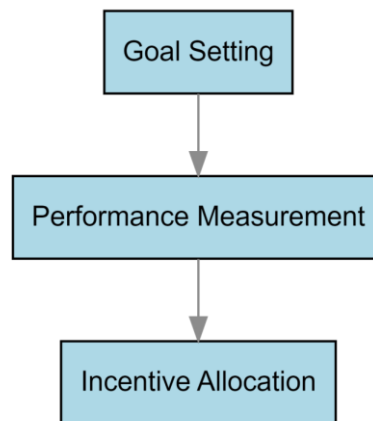
Figure 5. Performance-based incentive framework.

In order to implement this model effectively, clear, measurable, and achievable digital transformation goals need to be set at an organizational level before cascading to individuals and teams. Second, a mechanism for overall performance measurement needs to be developed in order to monitor the realization of goals and contributions meant to follow. On such evidence, incentives—based on merits, promotions, or rewards—can follow.

It will create a culture of accountability, collaboration, and continuous improvement among SMEs where the employees feel motivated toward active participation in driving digital transformation initiatives of the organization. This would likely end in better organizational performance and a successful digital transformation journey for SMEs.

5.3. Salary management innovation based on digital transformation

As SMEs embark on the digital transformation journey, it becomes important to adopt innovative approaches in compensation management that will effectively support and drive this strategic initiative. One of these is the implementation of a comprehensive digital transformation-based compensation management framework, as shown in **Figure 6**.
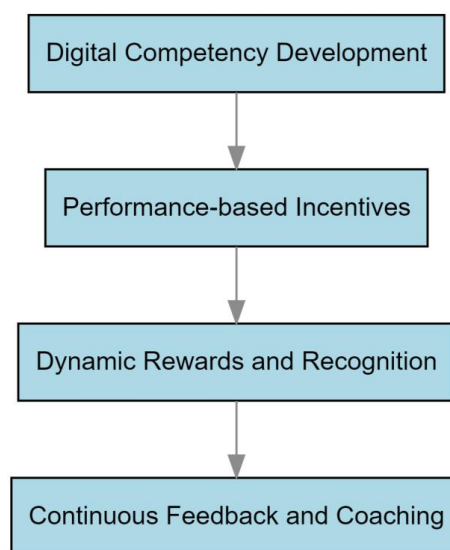

Figure 6. Digital transformation-based compensation management framework.

The figure shows that this framework will have four key elements: Development of Digital Competencies: Ensuring the compensation framework supports both the acquisition and continuous development of digital skills and capabilities across the organization. Performance-Based Incentives: Aligning the compensation arrangement with the achievement of objectives around digital transformation, therefore, fostering a culture of accountability and excellence in performance. Dynamic Rewards and Recognition: Implementing flexible and adaptive reward systems that can be responded to quickly in accordance with the changes in the digital transformation needs and market demands. Continuous Feedback and Coaching: Building a culture of regular performance feedback and coaching for continued development and enhancement of digital capabilities.

Integration of these components allows SMEs to build a compensation management system that attracts and retains the right talent, while actively nurturing and rewarding the digital skills and behaviors necessary for successful digital transformation. This holistic approach can help organizations build an agile and future-ready workforce, better positioned to navigate the challenges and capitalize on the opportunities presented by the digital age.

Implementation of this framework will, therefore, require deep understanding of the goals of digital transformation for the organization, a good assessment of its current competencies and gaps, and commitment to continuous improvement and adaptation. Through this new approach in compensation management, SMEs can enhance their competitiveness, drive sustainable growth, and reach their digital transformation objectives.

6. Conclusion

The current in-depth study provides insights into the optimization of the digital SME compensation system and its impact on organizational performance. The main findings highlight the importance of matching the pay structure with the development of digital capabilities, the implementation of performance-based incentives, and the innovation in pay management methods. This will help SMEs achieve the goals of more digital technologies and a more active workforce, enabling their organisations to better address the challenges and take advantage of the opportunities provided by the digital age. This empirical analysis reveals the complex interrelationship between the compensation system, the components of digital transformation capabilities and multidimensional organizational performance. whose framework is sufficient to enable SME leaders to achieve better competitiveness and sustained growth in their respective digital transformation processes. The theoretical and practical implications of this study are incorporated into the ongoing discourse on effective HM practices.

Conflict of interest

The authors declare no conflict of interest.

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