

Role of Incentives in the Management and Retention of Employees among SMES

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ABSTRACT

Retention of talent has become a major challenge for small and medium size enterprises (SMEs), while skilled employees are being attracted by more than one organization at a time with various incentives. For large firms, loss of a few among thousands of staff is part of doing business and usually other employees take up the space until a replacement is found. However, small to medium size enterprise that have few employees, loss of key employees can have effect on business productivity and the result can be severe. When a business losses employees, it losses skills, experience and the nature of these losses affect productivity, product and service quality. Hence, all organisations require motivated employees to function effectively and stay on the job. Motivated employees are dedicated and work enthusiastically. The outcome of these motivated workforces includes employee retention. It is against this backdrop, that this paper examined the role of incentives in the management and retention of employees among SMES.

Keywords: Incentive, SMES, Employees, Retention, Productivity

INTRODUCTION

Retention of skilled employees has become strategic and critical to sustainable competition and effective service delivery among organizations in ever changing world of work [1, 2, 3, 4, 5]. Globalization has enhanced mobility of skilled individuals, thereby, accelerating the rate of employee turnover in organizations. Employees are asset of any organization; however, one of the major challenges facing organizations today is how to retain their key employees [6, 7, 8, 9]. The more time an employee spends in an organization, the more experienced the employee gets and becomes more valuable to the organization, since when an employee joins an organization, he or she is unproductive, because it takes a couple of months for the employee to get himself aligned with the organization to be familiar with the systems and procedures of the work [1, 10, 11, 12]. The goal of employers is usually to decrease employee turnover, thereby decreasing loss of talent and organizational knowledge [13, 14, 15]. Studies have shown that costs related to directly replacing an employee can be high, but the total cost of turnover can be high as 90-200% of the employee's annual salary [2]. High turnover can affect

productivity because the company's ability to retain the kind of workers wanted and needed has a direct impact on profitability and effectiveness of an organization. Small and medium -size enterprises (SMEs) are seen as engines of growth of many nations especially the developing countries, where they are seen as efficient and productive job creators [16, 17, 18, 19, 20]. SMEs are also considered by developed industrial economies as the largest employer of workers. Yet, SMEs are faced with the issue of employee retention which has become a key challenge for business owners for smooth running of their business [21, 22, 23].

Retention of talent has become a major challenge for small and medium size enterprises (SMEs), whilst skilled employees are being attracted by more than one organization at a time with various incentives [24, 25, 26, 27]. For large firms, loss of a few among thousands is part of doing business and usually other employees take up the space until a replacement is found [28, 29, 30]. However, small to medium size enterprise that have few employees, loss of key employees can have effect on business productivity and the result can

be severe [31, 32, 33]. When a business loses employees, it loses skills, experience and the nature of these losses affect productivity, product and service quality [3]. Moreover, there are businesses which do not produce physical products or services. Their production houses are brains of their employees. The products that these organizations produce are reports, documents and data generated by the employees and in such cases the importance of the employee to the organization is very vital. Examples of such organizations include the law firms and research institutions. High turnover can also affect employment relationships, morale and workplace safety and knowledge people walk away with can take years to replace. Though, retaining all the employees may not be the desire of every business, retaining the high performers, that is, those who possess key skills and knowledge needed to run the organization and those who are difficult to be replaced is necessary.

There may be several factors that make employees leave their job. It could be voluntary, where the employee chooses to leave, which could be for reasons that may include better career opportunities, increased compensation and broadening of current tasks and responsibilities and boredom with current task. Involuntary turnover occurs when employees are asked to leave for reasons including poor performance or inappropriate behaviour. It is important to note that, though employee's exit from a job has different dimensions, the issue which is of relevance here is that certain factors of employee's exit can be controlled [4]. All organisations require motivated employees to function effectively and

Literature review

Motivation

Motivation plays significant role in boosting the morale of employees in organizations to stay on the job. The morale of employees in turn enhances the productivity and profitability of organizations. Employees who are motivated always look for better and newer ways of doing jobs and they are innovative and more productive.

Godfrey stay on the job. Motivated employees are dedicated and work enthusiastically. The outcome of these motivated workforces includes employee retention [34, 35, 36].

According to [5], some of the constraint of SMEs is the lack of finances available for Training and development of employees, there exist very little or no room for promotion within the organization, SMEs seldom have a human resource department for recruitment and selection, training and development, pay and rewards and performance management processes. This supports Barrett & Mayson [6], observation that many of the significant issues challenging small firm are human resource related concerns including "finding the right fit, competent staff and retaining employees".

Hence Abdulquddus [11] asserts that 70 percent of SME managers indicates that they lack skilled workforce and managing employee retention is a big challenge. Villanueva & Djurkovic [12] also posit that high levels of turnover in SMEs are intensified as a result of the difficulties SMEs face in the recruitment and retention of talented and skilled employees. This is mainly attributed to the notion that large firms are often observed to provide employment options that are larger than those offered by SMEs [13]. Milkovich & Newman, [14] also found that one of the challenge that small business face is that they do not have the same ability to pay as large organisations do. Indeed, retention practices have posed enormous challenges to business owners. Against this background, it is becomes critical to ascertain the role of incentives in the management and retention of employees among SMEs [37, 38, 39].

Motivation is essential to improve the moral of employees in an organisation [7] which SMEs are not exceptional. But motivation is very difficult without knowing the needs and wants of employees. The needs and wants differ from one employee to other and also differ in same employee during two periods of time. Further, like every

human, the needs and wants of employees are also unlimited. Adoption of wrong motivating factors may affect adversely to the morale of employees and performances of organisations. Hence, it is very difficult for employers to select right motivating factors to motivate the employees. Moreover, studies show that if the person receives the reward immediately, the effect is greater and decreases as delay lengthens [7]. To motivate employees and ensure a higher retention in organisations today, there is the need for organisations to adopt an effective employee incentive programs to recompense productive performance, encourage positive behavior and stimulate interest in employees. By designing incentive programs/ packages, employers can improve retention rate and decrease the cost of association of high turnover. Researchers [8; 9] have shown that defined incentives are associated with longer tenure. The incentives that are used to motivate the employees can be both monetary and non-monetary. According to Hopper [8], incentives can

Employee motivation

Employee motivation is a vital factor to improving employee retention and organizational performance. Employee motivation, boost employee's performance and encourage positive organizational attitudes and behaviors at work. The employer can encourage the employees by enhancing their skills and also by improving their morale. Many psychologists have studied the concept of motivation and propounded many theories. These theories of motivation help the employers to motivate the employees to boost their performances [9].

In contemporary global business environment, managers cannot assume that motivational programs that work in one geographic area are going to work in other locations. Most of the motivation/satisfaction theories were developed in USA by American for Americans. Therefore, managers need to be careful in assuming that these theoretical models are workable across the cultures in the same manner [10]. For

Godfrey be a powerful force within an organization. When employees are recognized, they are less likely to quit and because an incentive is an object, item of value or desired action or event that spur an employee to do more of whatever was encouraged by the employer through the chosen incentive. Quality employees contribute knowledge, skills and abilities, all of which maximise a business's ability to grow, remain competitive and be responsive to changes in external environments. Without a skilled workforce, small businesses will struggle to achieve organisational goals and objectives. Most organisations offer incentives, but adoption of unattractive incentives may affect the moral of employees and performance of the business. Business owners are therefore admonished to be critical in the adoption of an incentive packages to motivate employees. Against the background, it could be argued that if SMEs redirect it strategies in designing incentive packages the problem of employee retention will be minimized.

instance, goal-setting and expectancy theories emphasize goal accomplishment as well as rational and individual thought. Maslow's need hierarchy argues that people start at the physiological level and move progressively up the hierarchy in order. This hierarchy if it has any application at all aligns with American culture. In countries like Mexico, where uncertainty avoidance characteristics are strong, security needs would be on the top of the need hierarchy. Countries that score high on nurturing characteristics like Denmark, Sweden, Norway, the Netherlands and Finland would have social need on top [18]. Equity theory has relatively strong following in the USA, where equity is meant to closely link to pay performance. To maximise motivation among today's workforce, Robbins & Coulter [18] suggest managers need to think in terms of flexibility. For instance studies tell us that men place more importance on having autonomy in their jobs than do women. In contrast, the opportunity to learn, convenient and

flexible work hours and good interpersonal relationships are more important to women. To ensure the motivation and retention of employees in the organisation, managers and business owners must embrace the argument that a diverse array of incentives is needed to motivate and satisfy employees with diverse need. Employee Retention involves taking measures to encourage employees to remain in the organization for the maximum period of time. It is a process in which the employees are encouraged to remain with the organization for the maximum period of time or until the completion of the project [11]. Retention of employees has become a primary concern in many organisations. One survey of supervisors and co-workers found that losing high performance made it difficult for organisations to reach their business goals. Mathis & Jackson, [20] again argue that, continuity of employees provides better employee image for attracting and retaining another individuals. On the other hand, Employee turnover refers to the number of persons leaving and the ones retained within the organisation [12]. According to Philips & Connell [22], extremely low turnover rate can be dysfunctional and unhealthy particularly when turnover of new thinking and fresh ideas are needed. Also extremely turnover

SMEs Staff Retention through Better Reward Structures (Incentives)

Labour turnover is lower among large employers than among SMEs employers. Plausible explanations for this fact include the presence of efficiency wages at large firms, workers ability to change jobs without quitting at large firms and greater deferred compensation at large firms [14]. Again, Babatunde & Laoye [25], emphasized that, turnover is found to have a significant and negative correlation with SMEs performance. This indicates that, the lower the employee turnover, the higher the performance of SMEs and vice versa. Many SMEs start small and remain so, struggling to survive on low turnover. It is often argued that the most serious difficulty facing SMEs is shortage of skills [14]. Most small firms get new employees from other small firm

Godfrey rate for extended periods can add tremendous cost and incumbent employees reach high salaries. Many reasons why employees quit cannot be controlled by the organisation. Even though some turnovers are controllable, many employers today recognize that reducing turnover is crucial because the cost of control of staff turnover is critical when there is a general skills shortage which can lead to diminishing organisational productivity, hence, the needs to direct considerable efforts on employee retention. However, not all turnovers are negative for an organisation because some work force losses are desirable especially of those unreliable individuals or those who are disruptive to co-workers. In some cases, turnover is injected into the system as management policy [22]. Some organisation will benefit if disruptive and low performers quit. The issue of turnover needs focus on the frequency and who is leaving. Unfortunately for organisations, dysfunctional turnover occurs when key individual leaves, often at a crucial work times [20]. Result from the chartered Institute of Personnel and Development [13], survey indicates that, labour turnover rate are highest in private sector where the aggregate is 20 percent and lower in public sector at around 12 percent[12].

and the pool of unemployed. Just 20 percent of their new recruits come from large firm whereas more than 40 percent of full-time workers recruited by small firm. A survey shows that people leave small firms to set up their own business than become employees [15]. Retention of employees in SMEs is a major concern for most employers. Motivation is very essential to improve the morale of employees in the organisation, but the motivation is very difficult without knowing the needs and wants of employees. However, if employers are to solve what is becoming a major problem for them they need to find ways of reducing labour turnover. Typical motivation techniques such as incentives are often used complementarily to

motivate employees. The solution lies in offering better reward structures to retain staff [15].

Many organisations utilize some type of incentives pay plan to motivate employees [16]. Incentive motivation refers to the activating and energizing effect that stimuli, by promising rewards, can have effect on us. Incentives guide activity in the direction of the goal [17]. According to Greenberg & Barron [30], incentives are important because team members expect appropriate rewards and recognition for work well done. At the end of motivation cycle is the incentive. In contemporary organisations where there is a great competition for top talent to enable organisations survive in the competitive markets [18], there is the need for organization to be able to retain their skilled and competent employees. In the present era, majority of the skilled

Conclusions/Recommendation

It is clear that incentives significantly influence employee retention in SMEs. Therefore, the use of monetary incentive and non-monetary incentives must be considered when planning incentive programs. Accordingly, incentives are highly valued by employees; and it must be included in incentive packages when employers are designing incentive packages. Management plays an

Godfrey employees are mostly the young generation who come up with varied needs and desires that organisations need to identify and satisfy if they have to be retained in the organization. For instance, O'Reilly, et al [31] established that the young generation have various characteristics and life perception such as strong career mind and ambitious, always looking for professional development, fast track career growth and desires for quick money, they do not have high loyalty to their organization and are ready to move from one job to the other at any time and to anywhere that can fulfill their ambitions and needs [31] In this view Kavitha, et al [32] mentioned the need to provide generous remunerations and attractive incentive packages as one of the ways organisations can retain these generation of employees.

important role in retaining key employees who are familiar with the working conditions of the business and perform better. In order for SMEs to do a better work in retaining their employees they should understand the factors that motivate employees to stay and to facilitate measures in keeping valuable employees on the job because of the huge cost associated with employee turnover.

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