DETERMINATION OF EMPLOYEE COMPENSATION PRACTICES OF MANAGERS OF SMALL AND MEDIUM ENTERPRISES IN ANAMBRA STATE

Udemba, Nonyelum Felicia

Department of Technology and Vocational Education
Nnamdi Azikiwe University, Awka
Anambra State, Nigeria

udembafn@gmail.com

08036730033

And

Prof. O. T. Ibeneme

Department of Technology and Vocational Education
Nnamdi Azikiwe University, Awka
Anambra State, Nigeria

Abstract

This study determined the employee compensation practices of managers of small and medium enterprises in Anambra State. One research question guided the study and two null hypotheses were tested at 0.05 level of significance. Descriptive survey research design was adopted using a population of 2, 610 managers of SMEs in Anambra State. Taro Yamane formula was utilized to select a sample size of 347. A structured questionnaire developed by the researcher was used for data collection. Cronbach Alpha was used to establish the reliability of the instrument. The reliability index obtained was r = 0.77. Data were analyzed using mean, standard deviation, t-test and ANOVA. Mean was used to answer the research questions and standard deviation used to explain how the responses of the respondents varied. t-test and ANOVA were used to test the hypotheses at 0.05 level of significant. The results showed that managers agreed on the employee compensation practices adopted in their small and medium scale enterprises in Anambra State. The results also showed that there was no significant difference in the mean responses of managers on the employee compensation practices adopted in their small and medium scale enterprises in Anambra State based on size of enterprise and years of experience. Based on the findings, the researchers recommended among others, that the management of SMEs should offer equitable compensation system in order to attract and retain talented employees as well as motivate them to perform their work-related activities efficiently and effectively.

Keywords: Employee compensation, managers and small and medium enterprises.

Introduction

Small and Medium Scale Enterprises (SMEs) have been recognized globally as the engine of economic growth and development. SMEs contribute to improved living standards, substantial local capital formation, and achieve high levels of productivity and capability for individuals and nations. SMEs are recognized as the principal means of achieving equitable and sustainable industrial diversification and dispersal (Olowe, Moradeyo & Babalola, 2013). Small and Medium-scale Enterprises (SMEs) make up the largest proportion of business all over the world and play tremendous roles in employment generation as well as immensely contributing to the Gross Domestic Products (GDP) of many countries (Paul, 2010; Ojeka & Mukoro, 2011). SMEs are very important in many countries including Nigeria because of their role in economic development. The impact of small and medium scale enterprises (SMEs) in the economy is so great that most countries cannot progress economically and industrially without a strong SME sub-sector. These contributions are feasible under effective systems which include good human resource management practices.

Small and medium scale enterprises are business organizations set-up by individuals or group of individuals known as business operators for the main purpose of providing goods and services. The presence of small and medium scale enterprises has increased economic activities in the State and has helped to improve the revenue base of the State. The business owners employ and contract the managers to oversee the running of their businesses. Their role includes the management of the material and human resources on behalf of the owner of the small and medium scale enterprise. The main objective of human resource is to create and maintain an efficient workforce that is able to meet the organization’s needs. Human resource management practices (HRM) enables employees to contribute effectively and productively towards the accomplishment of an organization’s goals. Businesses with successful HRM practices are likely to have lower absenteeism and employee turnover rates and better skills development and retention.

Though SMEs are making positive contributions to economic growth and development in Nigeria, the rate of failure is high. According to West and Wood (2012), 90 percent of all these business failures result from lack of experience and competence. West and Wood also added that inefficiency in overall business management and poor record keeping is also a major feature of most SMEs; technical problems/competence and lack of essential and required expertise in production, procurement, maintenance, marketing and finances have always led to funds misappropriation, wrong and costly decision making. In today’s rapidly changing environment, small and medium scale enterprises are forced to find ways to be more competitive, flexible, and adaptive. To survive and compete in this globalized world, the management of SMEs should offer equitable compensation system in order to attract and retain talented employees as well as motivates them to perform their work-related activities efficiently and effectively. Therefore, employees are seen to be the main important asset in today’s organizations than ever before (David in Shaed, Ishak & Ramli, 2015) and their compensation is a crucial issue at the workplace.

Employee compensation is an important human resource management practice. Employee compensation relates to what employees earn in exchange for their contributions to organizational productivity. Employee compensation encompasses the employees’ wages, incentives and benefits (Abubakar & Abubakar, 2013). Employee compensation refers to all forms of pay or rewards going to employees and arising from their employment. Milkovich and Baudrearu (2010) noted that compensation consists of wages paid directly for time worked, as well as more indirect benefits that employees receive as part of their employment relationship with an organization. Compensation is important for both employers and employees regarding attracting, retaining and motivating employees. By implementing employee compensation plans that work toward a competitive level of compensation and equity, employees feel that they are working toward a common goal, which in turn leads to increases in performance quality and productivity. Compensation is a primary motivator for employees. People look for jobs that not only suit their creativity and talents, but compensate them both in terms of salary and other benefits accordingly (Ugoani, 2017).

Compensation is one of the fastest changing areas in human resource management as business enterprises continue to investigate various ways of rewarding employees for their performance. Good compensation management will provide the platform for the development of high level indigenous manpower (Ugoani, 2017). Compensation has to be managed in a systematic and efficient manner in order to make it attractive to job seekers as well as incumbents and accommodative to future situations. Khanzode (2012) opined that wage and salary administration refers to the establishment and implementation of sound policies of employee compensation. It includes such areas as job evaluation, development and maintenance of wage and salary structures, compensation surveys, incentives, profit sharing, compensation changes and adjustments, supplementary payments, control of compensation costs, and other related pay items. The goals of an effective compensation management, according to Werther and Davis (2011), are to acquire qualified personnel, retain current employees, and ensure equity. The authors opined that pay is to be related to the relative worth of a job so that similar jobs get similar pay (internal equity) and what comparable workers are paid by other firms in the labour market (external equity) and reward desired behaviour (pay should reinforce desired behaviours and act as an incentive for those behaviours to occur in the future such as favourable work performance, loyalty, experience, responsibility and other behaviours). Werther and Davis (2011) further noted that pay should be related to control costs, comply with legal regulations of the government, facilitate understanding among human resource specialists, operating managers and employees and to further administrative efficiency.

Torrington and Hall (2013) pointed out two-dimensional objectives of employee compensation-Employee objectives and employer objectives-that people want to achieve through the contract for payment. The employee objectives are: (1) to have purchasing power that determines the standard of living of the recipients; (2) to have 'felt-fair' about the payment that it is fair for the job: (3) to have the 'rights' on the share of the organization’s profits; (4) to have 'relativities' of the pay in relation to what others are getting in the similar jobs; (5) to have 'recognition' for their personal contribution to the job or the organizational efficiency and effectiveness; (6) to have a favourable composition of pay package. The other side of the picture is the thinking of the employers about the range of objectives to be achieved through a compensation policy. They are: (1) to maintain the 'prestige' (pride at doing better than others); (2) to have a sufficiently 'competitive' pay to sustain the employment of the right numbers of appropriately qualified and experienced employees to staff the organization, (3) to have control over cost that will facilitate control of operations and potentially save money: (4) to have a motivational and performance generating pay: (5) to have a cost effective pay policy. Werther and Davis (2011) emphasized that such a remuneration policy should successfully match the demands of both the participants of the organization.

However, certain factors like size of business enterprise and years of experience of SMEs managers could influence their human resource practices (employee compensation) in the management of the business. The ability of SMEs to adopt employee compensation practices is dependent on their size. According to Muhammad (2009), medium scale enterprises have better capacity to adopt HRM practices in their ventures than small scale enterprises. In support, Saravanan and Vasumathi (2015) opined that the size of a business could influence the adoption of HRM practices by managers of SMEs. Years of experience could also be another variable that could influence the SMEs managers' employee compensation practices in organizations. Years of experience in this study refers to field of knowledge acquired over months or years of actual practice and which, presumably, has resulted in superior understanding or mastery. It is believed that ninety percent (90%) of business failures are associated with management inadequacy, which consists of either management inexperience or incompetence (Perry and Pendleton in Mugo, 2012). Mugo further observed that many SMEs owners or managers lack managerial training and experience. Experience is the best predictor of business success, especially when the new business is related to earlier business experiences. It is possible that successful SMEs are handled by experienced managers who personally observe the day to day activities of their enterprises and also ensures good compensation system to increase employees' productivity.

Statement of the Problem

Employees are important elements in the accomplishment of organizational goals and survival. Poor performance, low productivity and even extinction of organizations have become endemic in Nigeria and other developing nations of the world as a result of management decision (Onuoha, 2012). Specifically, the failure of management of organizations to recognize the human element in industrial production through good compensation systems would lead to serious industrial crisis and poor organizational performance. Consequently, SMEs in Nigeria today hardly retain competent employees for a long time due to weak corporate governance structures and inconsistent compensation arrangements. This may lower the motivation of existing employees leading to high and costly labour turnover and hence, high cost of doing business. In such circumstances employees naturally do not fully and effectively utilize their potential rather they engage in negative behaviours like absenteeism, apathy and low commitment which will ultimately negate the performance and productivity of the organizations. Developing and implementing the most supportive compensation programmes by managers of small and medium enterprises requires thoughtful planning that involves the right people from throughout the organization and which will then become part of the corporate culture. This reinforces the urgency of this study.

Purpose of the Study

The purpose of this study was to determine the employee compensation practices of managers of small and medium scale enterprises in Anambra State. Specifically, the study determined the:

1. Employee compensation practices of managers of small and medium scale enterprises in Anambra State.

Research Question

This research question guided the study.

1. What are the employee compensation practices of managers of small and medium scale enterprises in Anambra State?

Hypotheses

The following null hypotheses were tested at 0.05 level of significance:

1. There is no significant difference in the mean responses of managers of small and medium enterprises in Anambra State on the employee compensation practices they adopt in their enterprises.
2. There is no significant difference in the mean responses of managers of small and medium enterprises in Anambra State on the employee compensation practices they adopt in their enterprises based on years of experience (5 years and below, 6-10 years and above 10 years).

Literature Review

Small and Medium Scale Enterprises

Small and medium scales enterprises are those firms owned by individual(s) and are ordinarily established as a means of self employment. There is no universally accepted definition of a small firm (Gorgievski, Ascalon & Stephan, 2011). The definition of small business depends on the criteria for determining what is small and qualifies as a business (Napp, 2011). It is commonly believed that a business will be considered as small if it is independently owned, operated and financed (one or very few people manage it without a formalised management structure), has a relatively small share of the market place or relatively little impact on its industry and is independent and does not form part of a large enterprise. The enterprises are known for low set up cost, reliance on local raw materials, employment generation, accelerating rural development, stimulating entrepreneurship, providing links between agriculture and industries, supplying parts and components among others (Onwughalu, 2014). The Federal Government of Nigeria in 1990 defined small-scale enterprises for purpose of commercial loan as those enterprises with capital investment not exceeding N2 million (excluding cost of land) or a minimum of N5 million (Aremu and Adeyemi, 2011). Majority of SME businesses in Nigeria are family-owned, have a low capital base, are located in urban and semi-urban areas and largely reside in the informal sector. The informal sector in Nigeria refers to economic activities in all sectors of the economy that are operated outside the purview of government regulation.

The introduction of the National Policy on Micro, Small and Medium Enterprises in Nigeria has addressed the issue of definition as to what constitutes micro, small and medium enterprises (National Technical Working Group on Small and Medium Enterprises, 2009). The Central Bank of Nigeria, in its monetary policy circular No. 25 of 1991, defined small-scale business as an enterprise whose capital investment does not exceed N5,000,000 (including land and working capital) or which turnover is not more than N25,000,000 annually. Oroka (2013) defined small enterprises as those enterprises with five or ten workers to between 20 and 50 workers. Oroka added that some industrialized countries use a maximum of 100 workers, with options for the trade and production sector. Accordingly, medium enterprises are those enterprises with the number of workers ranging from 20-50 to 300-500 with options for trade and production sector. Small scale enterprises in the context of this study can be seen as any enterprise which total working capital excluding cost of land is over one million Naira but not more than 40 million Naira and number of employees between 36 and 35 workers. While medium scale enterprises are businesses which total working capital excluding cost of land is over 40 million Naira but not more than 150 million Naira and number of employees between 36 and 300 workers.

Manager

A manager is a person who is responsible for the realization of management processes. In particular a manager is the person that makes plans and decisions, organizes, supervises and controls human, finance and information resources (Griffin, 2010). Pocztowski (2007) defined a manager as a professional whose essence is the art of reaching goals by proper use of available finance, material and human resources. According to Penc (2011), the manager is a person employed to manage, fulfill all functions and make use of all or some part of an organization's resources in order to achieve the goals of the whole organization or its given part. Penc further averred that the manager is the person employed in the administrative position, who has a comprehensive knowledge necessary to lead people and manage an organization, in order to achieve optimal realization of tasks in confined conditions. The manager is not afraid to take a risk, can draw the visions of the future, formulate strategies towards achieving those visions and knows how to use available resources for optimal realization of visions. In the context of this study, a manager can be seen as an individual who is in charge of the administration, control and utilization of human and material resources of an organization. Thus, a manager is someone who formally leads individual and collective efforts to accomplish shared universal goals of an enterprise.

Theoretical Framework

The theoretical framework for this study is based on the Systems Theory.

Systems Theory

Systems theory was propounded in the 1940's by biologist Ludwig Von Bertalanffy. The theory viewed human organizations as systems (conceptual systems) of interacting components such as system aggregates, which are carriers of numerous complex processes (organizational behaviors) and organizational structures. Systems theory focuses on the arrangements of and relations between the parts and how they work together as a whole. The way the parts are organized and how they interact with each other determine the properties of that system. The behaviour of the system is dependent on the properties of the elements. According to the theorist, a system may be defined as a set of interdependent parts that relate in the accomplishment of some purpose. The systems theory views institutions as systems that procure and transform inputs into outputs which are subsequently discharged into their external environment in the form of goods and services. Inputs can be in form of people, materials, money or information. Systems theory empowers people to think of themselves, the environments that surround them and the groups and organizations in which they live in a new way. The systems theory is relevant to this study because it gives SME managers insights into ways of knowing, thinking and reasoning in managing human resources in their organizations and the roles these play in realizing the overall goals of the business. In other words, the relevance of systems theory to this study is that it helps managers to look at the organization more broadly, in order to interpret patterns and events in the workplace by recognizing the various parts of the organization and their interrelations. This theory guides SMEs managers in developing, selecting and organizing human resource management practices that suit their business environments so as to improve employee performance and business profitability.

Method

The design that was adopted in this study is a descriptive survey. According to Nworgu (2015), descriptive survey is a design which aims at collecting data on, and describing in a systematic manner, the characteristics, features or facts about a given population. The study was carried out in Anambra State of Nigeria. The population of the study comprised 2,610 SME managers (1,732 small scale and 878 medium scale) of enterprises in Anambra State who are registered with the State Ministry of Commerce, Industry and Technology (2018). The sample size of 347 SME managers (230 small scale managers and 117 medium scale managers) was used for the study. The sample size was derived using the Taro Yamani formula. Instrument for data collection in this study was a structured questionnaire titled "Questionnaire on Employee Compensation Practices of Small and Medium Scale Enterprises (QECPSME)". The questionnaire was structured on a 5- point rating scale of Strongly Agree (SA), Agree (A), Moderately Agree (MA), Disagree (D) and Strongly Disagree (SD). The instrument designed for this study was subjected to face and content validation by three experts. Cronbach Alpha was used to establish the reliability of the instrument. The reliability index obtained was r = 0.77.

Data was collected with the aid of six research assistants who were briefed by the researchers. Out of the 347 copies of the questionnaire administered, a total of 298 (85.88%) were returned and used for the study. The data collected from the respondents were analyzed using descriptive statistics such as mean and standard deviation. The mean value was used to analyze data related to the research questions while the standard deviation was used to ascertain the homogeneity or otherwise of the respondents' ratings. For the hypotheses, t-test and one way analysis of variance (ANOVA) were used to test the eight null hypotheses at 0.05 level of significance. P-value was used for decision making for the hypotheses. Where the calculated p-value is less than or equal to the stipulated level of significance 0.05 ($p \leq 0.05$), it implies that there was significant difference between respondents' mean scores. Under this condition, the null hypothesis of no significant difference is rejected. On the other hand, if the p-value is greater than or equal to the alpha level of 0.05 ($p \geq 0.05$), the null hypothesis of no significant difference is accepted.

Results

Research Question

1. What are the employee compensation practices of managers of small and medium scale enterprises in Anambra State?

Hypotheses

The following null hypotheses were tested at 0.05 level of significance:

2. There is no significant difference in the mean responses of managers of small and medium enterprises in Anambra State on the employee compensation practices they adopt in their enterprises.
3. There is no significant difference in the mean responses of managers of small and medium enterprises in Anambra State on the employee compensation practices they adopt in their enterprises based on years of experience (5 years and below, 6-10 years and above 10 years).

Method

The design that was adopted in this study is a descriptive survey. According to Nworgu (2015), descriptive survey is a design which aims at collecting data on, and describing in a systematic manner, the characteristics, features or facts about a given population. The study was carried out in Anambra State of Nigeria. The population of the study comprised 2,610 SME managers (1,732 small scale and 878 medium scale) of enterprises in Anambra State who are registered with the State Ministry of Commerce, Industry and Technology (2018). The sample size of 347 SME managers (230 small scale managers and 117 medium scale managers) was used for the study. The sample size was derived using the Taro Yamani formula. Instrument for data collection in this study was a structured questionnaire titled “Questionnaire on Human Resource Management Practices of Small and Medium Scale Enterprises (QHRMPSME)”. The questionnaire was structured on a 5- point rating scale of Strongly Agree (SA), Agree (A), Moderately Agree (MA), Disagree (D) and Strongly Disagree (SD). The instrument designed for this study was subjected to face and content validation by three experts. Cronbach Alpha was used to establish the reliability of the instrument. The reliability index obtained was r = 0.77.

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Results

Research Question 1

What are the employee compensation practices of managers of small and medium scale enterprises in Anambra State?

Analysis of data relating to this research question is presented in Table 1

Table 1

Mean responses of Managers on the employee compensation practices adopted in SMEs. N = 298

S/No	Employee compensation	Mean	SD	Decision
1.	Regularly paying staff salaries	3.31	0.46	Moderately agreed
2.	Appreciate outstanding performance of employees with bonuses.	4.01	0.67	Agreed
3.	Recognize employees’ input and commending them openly during staff meetings.	4.05	0.67	Agreed
4.	Promote deserving staff as at when due	4.15	0.68	Agreed
5.	Provide staff quarters at reduced cost	3.24	0.60	Moderately agreed
6.	Reward staff by paying their vacation expenses	3.30	0.46	Moderately agreed

7. Ensure that all decisions affecting employee compensation are managed centrally not departmentally	3.54	0.60	Agreed
8. Ensure that employee pay structure is balanced and fair	3.30	0.46	Moderately agreed
9. Ensure that employees with high responsibility get better pay.	3.22	0.42	Moderately agreed
10. Give awards to employees for punctuality.	4.03	0.69	Agreed
11. Pay employees for over time	3.35	0.49	Moderately agreed
12. Provide adequate vacation for employees based on their rank	3.22	0.41	Moderately agreed
13. Provide car loan and transport allowance for employees	4.01	0.68	Agreed
14. Provide medical services for employees and their families	3.32	0.49	Moderately agreed
Cluster Mean	**3.58**		**Agreed**

Analysis in Table 1 shows a cluster mean of 3.58 which indicates that the managers agreed on the employee compensation practices applied in small and medium scale enterprises in Anambra State. Item by item analysis in Table 3 shows that items 25, 26, 27, 30, 33 and 36 with mean scores ranging from 3.54 to 4.15 are the employee compensation practices agreed to by managers of SMEs, while items 24, 28, 29, 31, 32, 34, 35 and 37 with mean scores ranging from 3.22 to 3.35 are the employee compensation practices moderately agreed to by managers of SMEs. The standard deviations of 0.41 to 0.69 are within the same range showing that SME managers' are not wide apart in their responses.

Hypothesis 1

There is no significant difference in the mean responses of managers of small and medium enterprises in Anambra State on the employee compensation practices they adopt in their enterprises.

Table 2

Summary of t-test result on the employee compensation practices of managers of small and medium enterprises in Anambra State. N = 298

Employee compensation	N	$\bar{X}$	SD	df	P-value	Decision
Small	202	3.58	0.14	296	.352	Not significant
Medium	96	3.56	0.14			

Data in Table 2 show that there is no significant difference in the mean responses of managers of small and medium enterprises in Anambra State on the employee compensation practices they adopt in their enterprises. This is shown by the p-value of .352, which is greater than the significant level of 0.05. This shows that there is no significance difference in the mean responses of SMEs managers. Therefore, the null hypothesis is accepted.

Hypothesis 2

There is no significant difference in the mean responses of managers of small and medium enterprises in Anambra State on the employee compensation practices they adopt in their enterprises based on years of experience.

Table 3

Summary of analysis of variance on the mean responses of SME's managers on the employee compensation practices adopted based on years of experience

N = 298

Source of variance	Sum of Squares	df	Mean Square	F	P-value	Decision
Between Groups	3.724	2	1.96	.492	.612	Not significant
Within Groups	1130.332	295	3.92			
Total	1134.056	297				

As shown in Table 3, there is no significant difference among the three groups in terms of their mean responses on the employee compensation practices they adopt in their enterprises based on years of experience (5 years and below, 6 -10 years and above 10 years), as the F-ratio (2, 295) is .492 and *P-value* (.612) is greater than the stipulated 0.05 level of significance. Therefore, the null hypothesis is accepted.

Discussion

The results of the study indicated that managers agreed on the employee compensation practices they adopted in their small and medium scale enterprises in Anambra State. This is in consonance with that of Ugoani (2017) who noted that compensation management such as basic pay, incentives, profit sharing, wage and salary adjustments, employee share option, log term compensation, equity pay and benefits correlates positively with productivity among SMEs in Nigeria. Managers agree with the popular notion that executive compensation is related to enterprise productivity. In line with this, Nongmaithem and Biniam (2016) and Mohamed, Omar and Ibrahim (2013) stated that compensation had a significant relationship with employees' performance. Pay dissatisfaction or inadequate compensation will cause absenteeism, excessive turn-over, job dissatisfaction, strike, poor performance and will make replacement difficult. Therefore, compensation has to be managed in a systematic and efficient manner in order to make it attractive to job seekers as well as incumbents and accommodative to future situations.

Testing of the hypothesis revealed that significant difference did not exist in the mean responses of managers of small and medium enterprises in Anambra State on the employee compensation practices they adopted in their enterprises. Also the hypothesis revealed that year of experience does not influence the mean responses of managers of small and medium enterprises in Anambra State on the employee compensation practices they adopted in their enterprises. Therefore, it followed that the null hypothesis of no significant difference was accepted. This disagrees with the findings of Nongmaithem and Biniam (2016) and Mohamed, Omar and Ibrahim

(2013) which indicated that employee compensation is statistically significant at their performance in the organization.

Conclusion

Based on the findings of the study, it is clear that Human Resource Management (HRM) practices (resourcing, employee training and development, employee compensation and employee relations) has a positive role in increasing the employee's performance, so the managers of SMEs should implement these practices to achieve the desired goals. The organizations should utilize a variety of reward and recognition programs to drive behavior that promotes high performance. SME managers should revise their human resource policies by keeping in view the above factors in order to attain the targeted goals.

Recommendations

Based on the findings of this study, the following recommendations were made:

1. The management of SMEs should offer equitable compensation system in order to attract and retain talented employees as well as motivates them to perform their work-related activities efficiently and effectively.

2. Human resources manager should develop systems that will ensure that there is proper compensation plan entailing proper job evaluation processes and pay structures in the organization. Any changes in the plan, like salaries or process should be supported by right fundamentals like salary survey and facts on the ground.

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