

The Impact of Employee Total Rewards on the Success of Small and Medium Enterprises (SMES) in Mozambique in the Context of New Institutional Economics.

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Abstract:- This paper assesses the impact of employee total rewards on the success of Small and Medium Enterprises, answering the following research question; “What is the impact of employee total rewards in the success of SMEs in Mozambique?” The following hypotheses were tested in this study: H₀ “Employee total rewards promote high employee performance leading to the success of SMEs” and H₁ “Employee total rewards increase production costs leading to the failure of SMEs”. In developing economies many SMEs are facing financial challenges in starting, expanding and consolidating their businesses and employee total rewards are being overlooked as the backbone to the success of their businesses. In this context Mozambique is not an exception. Total rewards are all aspects of the employment offering which include remuneration packages such as fixed pay, incentive pay and benefits and intangible aspects of the psychological contract, such as: the working environment, career development and employment security. Remuneration packages are also known as extrinsic rewards, while psychological rewards are also known as intrinsic rewards. Thus extrinsic and intrinsic rewards amount to employee total rewards, which require the employer’s financial input for them to be in place. In general, there is an assumption that in the short run employee total rewards drain the financial coffers of the employer but in the long run, the return on investment is high. Through total rewards, employees are motivated to perform above expectations, thereby promoting high productivity in a firm. Therefore, this paper examines the relationship between employee total rewards and the success of SMEs in Mozambique.

Keywords:- *Small and Medium Enterprises, New Institutional Economics, Employee Total Rewards and Productivity.*

I. INTRODUCTION

Globally, many organizations including Small and Medium Enterprises adopt strategies meant to promote high employee performance. Total rewards are one of the approaches being deployed to achieve organizational predetermined objectives and goals, and they have been identified as the major tool for business success. Total rewards are all forms of remuneration packages and

intangible aspects of the psychological contract an employee receives as part of an employment relationship. Remuneration packages include base pay, variable pay and benefits which are also called extrinsic rewards. The intangible aspects of the psychological contract include career development, the working environment and employment security and, they are also called intrinsic rewards. Sajuyibe et al, (2013) argue that, some employees prefer intrinsic rewards such as praise and recognition for work accomplishments, while others opt for extrinsic rewards in form of salaries, bonuses and incentives. This means that, both extrinsic and intrinsic rewards which amount to total rewards are important in enhancing high employee performance in an organization through motivation. In return, organizations develop a competitive edge in the market by meeting the expectations of their stakeholders.

Human capital as an important asset in an organization needs to be motivated mainly through total rewards so that it can deliver, (Ong and Teh, 2012). An organization’s competitive edge is facilitated through high performing and motivated employees. This is buttressed by Sajuyibe et.al (2013) who points out that employees are the engine of the organization vehicles while reward is the fuel. Small and Medium Enterprise (SMEs) in developed economies have been given recognition in playing a pivotal role in accelerating economic growth and development since the 1960s to the present day. This is mainly attributed to employment creation and provision of goods and services. In the developing economies, SMEs are struggling to reach the level of their counterparts in the developed economies due to financial challenges. Therefore, allocation of more funds to employee rewarding in order for them to perform brings in a complex scenario in New Institutional Economics on the success of SMEs in the developing countries, which is worth investigating. SMEs as institutions have some priorities in terms of financial allocation and the following question can be asked: Should SMEs allocate more funds to employee rewarding or not? The answer to this question lies in this study basing my arguments on the benefits of a motivated and well rewarded employee to the overall organizational performance.

II. PROBLEM STATEMENT

In developing countries many employers and managers in SMEs are hesitant to reward their employees in totality in fear of draining the financial resources of their enterprises. Little do they know that, employees are very important to any organization since they are the ones with the skills and knowledge required in production. Therefore, their competencies increase once they are motivated through total rewards resulting in high productivity in a firm. Failure to fully reward employees with extrinsic and intrinsic rewards has been one of the sources of SME failure in Less Economic Developed Countries (LEDCs).

III. RESEARCH QUESTION

➤ *The Research Question of this Study is:*

What is the impact of employee total rewards in the success of SMEs in Mozambique?

➤ *Research Objectives*

➤ *General Objective*

The general objective of this study is to:

- Assess the impact of employee total rewards on the success of SMEs in the context of New Institutional Economics.

➤ *Specific Objectives*

The specific objectives of this study are as follows:

- Examine the impact of fixed pay, merit pay, work flexibility and recognition on the success of SMEs in Mozambique.
- Evaluate the correlation between Total Rewards and the success of SMEs in Mozambique.

➤ *Hypotheses*

The research hypotheses of this study are as follows:

- H₀: Employee total rewards promote high employee performance leading to the success of SMEs.
- H₁: Employee total rewards increase production costs leading to the failure of SMEs.

IV. DISCUSSION

Many scholars have researched and written more on employee total rewards and the success or failure of SMEs, which create a strong platform for the discussion on how total rewards in form of fixed pay, merit pay, work flexibility and recognition contribute to the success of SMEs in Mozambique.

➤ *Small and Medium Enterprises (SMEs)*

A Small and Medium Enterprise (SMEs) are defined as enterprises which are independently owned and are not dominant in their field of operation. The other definition of SMEs can also be attributed to sales volume and by the number of employees in their businesses. In the recent literature, it is very difficult to draw out the differences between micro, small and medium enterprises. These SMEs have specific characteristics which make them particularly vulnerable and have an impact on why and how these firms do fail or succeed (Birch, 1987). Mintberg (1979) identified the following characteristics of SMEs:

- These firms are organizations which are small in size.
- In most of the cases, the power is centralized solely in the hands of the business owner. The firms are under the influence of one person who is the entrepreneur. The owner is the focal point as the activities of the firm depends on his/her experience, competencies and desires. Thus, he/she has control over all employees within the firm including the management.
- Due to their small sizes, these organizations are structurally simple since their strategies are intuitive and/or little formalized. Also there is at most a loose division of labor, a small managerial hierarchy and hardly any formalization of behaviors and activities. Furthermore, the internal and external information systems are relatively simple. There is no formal written mechanism to transfer internal or external information as the entrepreneur directly discusses with workers, customers and bankers.
- These firms have less power vis-à-vis customers and competitors compared to larger enterprises (Keats and Bracker, 1988). This means that they are particularly dependent on other external and evolving environments.

• *Small and Medium Enterprises in Mozambique*

SMEs in Mozambique are one with 1 to no more than 249 full time employees. Over such variable enterprise types, the number of employees is a better indication of size than product volumes and financial turnover. Table 1 below shows how SMEs are defined in relation to their number of employees according to different institutions in Mozambique.

Table 1 Definition of SMEs According to Number of Employees

Definitions of SMEs according to number of employees			
Agency/institution	Micro	Small	Medium
Instituto Nacional de Estatística (INE, 2002)	-	1-10	11-50
Ministry of Agriculture (DNFFB, 2004)	1-5	6-25	26-100
GAPI (Gabinete de Consultoria e Apoio a Pequena Industria), (World Bank, 2003)	1-9	10-50	50-100
Ministry of Commerce and Industry (World Bank, 2003)	1-25	25-124	125-249

Source: Ministry of Commerce and Industry

Lack of access to capital is the number one constraint in doing business of SMEs in Mozambique (World Bank survey on SMEs Mapping, 2003). There is a general understanding that SMEs do not have access to credit and that the situation is not improving. Only 5% of all registered firms have access to bank finance with most firms using their own funds for both working capital and investments. Currently banks do not view most SMEs as viable credit worthy clients, as many do not have audited accounts, proper business plans or sufficient collateral. In such a scenario it means that these SMEs do not have enough capital to reward their workforce. As a result, the majority of SMEs in Mozambique cannot withstand competition with large enterprises which have been in business for a long period of time with enough funds to competitively reward their employees.

➤ *Employee Total Rewards*

WorldatWork (2015) defines total rewards as everything the employee perceives to be of value resulting from his or her employment relationship. It is a key component of any Employer brand through which an organization establishes its competitive position in the labour market and hence determines its ability to attract, recruit, retain and motivate employees of the required calibre. As Armstrong (2012) highlights, that high performers are usually highly motivated. However, it has been argued that extrinsic rewards may erode intrinsic interest and that working for just money may lead to a less motivated or pleasurable environment. It is the combination of rewards targeted in the right way and to the right individual or group that will improve performance the most. Thus, total rewards encompass all monetary and non-monetary benefits employees get from their employers shown in the figure below.

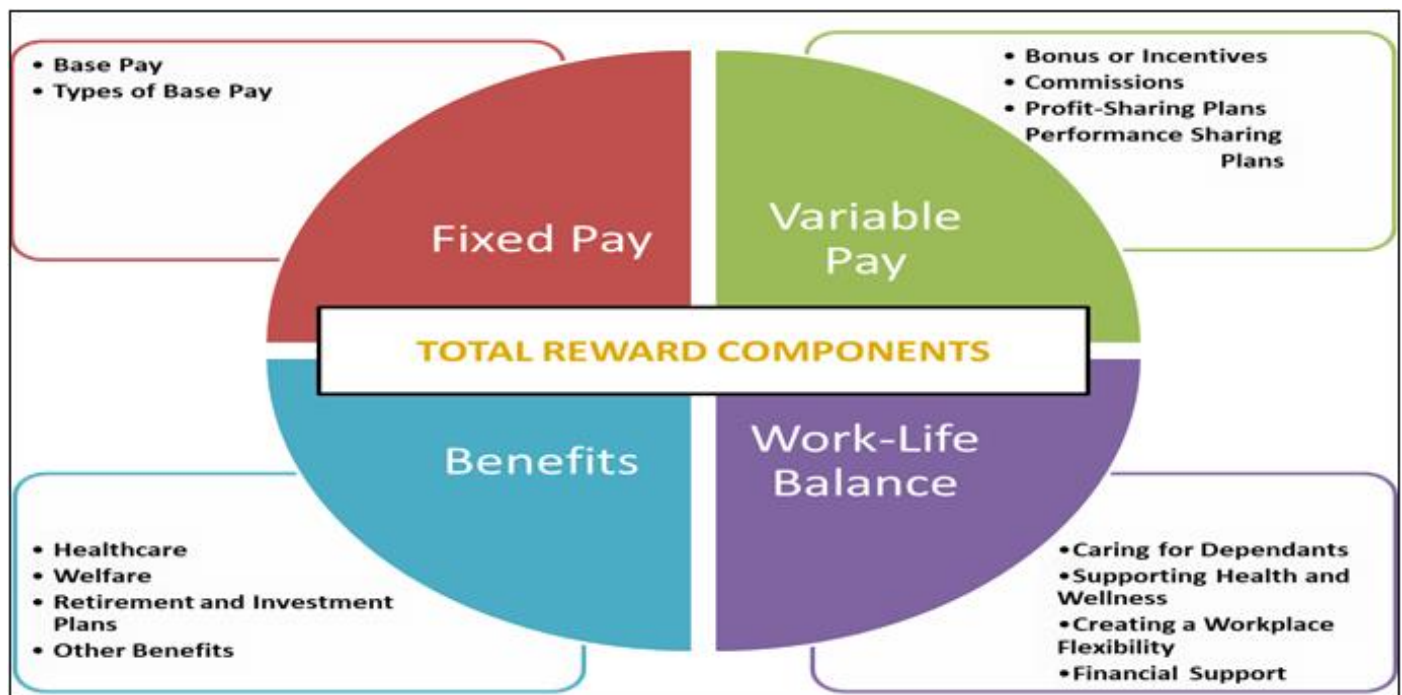


Fig 1 Employee Total Rewards
Source: Burguillos, B. & López, M. (2013).

• *Fixed Pay*

Base pay is the other name for fixed pay, which is a nondiscretionary compensation that does not vary according to performance or results achieved at work. The organizational philosophy and pay structure determines the fixed pay to be given to employees. In other words fixed pay

can be defined as compensation paid to an employee for performing a specific job in a company. The meaning of the term fixed pay differs from one country to another. In fact, base pay levels need to take into consideration variations in equivalent monthly salaries, which differ by country. In general, fixed pay practices are based on a competitive

strategy for each country. Furthermore, fixed salary should conform to market rates so that employees are motivated to perform. Studies have also demonstrated that rewarding employees through competitive salaries motivate them (Delotte, 2016 and Edirisooriya, 2014). With pay structures in place, the firm needs to put into consideration the way the workers are paid and this brings up the types of fixed pay. A salary is one of the types of fixed pay and is given to employees on a weekly, biweekly or monthly basis rather than by the hours worked. This applies to employees occupying top positions in a company. There are also non-exempt / hourly rates, which are paid by the number of hours on the work done. Furthermore, an employee's annual salary depends on the total number of hours he or she worked during the whole year. The piece rate, which is another type of fixed pay is a paid based on an employee's rate of production at work. Thus, payment is received for each piece of work produced by an individual employee.

- *Merit Pay*

Merit pay also known as incentive or variable pay is another type of pay given to employees at work. It is compensation that is contingent on discretion, performance or results achieved by the employee. Merit pay plan is based on the combination of quantitative or qualitative measures in rewarding employees for their performance. The objective of rewarding employees with merit pay serves to increase employees' identification with the organizational success. It also increases employees' understanding of what is important to the organization and communicate the basis upon which success is measured in the particular organization. Many companies make greater use of merit pay programs by expanding them to an essentially broader portion of the employees that they have in the past. Such schemes are adopted by many corporations in order to promote high employee morale and retention. They also increase employee motivation at work. Performance measures and metrics of human resources of the specific organization incentive plans decides specific mode of incentive payment. Merit pay can also be awarded to employees based on individual performance or group performance, (Milkovich and Newman, 2013). Individual merit pay plans are put in place to motivate employee to perform high through the use of monetary or non-monetary rewards. Individual employee plans tend to motivate top performers to excel, though they may make low-performers to be intimidated and discouraged. The individual incentive plans are based on the competitive assessment model of employee performance management. Group incentive plans can help to encourage staffers to work towards collective objectives. Kramar and Syed (2012) has identified that group rewards or incentives are more likely to yield a collaborative approach to performance and they are more effective in reaching organizational shared goals. This is so because they know that they will all be rewarded equally once they have achieved their targeted objectives. To be effective, group incentive plans should be clearly defined, easily measured and achievable. Plans should also take into consideration the personalities, skills sets and interpersonal communication skills of each member of the team that will

be participating. Merit pay can be in the form of bonuses, commissions, profit sharing and performance sharing.

Employee bonuses also known as incentives paid to employees through plans that predetermine a performance and reward schedule. Thus, incentive can be paid in an accounting period. The accounting periods can be monthly, quarterly, yearly or multi-yearly. It can also be upon an event after attaining an objective or project completion. Firms that seek to create a closer relationship between employee compensation and the risks of doing business have increased the use of team incentives.

The commission given to employees by the employer is a sum of money that is paid to them upon completion of a task, especially in the selling of goods and services. The commission may be paid as a percentage of the sales or as a flat figure (amount) based on volume of sales. In companies employers often use sales commissions to incentivize employees so that they can increase productivity. This commission can be paid in addition to the basic salary or instead of a basic salary. The contract between the employer and employee determines everything. In actual fact, commissions are cash payments, based on predetermined employee performance and reward schedule. In addition, these commissions are based on sales or profit margin on those sales made by the employee. Commissions are usually for sales or marketing personnel.

Profit-sharing done between the employer and employee is a form of merit pay provided to all employees based on the profits of the firm. Many companies usually have predetermined goals and formulas for determining the amount that will be paying their employees as part of the profit-sharing scheme. The purpose of profit-sharing is to enhance employee participation and identification with the organization's success. It is usually paid to the top-level management.

Bonuses, commissions and profit-sharing as forms of merit pay, require the employer to understand how positively they help in building the employer's brand. With rational merit pays, talented employees are prepared to take a particular firm as an employer of choice. For an organization, this does not come on a silver plate but it calls for SMEs in particular, to invest in human capital.

- *Work Flexibility*

Work flexibility is a business strategy meant to respond to the changing business circumstances and expectations, (Douyle, 2020). Employees who approach their job with a flexible mind-set are typically more highly valued by employers. Similarly, employers who cultivate a flexible work environment are attractive to employees (employers of choice). Workplace flexibility emphasizes the willingness and ability to adapt to change, particularly regarding how and when work gets done. In work flexibility, the needs of both employee and employer are met. Workplace flexibility is often used as a tool for retaining and engaging employees. It can also help an organization reach its goals through improved productivity. There are a number

of ways work flexibility can be implemented at work by the employee and the employer.

Employees with an orientation on work flexibility don't say, "It's not my job" or "Do I have to?" when they are tasked to take on a new assignment. Instead, flexible employees modify their approach to tasks based on the preferences of stakeholders and the unique demands of each situation. Flexibility on the part of a worker could be to adjust the hours they work. That is coming in early, staying late, or working on an off day in order to accommodate the needs of the company. Employees with a flexible attitude keep the company's objectives in mind and work to achieve them, tailoring their efforts to the mission at hand.

Flexibility skills are also relevant to the approach taken by management to handling employees. Flexible managers treat employees as individuals and make an effort to accommodate personal styles and needs. For example, one employee may require more structure in their job duties and another may function better working independently. Managers will often need to adjust schedules and delegate routine tasks as they focus on reaching the company's priorities.

Workplace flexibility can also refer specifically to regular work arrangements that promote work-life balance, as opposed to one-off accommodations for special circumstances. These work arrangements typically include flexible schedules. Employers with a flexible time policy allow their workers to stagger arrival and departure times as necessary. Not every employee needs (or wants) to work in an office. Telecommuting lets them work from elsewhere, such as a home office or co-working space, especially during this era of COVID-19 pandemic. They may telecommute during special conditions, such as inclement weather, or on a daily basis. Rather than a five-day workweek, a condensed schedule fits the same amount of work over a shorter amount of time, such as three or four days, giving the employee an additional day or two off during the week.

A flexible work environment has many benefits. It helps workers achieve greater work-life balance, leading to increased employee satisfaction and improved morale. That in turn means employee turnover is reduced, as is the cost to recruit and train new hires. Loyalty, engagement, and retention are improved, which helps a company's productivity and its bottom line. Employers that permit telecommuting, or working from home, can reduce overhead with less need for office space; working from home can also have a beneficial environmental impact by eliminating lengthy commutes. Flexible employees, for their part, are willing to do whatever is necessary to get the task accomplished, whether that means taking on more responsibilities, doing different tasks, or doing more at work. Thus, they have more to offer their employer than employees who can only do one or two tasks. Having employees who are willing to step outside their job description means employers don't need to find others to take on more work.

➤ *Recognition*

According to Douyle (2020), recognition at work is attributed performance and which is aligned and assessed based on organizational, team and individual efforts towards the achievement of business goals. This is also paramount to the success of SMEs as business entities. Employee public recognition acknowledges or gives special attention to employee efforts or positive performances. It meets an intrinsic psychological need for appreciation and can support business strategy by reinforcing certain behaviours that contribute to organizational success. Awards can be cash or non-cash (e.g., verbal recognition, trophies, certificates, plaques, dinners, tickets, etc.).

In a study undertaken by Hall-Ellis, (2015), a system of rewarding employees in totality enhance in a library working set-up. The researcher noted that, employees and their managers are responsible for recognising and developing the skills of the human capital in a firm. Connecting employee behaviour and performance with the rewarding system at workplace is very essential. At average, benefits and compensation should be standards for working. However, a rise in employee performance can be influenced by employee recognition awarded with workmates witnessing not in isolation. As a result other workers will be motivated to emulate the recognised employee, thereby promoting high performance in a firm.

V. FINDINGS

The outcome of this research work is centralised on the impact of employee total rewards on the success of SMEs in Mozambique. This is attributed to the alarming rate at which a number of SMEs in Mozambique are failing. In this paper, the literature gathered focused only on fixed pay, merit pay, work flexibility and public recognition. The researcher evidently found out these components of employee total reward are of paramount importance in enhancing the success of SMEs in Mozambique and even beyond. Many SMEs are failing in Mozambique because of limited financial resources on their disposals to sustain their operations. Their operations are attributed to skilled human capital which needs to be motivated to perform. Employee motivation is based on total rewards which portray employee value, and even some are intrinsic like flexible working and public recognition, they have a financial impact to SMEs. The financial impact in terms of revenue generation and total shareholder return are determined by institutional productivity which can only increase when employees are totally rewarded. Therefore, there is need for owners and managers to invest more in human capital through total rewards. Although it is costly and taxing to small enterprises which are still starting, the government should create loan facilities for these business entities to be able to reward their employees accordingly. Once rewarded in totality, the employees can perform to the highest levels and their engagement will be of no doubt. One can comfortably say that there is a direct relationship between employee total rewards and the success of SMEs. The more rewards are given to employees, the more is the success rate of SMEs. Thus, the success of SMEs lies in the performance

level of their employees, which is greatly influenced by employee total rewards.

Furthermore, in order for SMEs to benefit fully from their employee rewarding systems, they should combine individual and group incentive plans so as to avoid negative competition among employees. Over emphasis on individual incentives give birth to individualism at workplace, which can derail the success of SMEs. Individualism aimed at receiving more rewards than others kills the spirit of teamwork which promotes high productivity through collaboration, brainstorming, team work, expertise sharing, group innovation and creativity. In group incentive plans, every team member is a victor once the targeted objectives are met. Therefore, it is advisable for managers in SMEs to use both incentive plans in rewarding their employees so that every member of an organization has a chance of being rewarded.

In addition to the findings, less literature is available to explain the relationship between employee total rewards and SMEs' operational costs. This can be attributed to the fact that, total rewards have more benefits to the success of SMEs than the impact they have on the working capital of SMEs.

The researcher did not gather literature on the influence of employee benefits like healthcare, welfare, retirement and investment plans though they are a major component of employee total rewards. Burguillos and Lopez (2013) included benefits on their summary of employee total reward components but the researcher had his reasons of not including them in this paper. Considering that, most of the SMEs in developing countries like Mozambique are financially weak and for them to give competitive benefits to their employees it is a great challenge. Therefore, the researcher found it more practical to focus on fixed pay which is basic, merit pay which is mainly performance based, work flexibility and recognitions which are less capital demanding to firms and the majority of SMEs in Mozambique can afford.

VI. CONCLUSION

SMEs as the backbone of economic growth and development in Mozambique among other developing countries, their success is essential to the economic wellbeing of developing nations. Their success cannot come by without considering employee total rewards. Although there are other factors important in driving SMEs to their success like government policies, employees deserve to be rewarded in full so that they can perform with an aim of achieving organizational goals. This means that motivated employees through a comprehensive rewarding system are a guarantee to the success of SMEs in Mozambique and beyond. Although total rewards may contribute to incremental working capital of SMEs, they should not underestimate the future benefits total rewards have on their sustainable success.

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