

## Chapter 9

# Social Responsibility of SMEs With Respect to Compensation

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### ABSTRACT

*The main purpose of this chapter is to ponder the compensation system that characterizes SMEs the most, both internationally and in Colombia, and to know about social responsibility regarding compensation. To reach this objective, a trip is made through the history of salaries worldwide up to compensation in Colombia, when the minimum legal wage in force is defined. Social responsibility in a compensation system is pondered and the forms that characterize compensation in organizations, mainly in SMEs, are described. It is concluded, among other aspects, that incentives for performance is the way used by SMEs to compensate their collaborators, specially their CEOs.*

### INTRODUCTION

Having clear and responsible criteria to compensate performance of the human resource per results is a key duty of human resources management in any organization, no matter its type and size. As mentioned by Varela (2013), a compensation system is successful not for paying the best salaries in the market, but for having in balance the elements forming this system, e.g. wage, incentives, and benefits.

History of salaries go as far as the Ancient Age when payment of wages was made based on a unit of wheat. In Egypt for example, there are texts of the Ancient Empire that show the way workers were paid: “All those who have worked building my tomb, have done so in exchange of bread, fabric, oil and wheat in great quantities” (Varela, 2013, p. 3).

A description is also made on the approach an SME must apply so as to be considered a socially responsible enterprise in a compensation system. Having clear and equitable policies will contribute to a fair compensation, considering also the market’s perception as to what should be the most adequate compensation system, according to the size of the organization and the sector to which it belongs. The main conclusion of this research is that although salaries are lower than those paid by big companies, incentives to remunerate performance and productivity of workers, particularly CEOs, is the typical form of retribution and motivation to collaborators used by SMEs.

DOI: 10.4018/978-1-5225-3543-0.ch009

Considering the foregoing, the main purpose of this chapter is to ponder the compensation system that is more characteristic among SMEs, both internationally and in Colombia, and to know what to be socially responsible means, with respect to compensation.

## **HISTORY OF COMPENSATION**

### **In the World**

As will be seen in this chapter, compensation is as ancient as work itself and payment was made in kind through the exchange of goods such as furs, meat and bones, which were used to manufacture weapons and utensils. (Varela, 2013). For his reason, it is worth knowing some of the texts found in ancient times that show interest in paying a stipend in accordance with the labor executed. This is the case of Ramses II, King of Egypt from 1301 to 1235 B.C., as described below:

*I have assured your livelihood in all products, thinking that you will work for me with a grateful heart; I have constantly cared about your needs and have multiplied your food because I know that the type of work you execute is carried out with joy if the belly is full. Barns are full of wheat for you. I have filled the stores with all kind of products such as bread, meat, pastry for your livelihood; sandals, cloths, plenty of oil for you to spread over your head every ten days, to have a new dress every year and have sandals every day; that none of you spend the night complaining about being poor.*

*I have done all of this telling myself that you will find a reason to work for me with a unanimous heart (Varela, 2013, p. 3).*

In Greece, people working in the opening of royal tombs were paid a monthly salary of 380 liters of wheat and 140 liters of barley; therefore, a worker could receive between seven and 28 *debens*, which was the unit of measurement paid at that time. On the other hand, soldiers in Rome were paid with salt for its food preservation properties. This payment system was called *salarium* and for this reason etymology shows that it is from there that the word “salary” comes.

In the middle ages, salaries to the working class were determined based on the ordinances issued by the King, which covered political and social aspects. In 1350, there was an outbreak of pandemic plague causing population to diminish by 67%, thus having an impact on the salary increase, which was of 4% until 1375; afterwards, there was a permanent increase of 14% during the following 75 years. This increase of only 18% is due to the fact that salary depends of consumption and the production capacity. If the population decreases, there are few people consuming, hence production is restricted because there is less production capacity and labor force, thus affecting salaries. As population increased, new jobs appeared and a salary increase of 13% was recorded in the years 1461 to 1475 (Varela, 2013).

In the 17<sup>th</sup> century commercial expansion begins, causing capitalist merchants to search for new alternatives to increase production of goods in less time and at a lower cost. It is then determined that in order to achieve productivity, a work division is needed, as well as a qualified labor force, which caused an increase in the number of workers, hence in the salaries to be paid. Faced with this situation, capitalists created new forms of work to decrease production times and costs as to labor force and in this way,

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