

Unlocking Human Capital: Exploring Remuneration Challenges, Strategies, and Impacts on SMEs in Ibadan Metropolis

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Abstract:- Remuneration, the pay or reward for work is very essential in ensuring effective performance of workers in an organization. Remuneration consists of integrated policies, processes and practices for rewarding employees for their contributions, skills and competence. Overtime, organizations with effective reward system are more likely to achieve higher levels of productivity than others. Therefore, the influence of good reward system in an organization cannot be overemphasized. SMEs are known for their great contributions to the economy thereby bolstering the GDP of nations. However, there is dearth in literature with regards to remuneration in SMEs. This study was therefore designed to examine Staff remuneration, particularly the issues, practices and implications for Small and Medium Scale Enterprises in Ibadan metropolis. Structural Functionalist Theory provided a framework. A cross-sectional survey design was employed and data were collected thereby using quantitative and qualitative approaches with SMEs owners and managers in Ibadan metropolis. A total of 200 copies of questionnaire were administered randomly and 4 In-depth interviews were conducted with owners and managers of businesses in operation for over 5 years using purposive sampling. Findings from the study revealed that 51.5% of respondents have an annual salary increase while 49.5% do not. Remuneration of workers is largely determined by workers' positions, skills, work experiences, qualifications, and distance of workers' residences to work. Issues associated with the staff remuneration are insufficient funds and high demands form skillful workers. Therefore, an effective remuneration system has positive implications on SMEs as it serves as a propelling force for commitment of workers and motivation that gives the employees the impetus to perform work better in workplace.

Keywords:- Staff Remuneration, Work, Skill, Practices, Small and Medium Scale Enterprise.

I. INTRODUCTION

Every business requires a strategic reward system to address areas such as compensation, benefits and recognition within an organization. Rewarding employees is intimately connected with employees' drives to perform better in workplace. Remuneration is essential in ensuring effective performance of workers in organizations. Organizations with effective pay and compensation system are more likely to achieve higher productivity than others (Xanthopoulou, 2009). SMEs are considered as being crucial to the economic development of nations given that they are regarded as a comprise of largest business sector in the global economy. It is recognized by the Nigerian government as a genuine tool for poverty eradication, job creation, rural development and sustainable livelihoods for the people. (Iwere, 2013). In a similar vein, SMEs tremendously contribute over 65% of Gross National Product (Osolor, 2010). Human resource management practice is a strategic and coherent approach to the management of an organization's most valued asset (Ogunbameru, 2008). Remuneration is an important component of HRM employed to bolster job satisfaction among employees in organizations which helps to retain and encourage employees in order to achieve organization's set objective (Johnson et al., 2010). Through remuneration, organization's most valued assets can be retained thereby ensuring effective productivity. Drucker (1956), avows that happy workers usually turn out to become productive workers.

With the help of remuneration system, an organization is able to retain and motivate its workers to ultimately attain high performance (Gabriel et al., 2016). It is noteworthy that remuneration system is practiced differently by organizations depending on the structure, size, and business of such organizations. This is however riddled with numerous challenges and issues with implications.

II. BRIEF LITERATURE REVIEW/THEORETICAL FRAMEWORK

➤ *Remuneration*

Remuneration is a reward system which consists of integrated policies, processes and practices for rewarding its employees following their contributions, skills and competence and market worth (Armstrong, 2001). It is the aggregate income of an individual and may involve a range of discrete payments attained through different resources (Wayne et al., 2002). Comparatively, remuneration, in simple terms, is pay for performance of a given employee in workplace. Remuneration can also be conceptualized as the monetary benefits in firms in terms of pay rates, fringe benefits, allowances, compensations, rewards, impetuses, recompenses and benefits that are accumulated or given to certain workers by firms following the benefits being rendered by the employee commitment to the organizations or the rewards for tasks executed (Shields et al., 2015). Remuneration is a HR practice employed to foster job satisfaction among employees of organizations.

The cardinal purpose for remuneration is to recruit, retain and encourage employees in order to achieve organization's objectives (Johnson et al., 2010). Luthans (1998), maintains that beyond attaining basic requirements of employees, compensation and remuneration is also helpful in fulfilling higher level needs, in the sense that once a level of need is accomplished, the next level of needs is to motivate employees so as to achieve higher level of needs. There are two categories of rewards which are intrinsic rewards and extrinsic rewards which can be likened to salary, recognition, allowance, fringe benefits and bonuses (Skaggs et al., 1991). Intrinsic rewards are also known as non-monetary rewards such as recognition, words of approval, promotion, sense of belonging while on the other hand extrinsic rewards are monetary in nature such as salary, fringe benefits, retirement benefits, compensation and salary bonus. With the help of remuneration system, an organization is able to retain and motivate its workers and ultimately, attain high performance (Gabriel et al., 2016). Ajila and Abiola (2004), also aver that reward system helps to increase organization's performance by boosting employee's skills, knowledge and ability.

➤ *Remuneration in SMEs*

In smaller organizations, effective remuneration system is often lacking owing that there is no possibility for career development, promotion, employee and motivation can be extremely low. As regards remuneration, SMEs ability to retain employees with competitive salary and rewards is strongly linked to its performance and growth overtime, considering the obvious fact that SMEs cannot compete comparatively with large organizations in terms of remuneration offered to their workers. They practically do not have standardized Human Resource Personnel to take charge of reward system that includes remuneration and benefit packages (Mondy & Joseph, 2016). The criterion of individual

performance determining the level of earnings in SMEs is rarely used (Vergutungsreport, 2013). SMEs find it difficult to put in place a formal reward system due to limited resources and the ability of the organizations to carry out such. In the light of this, some small organizations do not have a reward system which can motivate the loyalty and commitment of the workers (Zhang, 2018).

➤ *Remuneration Issues in SMEs*

Every business requires a strategic reward system to address areas of compensation, benefits and recognition within organization. Rewarding employees is connected with employee drive to perform better in organizations. According to Armstrong (2001), a reward system consists of integrated policies, processes and practices for rewarding employees following their contributions, skills and competence, and market worth. The challenges of remuneration system in SMEs are linked with the lack of formal HR practices and lack of resources to create a standard reward system (Markman & Baron, 2003, & Cardons & Stevens, 2004). Equally, it is discovered that the main limitation of SMEs in offering attractive reward package is financial constraints (Abdullah et al., 2010). SMEs basically lack an incentive system that can robustly attract employees, boost their morale and maintain their loyalty. SMEs are characterized by resource constraints and most likely linked to their sizes (Azami, 2011).

III. THEORETICAL FRAMEWORK

The study is anchored on Structural Functionalist Theory. Structural Functionalism's cardinal focus is on structures, role patterns, systems and institutions and the overall integration of institutions in the society. The theory ultimately sees the society as a complex whole whose parts work collectively in order to promote social order and stability. It was majorly propounded by Emile Durkheim in the late 19th century which was greatly influenced by the work of Herbert Spencer and his organic analogy. Marcionis (2010), contends that Structural Functionalism is a theory that perceives the society as a complex whole whose parts work together in order to promote solidarity and stability. Structural functionalism in Sociology is not homogenous in its exposition given that different writers have different explanations, terminologies with difference in emphasis. Structural Functionalism adopts the analogy of living organism in explaining the society with emphasis on structure and function.

It is imperative to note that every structure of the society has its own functions which ultimately help to contribute to the proper functioning of the society. Structural Functionalism is applicable to the study in perspective owing that one of the unavoidable functions of management in any organization is remuneration that ensures worker retention. Any organization which fails in this regards is certainly set to lose its workforce thereby affecting work progress. Structural Functionalism conceives an organization as a professional

place with common values and goals. In other words, an organization has its objectives and it is primarily to ensure a stable, effective and productive work environment which is usually carried-out by the management of an organization. The

quality of the performance of an organization hugely depends on its human resource element and remuneration to motivate workers in order to do better with their jobs

IV. FINDINGS AND DISCUSSION

Table 1 Frequency distribution of staff remuneration practices in SMEs in Ibadan Metropolis

Questions/Variables	Response	Frequency (F)	Percent (100%)
Do you have annual salary increase	Yes	103	51.5
	No	97	49.5
Do you have a periodic salary review?	Yes	127	63.5
	No	73	36.5
What are the criteria for fixing salaries?	Number of years spent	29	14.5
	Workers qualification	47	23.5
	Workers position	68	34.0
	Level of performance	18	9.0
	Skill and work experience	32	16.0
	Distance to work	6	3.0
How regular do you pay your workers?	Weekly	38	19.0
	Monthly	162	81.0
Asides the monetary rewards given to workers, my enterprise compensates workers for good performance	Yes	121	60.5
	No	79	39.5
How do you pay your workers?	Paycheck	2	1.0
	direct deposit	132	66.0
	Cash	66	33.0
Non-monetary rewards given to workers in your enterprise	Gifts to workers	45	22.5
	Leave grant upon demand	78	39.5

Source: Field Survey 2023

The table above depicts that (51.5%) representing the majority of the respondents who do have annual salary increase while (49.5%) do not. This implies that annual increase of wages and salaries of staff is not a common practice among SMEs. This could be because SMEs are small and increase in salary would not be cost effective for them. The study likewise reveals the major criteria being put in place for fixing income to be the number of years which particular workers have spent (14.5%), qualifications of workers (23.5%), workers’ positions (34.0%), levels of performance (9.0%), skills and work experience (16.0%) and distance from homes (3.0%). Similarly, (81%) of SMEs represents the majority pay workers on monthly basis while (19%) pay workers weekly. This indicates that most SMEs usually operate a salary-based reward system. Aside from the salaries and wages, (60.5%) represents the majority who aver that they compensate workers for good performance using gifts, hampers, and leave grants to their workers. The most common means of remuneration in SMEs is through direct deposit (66%) which connotes transfer. Due to technological advancement, workers are usually paid electronically. Regardless, a few of the SMEs (33%) still pay workers in cash and (1%) use pay in check.

A large percentage of SMEs do have a remuneration system with workers mostly placed on monthly payments. Be that as it may, businesses which operate based on contracts, casual agreement and services rendered per time do not normally pay on monthly basis. Asides from basic salaries and wages, workers are usually compensated. Managers maintain that they compensate workers with gift items, support morally, monetarily and materially during the holding of events and granting leaves. To buttress this preposition, a participant in an in-depth interview disclosed thus:

The response is in affirmative; we usually reward and compensate a lot of employees. For instance, for some tutors who want to get married or those who give birth, we normally come in by supporting them in kind or cash. **(IDI/Female/33years/A’Level school Coordinator/Academic/2023)**

➤ *Another participant buttressed thus:*

Of course, I do reward and compensate my workers. I take them like my blood brothers. Beyond their pays, I compensate them often so that they can have that sense of belongingness. Once in a blue moon, if we have extra materials from a contract like 5-10 yards, rather than keeping them, we subsidize them for the workers to buy at cheaper

rates and they really appreciate such. When this happens, sincerely, they work more because they know quite well that it is not part of their salaries.
(IDI/28years/Male/Owner/Garment production/2023)

➤ *Another participant further explained thus:*

Yes, compensation is something which we usually practice. Sometimes, I give extra cash to workers for those of them whose houses are quite far just to encourage them.

(IDI/Male/45years/Manager/Electrical and Electronics/2023)

The study reveals that majority of the SME managers and owners, beyond the habit of giving out rewards in form of salaries and wages to their workers, they do compensate their workers in order to motivate them to work whole-heartedly to enhance efficiency.

Table 2 Implications of Staff Remuneration Practices in SMEs

What are the effects of remuneration on worker performance in your enterprise?	Loyalty and commitment	75	37.5
	Motivate them to perform effectively	101	50.5
	Produce happy workers	24	12.0

Source: Field Survey, 2023

The table above portrays the implications of remuneration for SMEs to be loyalty and commitment (37.5%), worker motivation (50.5%), and happy workers (12%). This implies that remuneration does have a positive effect on workers and SMEs, when workers are adequately rewarded; it reduces job dissatisfaction owing that they become motivated and stay loyal to the mission and vision of organizations. If workers are well-remunerated and satisfactorily paid, they tend to deliver their best and this in the long run, increases productivity and performance of SMEs. This was buttressed by a participant in an in-depth interview who explained thus:

Generally, the best form of motivation you can give workers in this part of the world is money. When we do this, it greatly encourages workers to work harder and do the work at their best given that they are aware of the fact that when the job is professionally done, they will be well-paid for it
(IDI/Female/29years/Manager/Rentalservices/2023)

➤ *Another participant disclosed thus:*

When I compensate them, they have a sense of belonging; they are well-motivated to work; they deliver their best and this results in optimal job performance that culminates into high job efficiency.
(IDI/Male/28years/Owner/Garment production/2023)

Another participant posited thus:

Compensation gives them the desired drive; they put their passion into work when you pay them regularly and compensate them adequately. Remuneration results in efficiency owing to the fact that workers put in their best when they are well-remunerated. Thus, to enhance efficiency requires remuneration **(IDI/Female/33years/A’Level School Coordinator/Academic/2023)**

The study reveals that remuneration increases workers’ morale in SMEs as it energizes them to perform better on their jobs. Furthermore, remuneration gives a sense of belongings to the workers in SMEs thereby increasing their dedication and commitment and reducing employee turnover which Arisukwu & Adeniyi (2011), conceive as the migration of employees from on organization to another due to certain factors which can be induced or voluntary. Voluntary turnover is conceptualized as the migration of employees from on sector of economy to another due to factors ranging from lack of fringe benefits, allowances, lack of promotion or pay. Involuntary labor turnover is conceptualized as when an organization deems it necessary to lay a particular worker off which could be as result of the fact that such a worker is being considered as being surplus to the requirements of an organization or he or she is being rendered redundant. It can as well be as a result of the fact that such a worker is no longer productive.

Aisukwu & Adeniyi (2011), aver that the rate labor turnover, particularly among private secondary school teachers has become worrisome and the proprietors of private schools have encountered numerous challenges of motivating teachers in order to remain in their jobs for a long time. They gathered that salary was the most (90%) crucial factor predisposing teachers to labor turnover whereas other factors influencing labor turnover were lack of job satisfaction (66.5%), leadership style (56.5%), high work load (44.0), lack of promotion (52.5%) and job insecurity (42.0). Consequent upon this, it was submitted that the rate of labor turnover was pretty high among private secondary schools, and recommended that government’s intervention on the condition of service of private secondary school teachers. Against this backdrop, good remuneration has positive implications on SMEs. All the same, it negatively affects workers’ attitudes to work and affects productivity when they are not adequately remunerated given that it results in job dissatisfaction.

Table 3 Staff remuneration Issues in SMEs

What are the challenges encountered by the management as regards remuneration?	Insufficient funds	20	10.0
	Challenge with making profits	24	12.0
	Reduction in monthly sales	16	8.0
	Unhealthy relationships among staff	4	2.0
	Workers' unnecessary demands	3	1.5
	Bank and network issues	4	2.0

Source: Field Survey, 2023

The table above presents the issues associated with remuneration in SMEs. Findings revealed that the challenges SMEs are encountered with regards to remuneration which is associated with majorly financial constraints as a result of insufficient funds (10.0%), challenge with making profits (12.0%), and reduction in monthly sales (8.0%). Abdullah (2010), demonstrates that the main limitation of SMEs in offering attractive reward package is a financial constraint. This financial limitation is most likely linked to its size (Azami, 2011). SMEs find it pretty herculean to pay workers sometimes when enough profit has not been generated.

A few SME owners also indicate that high demand from talented and skillful workers is an issue around remuneration given that they sometimes struggle to pay them due to the fear of losing them. Unhealthy relationships such as jealousy among co-workers, unnecessary demands from workers and bank or network issues were also indicated as part of the issues with remuneration in SMEs. To buttress these issues, some respondents explained in in-depth interviews.

➤ *A participant posits thus:*

For the compensation, sometimes, extra materials available do not go round for all workers and there are some workers I can never give considering the fact that they are not diligent. This scenario, sometimes, can cause hostility and friction in the work place. When we appreciate the hardworking ones, the lazy ones get jealous and still are not improving on themselves.
(IDI/Male/28years/Owner/Garment production/2023)

➤ *Another participant further disclosed thus:*

Some workers do not really deserve to be compensated at all but while compensating workers, we reward them almost equally. This is a huge challenge given the fact that the good and unserious workers get compensated equally.
(IDI/Female/29years/Manager/Rentalservices/2023)

➤ *Another participant added thus:*

Sometimes, the workers feel like they are underpaid and underappreciated; sometimes, when I compensate them separately from their monthly allowances, they feel entitled to more fringe benefits. Some workers often grumble and are not grateful, even when I compensate them. I sometimes give them things out of the goodness of my heart but some of them expect me to give them more.
(IDI/Male/45years/Manager/Electrical and electronic/2023)

The qualitative discussion further revealed employees' high expectations and ingratitude as one of the challenges of remuneration in SMEs.

V. CONCLUSION

At the heart of the study on staff remuneration: practices, issues and implications for SMEs, findings from the study revealed that remuneration is practiced among SMEs. Remuneration is a SME cover payment for work and other compensations given to workers. Majority of the SMEs pay their workers through a salary system or wage system. In SMEs, the pays of workers are usually determined by a number of factors such as positions, experiences, skills, educational qualifications and distance from homes. In addition, transfer or direct deposit and cash are the common ways by which SMEs do pay workers. The study also revealed that beyond salaries and wages, SMEs compensate their workers with gift items, leave grants and support when necessary. Issues associated with staff remuneration in SMEs include insufficient funds and resources, low profit, high demands from workers and ungrateful workers. Unlike big firms, SMEs are small-sized organizations and this is a contributing factor to staff remuneration issues. The implications of staff remuneration on SMEs can be positive and negative. An effective staff remuneration system tremendously fosters employees' loyalty and commitment together with increasing their morale and motivation to perform better. Otherwise, there would be a decline in employee commitment to work thereby affecting productivity.

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