

LABOR COMPENSATION ENHANCES EMPLOYEE ENGAGEMENT IN SMALL AND MEDIUM ENTERPRISES IN HANOI

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Abstract: Labor compensation is a crucial element for both businesses and employees. It serves as a tool to foster employee engagement within the organization, laying a solid groundwork for the organization's success and growth. Employee engagement signifies the level of dedication and alignment employees have towards the organization's objectives, values, and mission. Engaged employees are more likely to demonstrate increased productivity, dedication, and efficiency at work, thus inspiring a culture of hard work and perseverance. The effectiveness of labor utilization and employee engagement is heavily influenced by the compensation provided by the organization. This article will delve into the correlation between labor compensation and employee engagement in small and medium-sized enterprises in Hanoi, proposing solutions to facilitate sustainable and efficient business development.

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1. Introduction

When faced with choosing a career or sticking with their workplace, employees are often most concerned about welfare and incentives at the company. Therefore, the employee will be interested in the labor compensation paid at the enterprise. For some people, income is the most important thing, so they will stay if the business pays high salaries. Others are because of promotion opportunities and training. Research on labor compensation helps engage employees in the organization through salaries, financial incentives, and benefits, offering some solutions to engage employees associated with the organization.

2. Theoretical background

According to Tuoi (2020), "Labor compensation is all the benefits employees receive through the hiring relationship between them and the enterprise. Employees can receive benefits when they participate in the enterprise, such as salary, bonus, welfare regimes, and promotion opportunities;... With each approach, labor compensation can be divided into different

basic parts. Labor compensation can be divided into three basic components: base compensation, financial incentives, and benefits; fixed compensation and variable compensation; and financial compensation and non-financial compensation.

Many studies have found a positive relationship between organizational engagement and employee behavior and attitudes in the workplace. An employee who wants to have a long-term engagement with the organization will bring loyalty, self-awareness, and pride to the organization... which will affect work efficiency. Engagement is loyalty to a social unit, which may be an organization, subsystems of an organization, or a profession. Sheldon (1971) defines engagement as a positive appreciation of the organization or its goals. According to Buchanan (1974), most scholars define engagement as the relationship between the individual (employee) and the organization (employer) (Tella, 2007). Robinson et al. (2004) said, "Employee engagement is a positive attitude that employees have towards organizations and depends on the level

of support they receive from the organization.” As such, engagement links with employee attitudes. When employees engage with the organization, they maximize their work abilities (Kahn, 1990). Moreover, employees will commit to their work when they feel the meaning of their work, feel safe, and have enough ability to perform that job. Therefore, the organization is responsible for developing and nurturing engagement because engagement requires a two-way relationship between employees and the organization. According to Zangaro (2001), organizational engagement is an employee’s promise and commitment to future responsibility for the organization. For Cohen (2007), organizational engagement is the employee’s loyalty, willingness to make every effort for the organization’s goals, and values and desire to remain a member. According to Mowday & Steers (1979), engagement is “the intention or desire to remain an organizational employee,” following the above concept, employees will always remain loyal to the organization, no matter where there are higher salaries and more attractive working conditions.

Thus, employee engagement is the psychological state that expresses the engagement of an individual to an organization to the profession; it is the loyalty and enthusiasm of employees to work for the organization; It is the willingness to do your best for the organization, always prioritize the benefits of the organizations over your own. Individuals with a higher level of engagement with the organization will be more satisfied with their work and less likely to think about leaving and joining another organization. Employee engagement within the organization plays an important role in the success and development of the organization. Employee engagement involves the degree to which employees feel committed and agree with the goals, values, and overall purpose of their work organization. Employee engagement is not only about creating a comfortable and happy environment but also about establishing a team spirit that will make each individual feel that they have an important contribution to the comprehensive development of the organization.

3. Research methodology

Theoretical analysis and synthesis methods: The author studies scientific articles, textbooks, texts, ect. related to labor compensation and employee engagement, as well as research on salaries, financial incentives, and benefits related to employee

engagement in the organization. The author developed a set of questionnaires to survey managers and employees working in small and medium enterprises in Hanoi. The total number of votes collected was 251, of which 48 were invalid, accounting for 19.12% (only 01 answer option was selected for all questions). 203 valid votes after the collection meet the conditions of analysis. Data was collected in July 2023. Questionnaires were sent directly via email, zalo, and Google Drive’s Google Docs Forms tool to employees working at small and medium enterprises in Hanoi city. The observed variables in the survey questionnaire use the Likert scale to bring highly feasible results because they include many levels that employees can choose according to their feelings and assessments. With a low average value of 1.0 -1.8, it is considered Strongly Disagree; A mean value of 1.81 to 2.6 is considered Disagree; The average result value from 2.61 to 3.4 is considered Normal; The average value from 3.41 to 4.2 is considered Agree; An average value of 4.2 or higher is considered Strongly Agree.

In addition to collecting primary data through surveys and questionnaires, the research team also collected secondary data from salary reports and business human resource fluctuations.

4. Current status of labor compensation to help engage employees in small and medium enterprises in Hanoi

4.1 Overview of small and medium enterprises in Hanoi City

Small and medium enterprises are enterprises whose size is limited by labor, capital asset values, or turnover, depending on the regulations of each country. SMEs play an important role in Vietnam’s economy, creating jobs, contributing to economic development, and driving innovation and creativity in the business sector. In Hanoi, SMEs operate in various sectors, from services, trade, manufacturing, information technology, and tourism to agriculture and food processing. SMEs account for the majority of enterprises operating in Hanoi. SMEs have created many jobs and contributed to the City’s GDP. SMEs often provide flexible employment opportunities and attract workers from nearby areas.

According to the Hanoi Department of Statistics, in October 2023, there were 2,952 newly registered businesses in the city, marking a 13% increase compared to the same period in 2022. The total registered capital

amounted to VND 25.7 trillion, reflecting a 29% rise. Furthermore, 759 businesses resumed operations, showing a 14% growth (Son, 2023).

In the year 2022, Hanoi City is the home to approximately 351,000 small and medium-sized enterprises (SMEs), which make up 97.2% of the total number of operating enterprises. Out of these, there are 29.6 thousand newly established enterprises, marking a 23% increase compared to the previous year. Additionally, there are 9.8 thousand enterprises that have resumed their operations, reflecting a 1.5% growth compared to 2021. This positive trend can be attributed to the stable epidemic situation and effective policies supporting both enterprises in general and SMEs in particular. Furthermore, the domestic and foreign markets have experienced prosperity, further contributing to the growth of these enterprises.

Nevertheless, approximately 16.4 thousand enterprises suspended their activities witnessing a 38% increase in comparison to the previous year, while 3.6 thousand enterprises were dissolved, marking a 16% rise from the corresponding period in the preceding year. Furthermore, the data also indicates that despite

a 23% increase in the number of newly established enterprises compared to 2021, the rate at which enterprises dissolved and suspended operations rose even faster, by 38%. This serves as a clear indication of an unstable economy following the impact of the COVID-19 pandemic. As a result, the demand for support among enterprises has risen, consequently affecting state budget income, employment, and workers' income. In the first five months of 2023, Hanoi City alone witnessed the establishment of over 13,000 new enterprises, with a registered capital of VND 125.9 trillion. Although there was an 8% increase in the number of enterprises, the registered capital experienced a decline of 17% compared to the same period last year. Additionally, there were 1.5 thousand enterprises dissolved, marking a 5% decrease, while 12.6 thousand enterprises registered for temporary suspension of operations, indicating a 22% increase. Furthermore, 4.6 thousand enterprises resumed their operations, but this figure saw a decline of 22%. The author conducted a total of 203 valid surveys, and the statistics derived from these surveys are described as follows:

Table 1. Descriptive statistics of the sample size of the SME survey (n = 203)

Items	N	%	Items	n	%
<i>Seniority</i>			<i>Type of business</i>		
Less than 01 year	53	26.1	Limited liability company	66	32.5
From 01 to 03 years	49	24.1	Joint stock company	92	45.3
From 03 to 05 years	57	28.1	Partnerships	5	2.5
Above 05 years	44	21.7	Private enterprise	40	19.7
<i>Position in organization</i>			<i>Department</i>		
Worker	19	9.4	Agriculture, forestry, fisheries	31	15.3
Staff/Expert	168	82.8	Industry and construction	42	20.7
Team leader/Group leader	8	3.9	Trade and services	130	64
Head/Deputy Head of department, department, unit	8	3.9	<i>Gender</i>		
<i>Firm ownership status</i>			Female	104	48.8
State-owned	20	9.9	Male	99	51.2
Privately owned	156	76.8			
Foreign-owned	27	13.3			

Source: Author's statistics

The descriptive statistics of sample show that: *In terms of Seniority:* The range of seniority varies among employees, with the highest percentage falling within the 03 to 05 years bracket (28.1%), and the

lowest percentage in the group with over 05 years of experience (21.7%). *About the type of business:* There is a diversity in types, from limited liability companies to private enterprises. *About positions in the organization:*

Diversity in job roles, ranging from workers to employees/specialists and senior management positions like team leaders/group leaders, implies that businesses possess a multi-layered workforce and offer opportunities for career advancement to their employees. However, the percentage of heads/deputy heads of departments and team leaders/group leaders is relatively low, standing at only 3.9%. This presents a challenge in cultivating internal leadership and engaging exceptional employees to ensure sustainable growth. For workers (9.4%) and employees/specialists, who constitute the majority at 82.8%, it is crucial to establish training and career

development programs to enhance their performance and job satisfaction. Regarding the operation field of enterprises, Trade and services account for 64% of the total activity, while industry and construction make up 20.7%. Agriculture, forestry, and fishery have the smallest portion at 15.3%.

4.2. The current situation of labor compensation improves to engage employees in small and medium enterprises

4.2.1 Salary situation

When evaluating employees' salaries and employee engagement with the organization, the results are as follows:

Table 2. Statistical results of employees' opinions on salaries

Items	Mean	Response
The salary I receive is commensurate with my work results.	2.468	Disagree
My salary is enough to meet my life needs.	3.089	Neutral
My business pays salaries fairly among employees.	3.025	Neutral
My salary truly reflects what I contribute to the business	3.005	Neutral
Wages are on par with other businesses in the same employment sector.	3.025	Neutral

Source: Author's statistics

The basic salary that employees receive is proportional to the work results with the lowest scores when compared to other factors. "The salary I receive is commensurate with my work results" received a rating of Disagree, whereas the remaining factors were rated as Neutral. Besides other factors like equity, transparency in salary distribution, competition among different companies' pay scales, and the adequacy of salaries in meeting employees' needs are being assessed

"temporarily good", it is imperative for businesses to reassess their performance evaluation policies and techniques to ensure equitable compensation. The survey indicates that a mismatch between the basic salary and the employee's actual contribution can lead to adverse outcomes. Employees may feel unjustly treated and demotivated if they believe that their base salary does not reflect their true worth to the organization.

4.2.2 Financial incentives situation

Table 3. Statistical results of employees' opinions on Financial incentives

Items	Mean	Response
Your business has a bonus policy on major holidays	3.892	Agree
Your company has a reward policy based on work performance	2.527	Disagree
Your business has a policy to reward effective initiatives	3.335	Neutral
Your business has a bonus policy at the end of the quarter and year based on business results	3.936	Agree
Enterprises have a policy of distributing profits to employees	3.867	Agree

Source: Author's statistics

Analysis of Table 3 shows that the question “*Your business has a bonus policy on major holidays*” is highly rated (3.892), showing that employees appreciate the bonus policy on major holidays. This shows attention to organizational culture and the ability to manage the business’s human resources effectively. The question “*Your company has a reward policy based on work performance*”, which received the lowest average score of 2.527, suggests that certain employees are discontent with how performance is assessed within the bonus policy. It is imperative to reassess or enhance the performance evaluation system to accurately gauge employees’ performance, conduct more comprehensive surveys to gather employees’ feedback and preferences regarding bonus policies, and performance assessment in order to refine and enhance the existing policy. The question “*Your business has a policy to reward effective initiatives*” with “Neutral” results, which may could suggest that certain employees either approve or are indifferent towards the policy. Companies have the opportunity to modify this policy to help inspire employees to be more innovative and positive in the workplace, while

also demonstrating recognition and gratitude for their creative contributions in order to cultivate a culture that nurtures fresh concepts. The question “*Your business has a bonus policy based on business results at the end of the quarter and year*” has the highest rating (3.936). We see that employees highly appreciate the bonus policy based on business results. This demonstrates the effectiveness of the policy in encouraging employees’ commitment and positive contributions to the development of the business. A high rating of 3.867 shows that employees highly appreciate the profit policy. This can create a link between individual performance and organizational development. The results table shows diversity in the development of financial incentive policies. This poses opportunities and challenges for organizations to understand employees’ desires and expectations better, thereby adjusting policies to reflect the organization’s values and goals. It should be noted that continuously gathering employee feedback and adjusting policies is important to maintain and increase employee satisfaction and commitment.

4.2.3 Benefit situation

Table 4. Results of employees’ opinions on business benefits

Items	Mean	Response
The benefit of my business is implemented following the regulations of the government	4.207	Strongly Agree
The benefit of my business is that it is distributed fairly to the employees annually.	4.158	Agree
My business implements all types of insurance for employees according to regulations.	4.167	Agree
My business handles things well, fully providing sickness and occupational disease benefits.	4.217	Strongly Agree
Every year, my business organizes trips and vacations for employees.	4.172	Agree

Source: The authors

The average rating for the question “*The benefit of my business is implemented following the government’s regulations*” is high (4.207), showing that the business complies with government regulations and cares about creating a trustworthy and safe working environment. The question: *The benefit of my business is annually distributed fairly to the employees*, which is a relatively high level of agreement (4.158), showing that most employees see benefits as evenly distributed. However, some groups of employees still feel that their benefits are not adequately appreciated;

businesses need to improve the distribution of benefits to ensure fairness and maximum employee satisfaction. Question: *Every year, my business organizes trips and vacations for employees* with a high average rating, showing that employees highly appreciate the entertainment and rest activities organized by the business. Furthermore, it is imperative for businesses to accurately ascertain the category and extent of employee satisfaction regarding travel programs. To gain a deeper understanding of their specific expectations, businesses can arrange discussions or

conduct surveys. By doing so, they can effectively tailor their policies to cater to the employees’ needs and desires in the most optimal manner.

Based on the consensus reached on Salary, Financial

Incentives, and benefits, there is also strong alignment on factors pertaining to employee engagement (08/09 factors are rated as agree). This indicates a positive level of employee engagement within the organization.

Table 5. Statistical results of employee engagement

Items	Mean	Response
I am willing to push myself to achieve challenging work goals.	3.7	Agree
I am willing to devote myself to performing my job duties.	3.424	Agree
I get excited when I think about new ways to do my job more effectively.	3.419	Agree
I am enthusiastic about providing a high-quality product or service.	3.369	Neutral
I am always willing to “go the extra mile” to do my job well.	3.616	Agree
Striving to continuously improve my work performance is very important to me.	4.039	Agree
My work is a source of personal pride.	4.148	Agree
I am determined to complete all my job duties thoroughly.	4.034	Agree
I’m willing to put my heart and soul into my work.	4.049	Agree

Source: The authors

The current salary situation of SMEs in Hanoi is assessed by employees to be well implemented, shown through the evaluation scores of employees mostly fluctuating in the range of 3.005 to 4.217 (Neutral or Agree). Employee engagement with the organization is rated relatively high, ranging from 3,369 to 4.148 points (Neutral or Agree). Only the “*I am enthusiastic about providing a high-quality product or service*” is rated at 3.369 points, ranked Neutral. The remaining contents are rated at the Agree.

5. Recommendations

The analysis shows that labor compensation is significant in engaging employees with the organization. Flexible labor compensation helps businesses retain employees and creates motivation and high performance. Enterprises must build labor compensation associated with employees’ positions and working performance. Thereby stimulating employees to work with the highest spirit and responsibility. Specifically:

- Salary

Job-based salary is paid based on the value and importance of the job in the enterprise. In order to assess the value of a job, it is crucial to establish a comprehensive framework that takes into account various factors influencing the salary associated with each position. The factors that need to be focused on to evaluate the value of work are (1) The importance of the job (how the job affects production and

business efficiency, the assets of the enterprise, and employment of others). (2) Complexity of work (requirements for professional qualifications and experience) (3) Nature of job (does the job require planning, planning over a long or short period to execute; requirements for calculation and information processing; requirements for creativity, level of employee management) (4) Coordination level (Work done independently or requires coordination, Scope, importance and normality must be coordinated) (5) Working conditions (Working environment, level of occupational risk). After determining the factors to evaluate job value, it is necessary to base on the importance of each factor to score job value. Therefore, to enhance employee satisfaction, managers should consider building a fair salary policy that truly reflects the value of employees’ contributions. It is possible to achieve this by consulting the labor market and adhering to fair salary standards. Additionally, inspiring employees through acknowledging and valuing their contributions to the organization is crucial. Through these enhancements, the organization can establish a professional work environment where employees feel valued and acknowledge the significance of their input. This not only boosts employee contentment but also fosters a dynamic workforce, ultimately benefiting the organization’s growth.

- Financial incentives and benefits:

Rewarding employees with bonuses must be well-founded, and the bonus level must be large enough for them to strive to achieve targets. Rewards must be timely so employees remember and repeat the rewarded behavior. To overcome the situation of average and across – the – board compensation policies, businesses should establish percentage-based work completion standards for each level of reward, both at the individual and departmental levels. By doing so, exceptional completion can be recognized and appropriately rewarded as follows: (1) Job performance factor, (2) Job performance level, (3) Bonus coefficient (4) Ahead of schedule. It is possible to calculate: Bonus level = Bonus coefficient x X (The enterprise determines the coefficient, with X serving as the foundation for bonuses). The reward system in this regulation is directly tied to the extent of job fulfillment, thus establishing a sense of trust among the employees. It is crucial that this bonus is promptly disbursed at the moment of decision-making. Financial incentives should be tailored to meet the employees' requirements, enabling them to perceive the organization's care and fostering a sense of job security. Additionally, incorporating financial incentives such as a loyalty bonus, a guaranteed workday bonus, and a bonus for adhering to business regulations would be beneficial. To ensure the suitability of financial incentives in accordance with the prevailing environment and living expenses, businesses should regularly update their information.

It is crucial to offer allowances for every department in companies to inspire employees to work energetically and productively. Apart from the common allowances like Cost-of-living, housing, travel, attraction, and mobility allowances, businesses should consider introducing additional allowances to boost employee commitment towards the company, especially in urban areas where the cost of living is rising.

- Diversify benefits: Businesses can implement

other benefits policies such as organizing periodic health checks for employees and supporting employees in stabilizing their lives. Businesses need to develop clear and reasonable benefits payment regulations to use benefits funds more effectively. Diversify subsidies and benefits. Regarding the general benefit fund, businesses should, in addition to maintaining the above forms of benefit, expand other forms. Provide financial help: lend workers money to help them buy valuable assets such as cars and houses,... and this loan amount will be gradually deducted from their salary. Expand more services for employees: Businesses should spend a small part of the general fund to invest, repair, and build welfare projects such as cafeterias, canteens, and clubs,... expanding additional services for employees such as free parking, cars to take employees to work, clinic, discounts on corporate products, and financial consulting. Health protection programs should be applied to prevent diseases, such as programs for smokers and sports programs to avoid stress. These programs provide employees with more services and help businesses save many costs.

6. Conclusion

Labor compensation, which encompasses an employee's salary, financial incentives, and benefits provided by the organization, holds significance in both attracting and retaining employees. It plays a pivotal role in fostering a strong connection between employees and the organization. The importance of labor compensation extends beyond mere income for individuals, as it also reflects the values, commitments, and relationships shared between employees and the organization. A key aspect of employee compensation lies in its ability to generate robust motivation among employees. When employees perceive their hard work and contributions as valued and rewarded through salary and other benefits, they feel motivated and supported, thereby fostering trust and commitment towards the organization.

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