



Research Paper

## Employee Compensation, Retention and Job Satisfaction In Selected Small And Medium Scale Enterprises in Akoko South West Local Government Area Ondo State

Dr. Timothy IHINMOYAN

Department of Administration and Management Sciences  
Adekunle Ajasin University, Akungba-Akoko Ondo State

### ABSTRACT

The study seek to investigate relationship between employee compensation, retention and job satisfaction in selected small and medium scale enterprises in Ondo State Nigeria. small and medium scale enterprises are determined by the way the workers are remunerated and rewarded. Two objective was used in which two hypotheses were formulated to guide the study. The study made used of descriptive survey type research design. The population were selected from 400 small and medium scale enterprises in Ondo State Nigeria. Result in the study reveals that Employee retention has a significant influence on small scale and medium enterprise [ $F(1, 398) = 11.287; p < 0.01$ ]; there is a significant relationship between employee compensation and job satisfaction among SMEs in Ondo State [ $r(398) = -.123; p < 0.01$ ]. It was concluded that Nigerian SMEs like any other countries' serve as the fulcrum of development of the economy; SME managers encounter a number of challenges. They contend with high rate of employee turnover and also find their employees leaving them unceremoniously every day. The study recommends that in order for the employee's to play their leadership role effectively and efficiently, the management of SMEs should remunerate them adequately with the position they are holding. All these recommendations will enhance the performance of the employee's which will translate to overall organizational performance; SMEs should encourage more interpersonal relationships and employees.

**KEY WORDS:** Compensation, Retention, Job satisfaction, SMEs'

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### I. INTRODUCTION

Small and medium enterprises (SME's) have a crucial role in the country's economy and industrial development. SMEs constitute the most viable and veritable vehicle for self-sustaining industrial development in Nigeria. From varied experiences especially in developing countries, SMEs indeed possess enormous capability to grow an indigenous enterprise culture more than any other strategy. SMEs in most developing economies represent the sub-sector of special focus in any meaningful economic restructuring programme that targets employment generation, poverty alleviation, food security, rapid industrialization and reversing rural-urban migration. SMEs are necessarily of interest to those concerned with employment relations and considered to be critical to organizational improvement in order for them to gain competitive advantage (Ofori, 2015).

SMEs have strong influence on the sustainable development process of less developed as much as developed countries because they foster economic growth and alleviate poverty (Ayyagari, Beck and Demircug-Kunt, 2016). The development of SMEs is an essential element in the growth strategy of most economies and holds particular significance for developing countries like Nigeria. Berry (2015) suggests that the increasing prevalence of flexibility and specialization of SMEs has persuaded many business analysts to believe in the strategic role SMEs play in the industrial structure of any developing nation. But he noted that SMEs are quite vulnerable to external shocks due to the global competition from the liberalization of trade. There is reasonable assurance that given favorable policy environment, SMEs can successfully compete in the global market (Briggs, 2017).

The success and the survival of any small and medium scale enterprises are determined by the way the workers are remunerated and rewarded. The reward system and motivating incentives will determine the level of employees' commitment and their attitude to work. As noted by Dixit and Bhati (2016) poor incentives packages or compensation packages have been a major factor affecting employees' productivity. However, for any SMEs to achieve it objective in any competitive society, employers must have a thorough understanding of

what drives the employees to perform efficiently and compensate them accordingly (Mueller, 2015). Besides, employees must be motivated through adequate compensation plans and reward systems and this will invariably encourage them to be proactive and have right attitude to work, thereby promote organizational productivity (Armstrong, 2017). However, in highly dynamic SMEs, compensation strategies are deployed by employers to ensure that the best brains are retained in the best interest of the organization (Nelson, 2015).

Consequently, productivity can only be enhanced if the employees are well motivated through adequate incentive packages that are proportional to their performance. Although, to avoid wrong perception and controversy by employees, reward system must be clearly communicated to employees with job measurement which will drive the much needed motivational drive in the employees (Hartman, 2016). Incentives propel and influence employees' attitudes in work place and as well stimulate understanding between the employer and the employee which will consequently cumulating into unprecedented performance for both the employees and the organization. Employee satisfaction and performance are largely influence by incentives packages or reward system put in place by the organization (Osibanjo, Abiodun, & Fadugba 2012).

According to Bernadin, (2015) compensation refers to all forms of financial returns and tangible benefits that employee receives as part of employment relationship. Thus, Gomez-Mejia, Balkin and Cardy (2016) posit that employee's compensation comprises of base pay and fringe benefits. Base pay or cash pay is the direct pay provided by employers for work performed and these include salary, overtime pay, shift allowance, uniform allowances and pay contingent on performance like merit awards, incentive pay, bonuses and gain sharing while fringe compensating include required programs such as social security, health benefits, pension plans, paid time off, tuition reimbursement, foreign service premiums and so on.

Legally required benefit programs include social security, worker's compensation while discretionary programs include health benefits, pension plans, paid time off, tuition reimbursement, recognition award, foreign service premiums, responsibility allowance, child care, on campus accommodation, promotion, annual increment and a host of others (Cascio, 2016; Bernadin, 2015). Benefits, in a nutshell are the indirect financial and non-financial payments employees receive for continuing their employment with an organization.

Employee retention in today's economy is essential to the success of any organization. According to Luna-Arocas and Camps (2014) salary is an important staff retention strategy and a precursor of turnover intention in both direct and indirect ways. However, employees may require much more benefits like flexible working hours, paid holidays, bonus, health insurance, pension and more. In order to contribute to relationship longevity, 'leaders need character development with an emphasis on values, and ethics'. Thus, Employee retention refers to the various policies and practices which let the employees stick to an organization for a longer period of time. Irrespective of the size, if the companies are unable to retain their talented employees, it will be very difficult for their survival.

## **OBJECTIVES OF THE STUDY**

The study examined the relationship between employee compensation, retention and job satisfaction in selected Small and Medium scale Enterprises (SMEs) in Akoko South Local Government Area. Specifically, the study is to

1. ascertain if employee retention have influence on small scale and medium enterprise in Akoko South Local Government Area
2. examine the relationship between employee compensation and job satisfaction among SMEs in in Akoko South Local Government Area

## **HYPOTHESES**

1. There will be no significant influence of employee retention on small scale and medium enterprise in Akoko South West Local Government Area
2. There is no significant relationship between employee compensation and job satisfaction among SMEs in Akoko South West Local Government Area

## **II. LITERATURE REVIEW**

### **EMPLOYEE COMPENSATION**

Employee compensation refers to all the returns that accrue to employees arising from their employment (Dessler, 2015). Compensation management requires accuracy and precision as, if not adequately and objectively dealt with, it may hamper or organization's operations. An ideal compensation strategy should encourage employees to work harder with more determination and dedication to their duties.

Adeoye, Elegunde, Tijani, and Oyedele (2015) view compensation management inform of salaries and wages that are of paramount interest to both the workers, employers and state who the major players in industrial relations, of which they may jointly have vested interest in increasing the total quality of goods and services produced, from which wages, profits and revenues are obtained. Similarly, Harrison and Liska (2015)

contend that remuneration is the connecting rod of employment contract between the employer and supplier of labour which is basically the main objective which motivates people to work. This embraces all kinds of rewards; both intrinsic and extrinsic are offered as a result of being employed by the organization. Brown (2014) posit that compensation as a return in exchange between the employer and employees themselves and as an entitlement or gratification for being engaged by the organization, or as remuneration for a well-executed job. Employees' remuneration depends not only on the jobs they are holding but also on the function of individual performance, group or team work, or whole organization as well as differences in employee qualities such as years of experience, seniority, educational qualifications, geographical location, bargaining strength and skills (Adeoye, 2015).

Idemobi, Onyeizugbe and Akpunonu (2016) view "compensation management as a tool for improving organisational performance" in the public sector of a state in Nigeria. They contend that there is no significant relationship between financial compensation of public staff and their performance and that the compensation earned is not measurable with the staff effort. They stress that reformed programmes of the government have no corresponding and significant effect on the financial compensation policies and practices in the public sector in Nigeria due to improper compensation management.

Idemobi, Onyeizugbe and Akpunonu (2016) argue that for the continuous existence of an organisation, rewards have been accepted as a major motivational factor that gingers employees' to put in their best as well as an essential tool and cost for organisations. The perceptions about the construct reward system; its influence on organisation's structure, system, strategies, and employees has been an area of concern for research. Idemobi, Onyeizugbe and Akpunonu (2016) focused on recent compensation research which is characteristically eclectic. The objectives of compensation are attracting, equitable, balanced, security, cost effective, incentive-providing, retention and competitive position (Ivancevich, 2014)

#### **TYPES OF COMPENSATION**

There are various forms of compensation and nearly all these forms of compensation can be categorised into four broad types Berry (2015). The four broad types are:

**Wages and Salary:** Wages are what is paid to employees who are not permanently employed and typically pertains to hourly rates of pay (the more hours worked, the greater the pay), while salary is what is paid to people that are permanently employed and this is at a fixed weekly, monthly, or annual rate of pay.

**Incentive Plans:** This is an additional compensation which is above and beyond the employees wage or salary provided. It may be long term or short term in nature.

**Employee Benefit Programmes:** Time off with pay, pension scheme, tuition reimbursement, recreation activities, cafeteria services are all examples of employee benefit programmes.

**Additional Privileges:** Employees in organisations may have other privileges such as the usage of company vehicles/cars, club membership or travelling allowance. These privileges may be a substantial part of compensation, especially for the executives.

#### **EMPLOYEE RETENTION**

Employee retention is most critical issue facing employers in the SMEs as a result of the shortage of skilled labor, economic growth and employee turnover. Employee Retention involves taking measures to encourage employees to remain in the organization for the maximum period of time (Griffeth & Hom 2016). Organizations are facing a lot of problems in employee retention these days. Hiring knowledgeable people for the job is essential for an employer. But retention is even more important than hiring. In retaining valued employees, Griffeth and Hom, (2016) report that turnover costs can run as high as 200 percent of the exiting employee's salary, depending on his or her skill level. Retention defined as —an obligation to continue to do business or exchange with a particular company on an ongoing basis (Zineldin, 2016).

Retention is a voluntary move by an organisation to create an environment which engages employees for a long term. According to (Zineldin, 2016) the main purpose of retention is to prevent the loss of competent employees from leaving the organization as this could have adverse effect on productivity and profitability. However, retention practices have become a daunting and highly challenging task for managers and Human Resources (HR) practitioners in a hostile economic environment.

The above mentioned definitions explain many situations in our contemporary life while many employees are no longer having the sense of organization loyalty once they leaved. Increasing numbers of organization mergers and acquisitions have left employees feeling displeased from the companies that they work and haunted by concerns of overall job security. As a result, employees are now making strategic career moves to guarantee employment that satisfy their need for security. On the other hand, employers have a need to keep their staff from leaving or going to work for other companies. This is true because of the great expenses associated with hiring and retraining new employees. The adage, good help is hard to find, is even truer these days than ever before because the job market is becoming increasingly tight (Griffeth & Hom, 2016).

**JOB SATISFACTION**

The concept of job satisfaction does not have a conventional definition despite being widely researched by many scholars. The concept of teacher job satisfaction is defined as the “teacher’s affective relation to his or her teaching role and is a function of the perceived relationship between what one wants from teaching and what one perceives it is offering to a teacher” (Raju, 2016). According to Spector (2015), job satisfaction is defined as “simply how people feel about their different aspects of their jobs. It is the extent to which people like (satisfaction) or dislike (dissatisfaction) their jobs.” Additionally, Mbua (2014) defines job satisfaction as “the fulfillment acquired by experiencing various job activities and rewards.” Whereas, for Robbins (2015), the concept job satisfaction refers to the employee’s feelings about her or his job. Similarly, job satisfaction is “a positive feeling about one’s job resulting from an evaluation of its characteristics” (Robbins & Judge, 2015). According to Newstrom (2016), “job satisfaction is a set of favorable or unfavorable feeling and emotions with which employee view their work and the supervisors need to be alert about employee job satisfaction level”. Job satisfaction refers to the feeling and emotions of employees in an organization.

Job satisfaction can be described as a positive emotional state resulting from evaluating one’s job experiences and job dissatisfaction occurs when these expectations are not met (Mathis & Jackson, 2015). It includes the behavior pattern of people that can be favorable or unfavorable. The progress of work is directly related to job satisfaction. If employees are not satisfied with their jobs, the overall progress of system is affected. The administrators should periodically study the job satisfaction of the employees and try to improve it by promoting human values and dignity.

**III. METHODOLOGY**

**RESEARCH DESIGN**

The researcher adopted the descriptive research design of the survey type. The purpose of using this research design is to establish the effect of the independent variables on the dependent variables and to establish the level of effect of the independent on the dependent variables

**SOURCE OF DATA**

The primary source of data is questionnaires which was used to obtain information from samples selected from the defined population. Therefore, the major research instrument used in conducting this research work is questionnaires. The questionnaires were structural and the respondents found it easy to write their responses. The questionnaires were designed to elicit information from employees in the organization who were non-randomly selected from each department, more so, the questionnaires were thus categorized into three sections. The questionnaire was designed to elicit information from employees in SMEs in Akoko South West Local Government Area.

The population for the study was 1610 SMEs in Akoko South Local Government Area which was gotten from (commerce and industry 2017). From the population sample size of 400 respondents were purposefully selected for the study.

**DATA ANALYSIS TECHNIQUES**

The data collected from the participants were analyzed using inferential statistics like regression analysis and Pearson Product Moment Correlation to analyze its hypotheses at 0.05 level of significance.

**DATA ANALYSIS**

**HYPOTHESIS 1:** There will be no significant influence of employee retention on small scale and medium enterprise in Akoko South West Local Government Area.

**Table 1: Summary of Regression showing the significant influence of employee retention on small scale and medium enterprise**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	83.938	1	83.938	11.287	.001(a)
	Residual	728.812	398	7.437		
	Total	812.750	399			

Table 1 shows that, Employee retention has a significant influence on small scale and medium enterprise [F (1, 398) = 11.287; p<0.05]. Therefore, the null hypothesis is hereby rejected and the alternate is hereby accepted. This implies that employee retention has a significant influence on small scale and medium enterprise.

**HYPOTHESIS 2:** There is no significant relationship between employee compensation and job satisfaction among SMEs in Ondo State and medium enterprises

**Table 2: Summary of Correlation Matrix Showing the relationship between employee compensation and job satisfaction among SMEs in Ondo State**

Variable	Mean	Std. Dev.	df	r	p
Employee Compensation	52.53	8.59	398	.123**	<0.01
Job Satisfaction	36.27	11.32			

N = 400 \*<0.05; \*\* p < 0.01

From table 2 above, there is a significant relationship between employee compensation and job satisfaction among SMEs in Akoko South West Local Government Area [r (398) = .123; p<0.01]. This implies that as employee compensation increases the job satisfaction of employees also increases among SMEs in Akoko South West Local Government Area Ondo State.

#### IV. CONCLUSION

The findings from this study have shown that Nigerian SMEs like any other countries' serve as the fulcrum of development of the economy. However, they are constrained with a number of challenges including how to retain, compensate their human resources, which impede its growth and survival. This study set out to explore the challenges facing SMEs in relation to employee retention, compensation and job satisfaction with the purpose of providing an understanding on the challenges and how the situation could be resolved.

The results indicated that in managing employee retention, the SME managers encounter a number of challenges. They contend with high rate of employee turnover and also find their employees leaving them unceremoniously every day. It is exacerbated with the fact employees typically would leave the firm without serving the required notice period which makes replacement not only difficult by also very expensive in view of the limited period the managers have at their disposal to recruit new employees. Further, they face the challenge of having to lose significant productivity during the period when employees leave without any preparation for their replacement. Secondly the results also indicated that HR practices such as recruitment and selection, training and development, reward management, employee engagement, flexible workplace, employee involvement significantly affect employee retention and job satisfaction in Nigerian SMEs.

#### V. RECOMMENDATIONS

The following recommendations are offered as a result of the outcomes of this study:

1. SMEs should encourage more interpersonal relationships among employees.
2. SMEs should allow the employees to play their leadership role to adequately recognize and reward others when they accomplished their goals/objectives.
3. In order for the employee's to play their leadership role effectively and efficiently, the management of SMEs should remunerate them adequately with the position they are holding. All these recommendations will enhance the performance of the employee's which will translate to overall organizational performance.
4. Employers of labour and decision makers should endeavour to review incentives packages at various levels in order to earn employees' commitment and satisfaction.

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