

## **UTILIZATION OF EMPLOYEE COMPENSATION PRACTICES BY MANAGERS OF SMALL AND MEDIUM SCALE ENTERPRISES FOR IMPROVED BUSINESS PERFORMANCE IN DELTA STATE, NIGERIA**

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### **ABSTRACT**

The need to improve performance of small and medium scale enterprises (SMEs) prompted this study to determine the employee compensation practices utilized by Managers of SMEs in Delta State. One research question guided the study and two null hypotheses were tested. Descriptive survey research design was adopted in the study. The study was carried out in Delta State, Nigeria. The decision to use Delta State for the study is informed by the fact that it has many SMEs which are experiencing reduction in business size, slow expansion rate and even business failures. The population for the study consisted of 420 managers of SMEs in the general business service sector operating in Delta State. The entire population was studied because the number was manageable. A five-point rating scale questionnaire containing 10 items which was validated by experts in the field was used to collect data for the study. The reliability of the instrument was analyzed using Cronbach Alpha reliability method. The coefficient value obtained was 0.79. Mean and standard deviation were used to answer the research question and determine the closeness of the respondents' responses to the mean while Analysis of Variance (ANOVA) and t-test were used in testing the null hypotheses at 0.05 level of significance. Findings revealed that operators of SMEs in Delta State utilized employee compensation practices to a moderate extent. It was also revealed that years of business experience and gender of the respondents did not significantly influence their mean ratings on their utilization of employee compensation practices for improved performance. It was concluded that SMEs managers' level of utilization of employee compensation practices is not enough to boost staff moral and motivation for improved productivity and could be a major contributory factor to the poor business performance they are witnessing. Based on these findings, the researchers recommended among others that managers of SMEs should make concerted efforts to involve employees in taking decisions on the issues relating to their salaries, wages and benefits in order to be aware of their worries. It was also recommended that the managers should employ financial and human resource management experts to help determine employees benefits that are commensurate to their roles and responsibilities based on the financial standing of the SMEs.

**Keywords:** performance, small and medium, enterprises, population, gender, productivity

## INTRODUCTION

Small and medium scale enterprises (SMEs) are important building blocks for economic growth and development of any nation because of their vital roles in employment generation and wealth creation. The Organization for Economic Co-operation and Development (OECD, 2012) revealed that small and medium-sized enterprises account for 60 to 70 per cent of jobs and disproportionately large share of new jobs. In Nigeria, SMEs makes up about 97% of businesses and provide an average 50% of Nigeria's employment and industrial output (Yusuf & Dansu, 2013). This information is a representation of the case in Delta State where the people are known for their love for trading and entrepreneurship as evidenced by the presence of large number of (SMEs).

According to the National Technical Working Group on Small and Medium Enterprises (NTWSME, 2009), SMEs comprise micro, small and medium enterprises which are distinguished as a group separate from large organizations. The group noted that 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. Osamwonyi and Tafamel (2010) defined small and medium-scale business as any enterprise employing between five and one hundred workers with an annual turnover of about N400,000 (four hundred thousand Naira). The Federal Ministry of Commerce and Industry in Orok (2013) defined SMEs as firms with a total investment (excluding cost of land but including capital) of up to N750,000 and paid employment of up to 50 persons. Miller (2011) defined a small-scale industry as any

industry with a total investment of between N100,000 and N2,000,000 exclusive of land but including working capital.

Sadly, the contributions of SMEs to the production base in Nigeria seem to be little despite the favourable economic climate that abounds. According to Miller (2011) and Oroka (2013), this could be as a result of numerous domestic and global economic problems, inconsistency in government policies and poor management of human resource. The consequence is low business expansion, business failures and high mortality rate which in most cases lead to retrenchment of workers and unemployment. Poor remuneration and compensation of employees could also be contributory factor in the low performance of SMEs in Nigeria generally and Delta State in particular. Miller (2011) noted that the inability of business managers to effectively cater for the welfare of their employees is a clear case of management failure. Some SMEs take advantage of employees by looking for cheap labour and seldomly provide compensation packages for them outside their monthly salaries. This situation tends to reduce the morale of some employees and result in poor performance and productivity. It is, therefore, pertinent that managers of SMEs adequately utilize employee compensation practices in order to increase employees' moral which will ultimately lead to improved performance.

Employee compensation represents the human resource management (HRM) practice that encompasses wages, incentives and benefits (Abubakar & Abubakar, 2013). De Cieri and Kramar (2008) stated that a high level of pay and/or benefit relative to that of competitors can ensure that a company attracts and retains high-quality employees. Pay may be a way workers measure whether the time they spend and the effort they put into their work are worthwhile (Ryan & Sagas, 2009). Luftim (2014) opined that workers' satisfaction is a function of what they perceive their contributions and job requirements are and what they should receive in return.

This implies that employees will feel satisfied with their pay if what they are receiving equates to the time, energy, and effort they contribute in relation to what other workers receive. If the workers feel that their efforts and contributions exceed the rewards from the job and organization, especially in pay, dissatisfaction may occur (Ryan & Sagas, 2009). This is why it is important that SMEs managers adopt effective human resource management practices to improve their business performance. It is against this backdrop that the researcher considered it imperative to conduct the study on utilization of employee compensation practices by managers of SMEs in Delta State for improved performance.

However, factors like years of experience of SMEs managers could influence their utilization of employee compensation practices. Ganyaupfu (2013) reported that years of business experience of managers of SMEs has statistically significant positive effects on the success of their enterprises. Beyond years of experience, gender has been seen as a factor that could influence SMEs managers' utilization of HRM practices. Ingrid, Peter and Gaby (2012) found that that gender significantly influenced SMEs managers' adoption of employee compensation practices. Ingrid et al noted that gender differences exist with respect to type of entrepreneurial leadership. However, Nohor, Eta and Alina (2010) found that gender only influenced recruitment practices of employees but did not influence other aspects of human resource management. However, these reports have not been empirically proven to be the case among managers of SMEs in Delta State, hence the need to determine the influence of experience and gender in the study.

## **STATEMENT OF THE PROBLEM**

Small and medium enterprises contribute to employment generation, wealth creation and economic development of countries. However, in recent time, the SMEs

in Nigeria and Delta state in particular seem to struggle to meet up with these expectations. Thus, the full potentials of SMEs in the Delta State seem to have failed in the area of employment generation and human capital development. This is evident in the increased rate of business failure resulting in high rate of employees who becomes unemployed upon the closure of the business enterprises. It has also been observed by the researchers that some of the managers of SMEs do not seem to adequately remunerate and compensate their employees. This appears to have reduced employees' morale and motivation thereby resulting in low productivity and poor performance. This has contributed to increase in business failure among SMEs because high rate of employee turnover do not give room for employee commitment and this does not display the utilization of employee compensation practices in business by managers of SMEs. Therefore, it becomes pertinent to appraise the utilization of employee compensation practices in business by managers of SMEs with the view for an improved performance..

#### **PURPOSE OF THE STUDY**

The purpose of the study was to determine the employee compensation practices utilized by managers of small and medium scale enterprises for improved business performance in Delta State.

#### **Research Question**

One research question guided the study, thus:

To what extent do managers of SMEs in Delta State utilize employee compensation practices for improved performance?

#### **Hypotheses**

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

1. There is no significant difference in the mean ratings of managers of SMEs in Delta State on the extent they utilize employee compensation practices for improved business performance based on years of experience (1-5, 6-10 and above 10 years).
2. Male and female managers of SMEs in Delta State do not differ significantly in their mean ratings on the extent they utilize employee compensation practices for improved business performance.

## **METHODOLOGY**

The design that was adopted in this study was the descriptive survey. The study was carried out in Delta State, Nigeria. The decision to use Delta State for the study is informed by the fact that the State has many small and medium scale enterprises (SMEs) which are experiencing reduction in business size, slow expansion rate and even business failures. The population for the study consisted of 420 managers of Small and Medium Scale Enterprises in the general business service sector. Instrument for data collection in this study was a structured questionnaire titled “Questionnaire on Small and Medium Scale Managers Utilization of Employee Compensation Practices for Improved Performance (QSMSEUECPIP)”. The instrument has two main sections- A and B. Section A contains two items on respondents’ background information covering years of experience and gender. Section B contains a total of 10 items according to the research question guiding the study. The instrument was structured on a 5- point rating scale of Very High Extent (VHE), High Extent (HE), Moderate Extent (ME), Low Extent (LE) and Very Low Extent (VLE). The instrument was face validated by two experts in Business Education from the Department of Technology and Vocational Education and one in educational measurement and evaluation unit of the Department of Educational Foundations, all from the Faculty of Education, Nnamdi Azikiwe University, Awka. To establish the

instrument's reliability, copies were administered on 20 SMEs operators in Awka Metropolis of Anambra State who were not included in the area/population of the study. The data collected were analyzed using Cronbach Alpha and coefficient value of 0.79 was obtained. The researcher administered copies of the instrument to the respondents personally with the aid of six research assistants using on-the-spot completion and retrieval method in order to achieve a high response rate. However, those who could not respond on the spot were revisited on appointment to retrieve their responses. This facilitated the retrieval of 374 duly completed copies (representing an overall return rate of 89%) used for data analysis.

The mean value was used to answer the research questions while the standard deviation was used to ascertain the homogeneity or otherwise of the respondents' ratings. The mean responses were rated as follows:

<b>Response option</b>	<b>Values</b>	<b>Real Limit</b>
Very High Extent	5	4.50-5.00
High Extent	4	3.50-4.49
Moderate Extent	3	2.50-3.49
Low Extent	2	1.50-2.49
Very Low Extent	1	0.50- 1.49

Analysis of variance (ANOVA) was used to test the first null hypothesis while t-test was used to test the second null hypothesis at 0.05 level of significance. Where the calculated f or t value was less than the critical value of f or t, it means that the variable does not significantly influence respondents' mean ratings and the hypothesis was not rejected. Conversely, where the calculated f or t value was equal to or greater than the critical f or t value, it means that the variable has a significant influence on the respondents' mean ratings and the hypothesis was rejected.

## **Results**

**Table 1: Respondents Mean Ratings on their Utilization of Employee Compensation Practices for Improved Performance  
(N=374)**

S/N O	Compensation Practices	Mean	SD	Remarks
1.	Regularly paying staff salaries	3.07	0.71	Moderate Extent
2.	Appreciating a good job done by employees with bonuses.	3.21	0.76	Moderate Extent
3.	Recognizing employees' input and commending them openly during staff meetings.	3.50	0.82	High Extent
4.	Promoting deserving staff as at when due	2.23	0.69	Low Extent
5.	Providing staff quarters at reduced cost	2.14	0.65	Low Extent
6.	Rewarding staff by paying their vacation expenses	1.90	0.67	Low Extent
7	Ensuring that all decisions affecting employee compensation are managed at one central place as opposed to every departmental head handling their areas	2.95	0.72	Moderate Extent
8.	Ensuring that employee pay structure is balanced and fair	2.57	0.72	Moderate Extent
9.	Assigning employees to positions of high responsibility based on their diligence to duty.	2.36	0.78	Low Extent



10. Giving out awards to employees for punctuality. 2.95 0.80 Moderate Extent

<b>Cluster Mean</b>	<b>2.69</b>	<b>Moderate Extent</b>
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Table 1 shows that four items with mean scores ranging from 1.90 to 2.36 were utilized at a low extent, five items with mean scores ranging from 2.75 to 3.21 were utilized at a moderate extent while only one item with mean score of 3.50 was utilized at a high extent. The cluster means score of 2.69 indicates that managers of SMEs in Delta State utilize employee compensation practices for improved business performance at a moderate extent. The standard deviation of 0.65 to 0.82 shows that the respondents' opinions are closely related.

**Table 2: ANOVA Summary of Significant Difference on the Influence of Experience in the Mean Ratings of SME Managers on the Extent they Utilize Employee Compensation Practices for Improved Business Performance.**

Source	Sum of	D	Mean	F-ratio	Sig.	Remark
Between groups	.241	2	.089	.234	.791	NS
Within groups	275.130	372	.967			
<b>Total</b>	<b>275.371</b>	<b>374</b>				

Data in Table 2 reveal that f-ratio of 0.234 calculated at 0.05 level of significance and at 2 and 372 degrees of freedom is less than critical value of f of 3.04. Since the f-ratio of 0.234 is less than critical value of f of 3.04, the null hypothesis is not rejected. Thus, there is no significant difference in the mean ratings of managers of SMEs in Delta State on the extent they utilize employee compensation practices for improved business performance based on years of experience.

**Table 3: t-Test of Significant Difference in the Mean Ratings of Male and Female Managers of SMEs on the Extent they Utilize Employee Compensation Practices for Improved Business Performance**

Respondent	N	$\bar{X}$	S	D	t-value	Crit-t	Decision
Total	374						

The result on Table 3 reveals a t-value of 1.47 at 372 degree of freedom with a critical t value of 1.96. Since the t-value of 1.47 is less than the critical t value of 1.96, the null hypothesis is not rejected. Thus, there is no significant difference in the mean ratings of male and female managers of SMEs in Delta State on the extent they utilize employee compensation practices for improved performance.

## DISCUSSION

The findings of the study revealed that managers of SMEs in Delta State utilized employee compensation practices for improved business performance to a moderate extent. This finding is in agreement with Asma, Sajjad, Qasim and Umair (2014) who noted that organizations which utilize compensation practices have well motivated employees. Asma et al (2015) revealed that rewards and recognition are positively related with employees' job satisfaction. They also averred that positive correlation exists between reward, recognition and employees job satisfaction. Peter and Damary (2013) revealed that the employees in some organizations were not satisfied with the rewards and levels of recognition for the jobs they do, with the overall feeling being that they were neither rewarded nor recognised for their work.

Low compensation levels were cited as a major source of poor motivation among employees.

The findings also revealed that there was no significant difference in the mean ratings of managers of small and medium scale enterprises in Delta State on their utilization of employee compensation practices for improved performance based on years of experience and gender. This implies that the years of experience and gender of managers of small and medium scale enterprises did not influence their utilization of employee compensation practices for improved performance. This finding agrees with that of Nohor, Eta and Alina (2010) who reported that gender only influenced recruitment practices of employees but did not influence other aspects of human resource management. This could be as a result of the limited nature of their financial resources and capacity to fully utilize performance management practices in managing staff.

## **CONCLUSION**

Based on the findings of the study, the researchers conclude that SMEs managers' level of utilization of employee compensation practices is not enough to boost staff moral and motivation for improved productivity and could be a major contributory factor to the poor business performance they are witnessing.

## **RECOMMENDATIONS**

Based on the findings of this study, the researcher proffers the following recommendations:

1. Managers of small and medium scale enterprises should involve employees in discussion on the issues relating to their salaries, wages and benefits. This will enable them have an idea of employees grievances and worries related to their pay and benefits.

2. Managers of SMEs should also incorporate the “spirit of meritocracy” in handling employees’ affairs by avoiding bias and rewarding them based on their performance.
3. Managers of SMEs could employ financial and human resource management experts to help in determining employees’ benefits and payment commensurate to their roles and responsibilities based on the financial standing of the enterprise
4. The National Association for Small and Medium Scale Entrepreneurs (NASME) should organize conferences and workshops to educate members on the roles of compensation practices in improving business performance and the importance of ensuring adequate employee compensation in their businesses.

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