American Journal of Business and Society
Vol. 2, No. 3, 2017, pp. 42-51
http://www.aiscience.org/journal/ajbs

Executive Compensation Management and Productivity Among Small and Medium Enterprises in Nigeria

John Nkeobuna Nnah Ugoani*

Department of Management Sciences, College of Management and Social Sciences, Rhema University, Aba, Nigeria

Abstract

The study was designed to evaluate the effect of executive compensation management on productivity among SMEs in Nigeria and make recommendations. Compensation is a primary motivator for employees who bring their labour in exchange for rewards. People look for jobs that not only suit their talents and creativity, but also that which compensate them both in terms of salary and other benefits. Due to competition, traditional methods of compensation that involves set pay levels with regular annual increases are no longer fashionable. As businesses change their focus, their approach to compensation must change so as to retain competent executives. This is necessary because traditional compensation methods may hold an enterprise back from adequately compensating its best employees. With about 17.3m SMEs in Nigeria good compensation management will provide the platform for executive manpower development that will help in driving the economy. The exploratory research design was used for the study. Data were analyzed using the descriptive statistical methods and it was found that executive compensation management correlates positively with productivity.

Keywords

Traditional Compensation, Executive Compensation, Adjustments, Pay-for-Knowledge, Pay-for-Performance, Equity Theory

Received: April 24, 2017 / Accepted: May 9, 2017 / Published online: August 8, 2017

1. Introduction

Executive compensation relates to what executive employees earn in exchange for their contributions to organizational productivity and SMEs need to be productive to maintain competitive advantage. On the other hand, productivity is frequently a common measure of how well or efficient an enterprise uses its resources. This is defined by finding the product of outputs by inputs in simple terms. To remain productive and competitive, Small and Medium Enterprises (SMEs) must constantly determine effective compensation arrangements based on sound corporate governance to be able to hire competent executives, sustain their satisfaction and loyalty, reduce costs, and ready to move toward internal and external equity, among other important compensation matters. This is important because compensation is important to all employees, and SMEs must acknowledge the role of itin attracting and motivating executiveemployees (Carpenter and Sanders, 2002, Davies, et al, 1997, Dockop, 1988, Doctop, et al, 1999, Jensen and Murphy, 1990[a], Jensen and Murphy, 1990[b]). Also, SMEs can offer several nonfinancial incentives that appeal to both executive and nonexecutive employees. According to Longernecker, et al (2006) SMEs must be competitive in wage and salary levels in order to attract well-qualified employees. According to Lin (2011) sales growth in China's state owned enterprises (SOEs) and SMEs is significantly linked to good executive compensation. Incentives are given in addition to the base wage, and it frequently has direct effects on overall enterprise performance. Incentives form a significant part of executive compensation, including bonuses, stock options, among others. Incentives are important for SMEs executives bearing

* Corresponding author
E-mail address: drjohnugoani@yahoo.com

in mind the high number of competent executives drifting from SMEs to large corporations, the Organized Private Sector (OPS), the government and the academia. To arrest this trend and enhance productivity in the SMEs subsector, they should launch new productivity metrics and tools to be deployed to enable employers and employees to begin to sign on to productivity bargaining and gain sharing contracts, to institutionalize a new performance driven compensation system and skills-based workforce pricing. According to Olaopa (2015) this paradigm is critical for SMEs expansion programmes that would increase national productivity in Nigeria. It is estimated that Nigeria has about 17.3m SMEs which account for about 99.6 percent of the registered businesses in Nigeria by which about 63 percent of the labour force earn a living (Afolabe, 2015). Therefore, if the country must achieve the growth target of not less than US$900 billion in GDP and per capitaincome of not less than US$400 per annum by year 2020, there should be a focus of attention on the corporate governance culture and structures of SMEs so as to align executive compensation with corporate objectives to the extent of promoting productivity. Establishing sound executive compensation philosophy by SMEs in Nigeria would ultimately be hinged on good corporate governance culture. According to Lin (2011) China started its economic reforms in the late 1970s, and its GDP has grown rapidly with total market capitalization surpassing 24.5 trillion in 2007. Despite this rapid growth, corporate governance has remained weak in China. As a result, China has a way of aligning executive compensation with SMEs productivity (Core, et al, 1999, De Jonge, 2008). According to Bebchuk and Fried (2004) a well-designed executive compensation can provide executives with cost-effective incentives to generate shareholder value, therefore,emphasizing the need to strengthen the link between pay and executive productivity.

1.1. Statement of the Problem

A major problem in the SMEs subsector in Nigeria is that most promoters of successful SMEs while indulging in flamboyant life styles; including expansive office accommodation, luxurious automobiles; including personal jets; forget to extend basic incentives to their executives, often resulting in demotivation, frustration, high executive turnover, and low productivity. Consequently, SMEs in Nigeria today hardly retain competent executives for a long time due to weak corporate governance structures and inconsistent executive compensation arrangements. Most executives in the SMEs sub-sector in Nigeria do not even know about executive perquisites like official cars, executive conveniences, parking spaces, club membership, good office accommodation, among others. SMEs promoters easily wear their executives with such titles as “General Manager”, “Executive Director”, among others, but without any meaningful practical signs to protect the integrity and respectability of such nomenclatures. Incentives like the *golden parachute* are necessary to shore up the morale of executive employees for more productivity in SMEs in Nigeria. Drucker (1998) among others, have challenged the general thinking about management styles, performance appraisal, merit pay, team and individual reward systems, and the general way business is done and the executives are compensated. He believes that developing and implementing the most supportive compensation prorammes 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. For the executive employee, compensation establishes a standard or style of living. It also represents an evaluation of his or her qualification, experience and ability. It is believed in many quarters that good compensation motivates the executive for higher than average productivity.

1.2. Conceptual Framework of the Study

The need to boost employee morale, increase organizational productivity and profitability makes the matter of compensation an important issue for both the employee, employer and even the government. Employees evaluate their pay relative to the pay of other employees in similar jobs in the same organization, or those in other organizations. According to Noe, et al (2004) social scientists have developed equity theory to describe how employees make judgments about pay fairness. They posit that based on equity theory, people measure outcomes such as pay in terms of their inputs. In this regard, employees compare their pay and contribution against different standards, such as what they think employees in other organizations earn for doing the same job, what other employees doing different jobs within the organization earn, and what they think other employees in the same organization earn while doing the same kind of work. Equity theory tries to inform organizations that employees are very interested about what they earn and what others earn and that such feelings are usually based on what the employees perceive as fair or equitable. For their survival, SMEs need to realize that executive compensation is critical just as it is to large enterprises (LEs). For example, according to Srivastava and Singh (2016) Infosys of India had to adjust its compensation structure in “Troubled Times” in order to boost productivity and regain its leadership position in the global IT industry. The IT giant made a policy for employees with top ratings to receive 50-90 percent of their variable pay, depending on their levels in the organization. The company also made an unusual provision of about 130 percent to pay bonuses which was seen as a strategy to raise employee morale at a time it was struggling to regain competent executives (Behan, 2016). It is estimated that about 96 percent of Nigerian enterprises are micro, small and medium enterprises (MSMEs) therefore, effective executive compensation management will help in retaining the requisite talent needed to enhance the opportunities for them to attract increased attention and finance from international lenders because of the important role they play in economic development (Nelson, 2016). Earlier studies that found positive correlation between executive compensation management and productivity did not make reference to SMEs in Nigeria. Therefore, it is necessary to fill this gap in view of the preponderance of SMEs in Nigeria. The issue of executive compensation management is topical for productivity because in the current era the only reward left that can be regarded as a true executive incentive is the monetary reward offered to employees if they increase their level of output. According to Halloran (1978) most other rewards previously regarded as incentives are now considered as employees' rights. He posits that employees who feel under paid do not work any harder, even when the wages are raised, they only feelless dissatisfied and believe that deficiencies have been corrected. A good incentive therefore is anything other than the job itself that motivates executive employees to be more productive. Because of changing conditions executives now value incentives in the areas or factors that enhance their social capital, in terms of healthy working environment, reputation and respectability. According to Fareed, et al (2013) the connection and relationship between rewards, motivation and job satisfaction of employees have much significance to success of both public and private sectors. They posit that employees generally, want to get both financial and non financial rewards. Some employees prefer the financial rewards and others the nonfinancial rewards. Some executives consider cash sufficient to satisfy their wants, while others prefer incentives like official cars, house, among other nonfinancial incentives. These basic rewards are usually implemented by employers to positively increase the productivity of executives.

1.3. Objective of the Study

The study was designed to explore the imperatives of executive compensation on SMEs in Nigeria.

1.4. Delimitation of the Study

The study was delimited to SMEs in Nigeria.

1.5. Significance of the Study

The study will draw the attention of SMEs promoters to the need for good executive compensation arrangements as a way of promoting productivity. It will also enable students, researchers and the general public gain an insight over the relationship between executive compensation and productivity among SMEs in Nigeria.

1.6. Limitations of the Study

The study was constrained by lack of current literature in the areas under investigation and lack of research funds. However, these important constraints did not undermine the credibility of the study.

1.7. Research Questions

i. Is executive compensation management critical for productivity among SMEs in Nigeria?

ii. Is executive compensation management important to retain high quality executives in SMEs in Nigeria?

1.8. Restatement of Research Questions

i. Executive compensation management is critical for productivity among SMEs in Nigeria.

ii. Executive compensation management is important for retaining high quality executives in Nigeria.

2. Literature Review

Small businesses often struggle to pay their lowest level employees even the minimum wage required by law, not even to talk about executive compensation. However, Longernecker, et al (2006) posit that small businesses that try to improve the lives of their employees and executives benefit along with them. They insist that such businesses also gain in terms of public image with customers and the community. The major elements of directors' and executives' compensation are basic pay, short and long-term bonus or incentive schemes, share options and share ownership schemes, fringe benefits and service contracts among others. Armstrong (2004) posits that decisions on the basic salary of directors and executives are usually founded on views about the market worth of the individuals concerned. For example, it may be decided that an executive should be paid 70 percent or 50 percent of the CEOs salary. Even if SMEs may not compete with large companies in terms of executive compensation, they are however, expected to take a cue from them so as to comply with the principles of good corporate governance. In recent years, a great deal of attention has been directed at the development of compensation systems that go beyond rewarding the quantity of output to take cognizance of work performance as a whole. In particular, there has been a marked increase in the use of pay-for-performance (PfP) for management and professional employees, especially for executive management and senior managers. 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. Compensation is also one of the fastest changing areas in human resource management as business enterprises continue to investigate various ways of rewarding employees for their performance. Just as employees are interested in purchasing power, the absolute value of their earning, so employers are interested in absolute cost of compensation and its bearing on the productivity or cost effectiveness of their organization (Torrington, et al, 2005). In exchange for job performance and commitment, an employer offers rewards to employees. Adequate compensation potentially attract a quality workforce, maintains the satisfaction of existing employees, keep quality employees from leaving and motivatesthem for higher productivity (Kalisk, 2001). The question of compensating executives and managerial employees is not different in many aspects from the problem of compensating any other group of employees. Obviously, the basic objectives are the same: an employer needs to pay whatever is required to attract and retain executives and managers of the status it needs just as it needs to pay whatever is required to attract and retain other employees of the status it requires. More importantly, compensation and the way it is administered can affect the morale and motivation of other employees. Thus, the key factors for effective compensation management for all groups involve: (a) compensation must be competitive with what other similar employers are paying for similar skills on similar jobs. (b) compensation for different categories of employees in an organization should reflect the comparative worth of their respective contributions to the organization, and (c) compensation decisions should be made and communicated in a suitable way that is perceived as rational, just and fair. Beyond these basic factors, compensation is different in some ways. For example compensation practices at the executive and managerial levels tend to set the tone of compensation practices at lower levels. Thus, if the chief executive's compensation package is low compared with the chief executives' of similar business enterprises, compensation for down-the-line employees is likely to be depressed (Dutter, 1972). As businesses change their focus, their approach to compensation must change as well. This is important because traditional compensation methods like setting pay levels (Wage and Salary) with regular increases may hold a business enterprise back from adequately rewarding its best employees. When compensation is strongly tied to a base salary and a position, there is little flexibility in the reward system and when this happens as it frequently does, it does not only lead to low morale but also to the problem of low productivity. Traditional compensation methods are no longer fashionable, because there is less distinction today between merit increases and cost of living increases. Employees have come to expect them usually once in one year despite the ever rising cost of living. This base pay system is the one that most SMEs are familiar with and often involves mainly a set salary or wage, a set schedule for merit increases, a set benefits package. But today, employees look up to incentives, benefits and adjustments; as some of the new ways of rewarding them. For example, highly skilled executives expect pay-for-knowledge (PfK), in which compensation is based on job knowledge and skills rather than on position, and incentive plans such as employee stock option plans (ESOPs). Compensation adjustments like merit adjustment, equity adjustment, promotional adjustment, skill-based adjustment, job reclassification adjustment, are among the current ways of rewarding and compensating employees (Wertter and Davies, 1996). SMEs are critical to national development by making use of input to facilitate the creation of wealth, employment, income generation and development of indigenous technology. To a high degree, SMEs generate more employment opportunitiesthan large businesses. Effective management of SMEs can be seen as one of the best ways of reducing unemployment in Nigeria where about 67 million youths are unemployed. With about 17.3m SMEs in Nigeria, good compensation management will provide the platform for the development of high level indigenous manpower in recognition of this, since 1997 successive governments in Nigeria have been working for the creation of an economic environment to encourage SMEs (Aganga, 2012; Momoh, 2011; Osehobo, 2012; Essiet, 2012, Ibeenwo, 2015). It is very important for small business owners to understand the differencebetween wages and salaries. While a wage is based on hours worked, a salary is an amount paid for a particular job, regardless of hours worked. This traditional compensation method has given way to employee incentive systems that are now based on their performance rather than hours worked or years of service. 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. As the market becomes more dynamic and competitive, business enterprises are working harder to improve performance since business enterprises cannot afford to continually increase wages and salaries by a certain percentage, they are now introducing many incentive compensation plans tied to performance. Among these that are not common in SMEs are gain sharing, profit sharing, employee share schemes, benefits, wages and salary adjustments, equity, among others.

2.1. Gain Sharing

Gain sharing is a formula-based company-wide bonus plan that provides for employees and executives to share in the financial gains resulting from increases in added value or another measure of productivity. This is done to get them more involved in productivity improvement or cost-reduction plans.

2.2. Profit Sharing

Profit sharing is the payment to eligible employees of sums in the form of cash or shares related to the profits of the business. The amount shared may be determined by a published or unpublished formula or entirely at the discretion of management. Profit-sharing differs from gain sharing in that the former is based on improved productivity.

2.3. Employee Share Schemes

Share ownership is most commonly provided through one or other ways, including a savings-related option scheme. This is the option under which a company grants share options linked to savings made by the employee. A share option entitles the employee to acquire the share at a future date.

2.4. Fringe Benefits

Fringe benefits, which include payments by the employer for such items as hospital bills, social insurance, vacation allowance, among others, are supplements to executive compensation designed to be attractive and beneficial. According to Longernecker, et al (2006) although fringe benefits are expensive, SMEs cannot ignore them if they must compete effectively for good employees. SMEs may use flexible benefit programmes or cafeteria plan, which allow employees to select the types of fringe benefits they wish to receive.

2.5. Wage and Salary Adjustments

Utah State University, USA (1997) adopted this compensation policy over the traditional compensation system. Under this compensation policy, an employee may receive a merit adjustment based on job performance, to be approved by the appropriate dean and communicated to the employee. An employee may receive an adjustment when there is a significant difference between his current salary and a higher projected salary that has already been established. This comes in the form of equity adjustment. Also an employee may receive a promotional adjustment based on a transfer or assignment to a higher salary range. Funds for these adjustments come primarily from department resources and may also come from centrally held funds targeted for this purpose. Other contemporary incentive compensation plans involve skill-based or knowledge-based compensation, team-based compensation and performance-based compensation. Skill-based pay is a system that pays employees based on the skills theyposses or master, not for the job they hold. Some managers believe that mastery of certain sets of skills leads to higher productivity and therefore want their employees to master a series of skill sets. Similar to skill-based pay is knowledge-based pay. While skill-based pay evolved in the manufacturing sector, PfK developed in the service sector. For example, university lecturers with a bachelor'sdegree receive the lowest rate of pay, those with a master's degree receive a higher rate, and those with a doctorate receive the highest. Recognizing the importance of co-operation and team-work, business enterprises offer pay based on the overall effectiveness of a work group while base pay is given to employees regardless of performances, incentives and bonuses are extra rewards given in appreciation of their extra efforts. PfP is a new movement away from this entitlement concept. A PfP plan reflects how highly employees are rated on a performance appraisal (Henderson, 1994, 1997; Milkovich and Newman, 1996; Pauline, 1997; Reingold, and Borrus, 1997).

2.6. The Total Package

Executive compensation package is typically composed of:Base salary, annual incentives or bonuses, long term incentives, like stock options; executive benefits, such as health and life insurance policies and pension plans, and executive perquisites, often known as the total package. Considering the high rate of turnover of competent executives, the need for sound and competitive executive compensation plans is crucial in attracting the top candidate for the reason of higher organizational productivity (Reingold, and Melcher, 1998). Compensation policies must be communicated clearly and thoroughly to employees. This is important as employees naturally want to have a clear understanding of what they can reasonably expect in terms of compensation both in terms of monetary compensation, benefits, and performance appraisal (Klein, 1996). An organization's compensation system must include policies, procedures and rules that provide clear and unambiguous determination and administration of employee compensation. Otherwise, there can be confusion, diminished employee satisfaction, and potentially costly litigation. In fact, fair and adequate compensation are critical to motivating employees, attracting high potential employees, and retaining competent executives. Compensation has to be fair and equitable among all employees in the same business enterprise. This is important because SMEs are agents of gainful employment. In many countries like Nigeria, where the Federal Government has established Entrepreneurship Development Centres (EDCs) to build capacity for SMEs with over N200billion special grant by the Central Bank of Nigeria, the need for competitive executive compensation cannot be overemphasized (Eshanokpe, 2012).

2.7. Internal and External Equity

Internal equity can be achieved when pay is proportionate to the individual employee's qualifications and contributions to the organization. On the other hand, compensation must also be fair and equitable in comparison to the external market (External equity). If a business enterprise pays its employees below the market rate, it may lose competent employees. In determining adequate pay for employees therefore, an enterprise, must consider the three major factors: The labour market, the nature and scope of the job, and the characteristics of the individual employee. The characteristics of an individual employee is important in determining compensation because his job qualifications, abilities and skills, prior experiences, and even willingness to work in hardship conditions are critical factors. Adequate employee compensation is necessaryas the Bible says: "for the labourer is worthy of his hire" (Lk. 10:2) (Boone, and Jurk, 1999; Bounds, and Lamb, 1998; French, 1998; Jenks and Zernik, 1993; Madura, 1998, Nickels, 1999; Pfeffer, 1994; Dutter, 1972).

3. Methodology

3.1. Research Design

The qualitative technique of the exploratory research design was used for the study. The method is historical in nature and does not usually require a large sample nor structured questionnaire (Asika, 2004). The qualitative technique places stress on the validity of multiple meanings, structures and holistic analysis. In exploratory research, the investigator may also engage in interviews, and data, so gathered are reported, described and interpreted to form part of the study.

3.2. Sources of Data

Data were generated from both primary and secondary sources, such as interviews, books, journals, newspapers, among others. The mixed method of data collection was to supplement each other, and also to provide alternative insights and deeper understanding of the problem under investigation (Osuala, 2005).

3.3. Treatment of Data

For the purpose of verification the secondary data were correlated with primary data obtained from the interview of 80 individuals based on the Likert scale. This was necessary because secondary data had to be checked for accuracy relevance at present, and freedom from any bias. This process helped the investigator to present a balanced result over the matter under investigation (Tharaney and Upadhyaya, 2016, Ali, 2016).

3.4. Data Analysis

Data were analyzed through descriptive statistics, and result presented in tables.

4. Presentation of Results

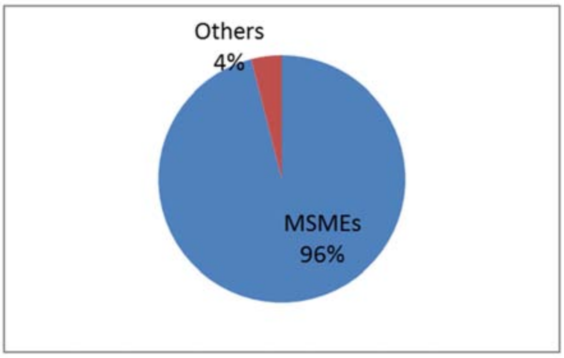

Figure 1. Proportion of MSMEs and Others in Nigeria, 2016.

Source: Author Fieldwork, 2017.

Table 1. SMEs Structure in Nigeria as at 2017.

S/No	Category	Capital Base	Labour
1	Micro enterprises	Not more than N1m	Between 1 and 10 workers
2	Small enterprises	Not exceeding N1.5m excluding lost of land	Between 11 and 100 workers
3	Medium enterprises	Over N50m but not more than N200m including working capital	Between 101and 300 workers

Source: Author Fieldwork (2017)

Table 2. Major Elements of Executive Compensation.

S/No	Descriptions
1	Basic pay
2	Bonus or incentives
3	Benefits
4	Gain sharing
5	Profit sharing
6	Employee share option
7	Wage and salary adjustments
8	Long term compensation
9	Equity pay
10	Pay-for-performance

Source: Author Fieldwork (2017) Adapted from Various Reports.

Table 3. Demographics of Interviewees.

S/N	Description	Category	Total Number	Percent
1	Sex	(a) Male	50	62.50
		(b) Female	30	37.50
2	Educational levels	(a) Below FSLC	10	12.50
		(b) Up to 1st Degree	55	68.75
		(c) Higher Degree	15	18.75
3	Chronological age	(a) 18-25 years	25	31.25
		(b) 26 – 50 years	40	50.00
		(c) 51 years and above	15	18.75
4	Working Experience	(a) Less than 5 years	12	15.00
		(b) More than 15 years	35	43.75
		(c) Above 20 years	33	41.25
5	SMEs Promotion experience	(a) Above 5 years	25	31.25
		(b) 10 years and more	55	68.75
6	Economic levels	(a)Low income	20	25.00
		(b) Mid-income	25	31.25
		(c) High income	35	43.75

Source: Author Fieldwork (2017)

Table 4. Analysis of Responses.

S/N	Statement	Strongly agree	Agree	Neutral	Disagreed	Strongly disagree
1.	God compensation management is necessary to retain executives	51	20	2	5	2
2.	Bonuses or incentive motive executive employees	45	15	3	10	7
3.	Benefits are among the motivators for executives	50	10	5	7	8
4.	Gain sharing enhances a sense of belonging among executives	37	12	4	6	21
5.	Profit sharing encourages hard work among executives	48	09	1	12	10
6.	Share option enhances the sense of ownership	40	15	2	15	8
7.	Wages and salary adjustments are necessary to compensate for new skills acquired	44	12	6	11	7
8.	Long term compensation attracts executives to employees	32	16	8	9	15
9.	Equity is critical to reduce executive mobility and turnover	56	10	2	8	4
10	Pay-for-performance encourages competition among executives.	55	17	3	2	3

Source: Author Fieldwork (2017)

4.1. Discussion

From this result, it was found that executive compensation management is necessary for productivity among SMEs in Nigeria. This result presents good news because it agrees with the popular notion that executive compensation is related to enterprise productivity. For example, according to Kaliski (2001) in 1997 Sanford Weill, the Chief Executive Officer (CEO) of Travelers Group collected $7.5million in salary and bonuses plus $223.2million for long-term compensation totaling $230.7 million. In the same year, Roberto Goizueta, CEO of Coca-cola, earned a total of $111.8million, including annual salary, bonuses and long-term compensation. He reports that the compensation of the twenty highest paid executives ranged from $28.4 million to $230 million; in the same period, and justification of such a large sum of compensation was linked to organizational performance. The result also supports the view of Werther and Davis (1996) that competitive and equitable employee compensation plans lead to increases in performance, quality and productivity. Management system in SMEs is often less formal than that of larger ones. In fact, a degree of informality can be a virtue in SMEs. But as the number of employees increase, the benefits of informality decline and its cost increase. Growth, then, produces pressure to formalize employment policies and procedures, including the description of executive compensation. Most SMEs prefer to operate independently without unionization. Indeed, almost all SMEs in Nigeria are not unionized, sometimes because of the small size of the business. But with growth, as in the case of some SMEs in Nigeria, large numbers of employees cannot be effectively managed without a way for regulating employer – employee relationships. A fine way to formalize employer-employee relationships is to provide an employee handbook, which will let employees know the organizations ground rules and regulations. It will also provide a basis for fairness, equity and consistency in management decisions affecting employees, including how to compensate them. Drucker (1998) suggests that management styles involving performance appraisal, merit pay, team and individual reward systems and the general way that business is done, should include sound executive compensation plan that is based on sound compensation philosophy. SMEs as the pivots of economic development need to develop the right compensation philosophy, then implementing the most supportive programmes with the view of obtaining the highest input from those who will be affected. A sound executive compensation arrangement must promote alignment of compensation and corporate objectives capable of attracting, retaining and motivating those at the top management level. This is critical because obtaining loyalty and high productivity among executives is not frequently a democratic process. Since the final decision must be made by management, it is rather a business process that aims at improving productivity. Such a process musttake into cognizance the elements of good corporate governance. According to Lin (2011) ineffective corporate governance had a negative effect on the performance of SMEs in China. On the other hand, he reports a positive relationship between senior management compensation and firm performance.

4.2. Scope for Further Research

Further research should focus on compensation and employee discipline to see if it will help to reduce the wave of employee related frauds in SMEs in Nigeria. This is important because traditional approaches to discipline based on punishment, are known to promote adversarial relationships between leaders and followers (Champagne, and McAfee, 1989, Greenberg, 1989).

4.3. Recommendations

a) Employers should understand the characteristics of an individual employee. This will help in determining the requisite compensation that can motivate him/her toward high productivity.

b) SMEs promoters should maintain internal equity. Situations where relations of owner-directors are compensated more than other employees of equal status are demotivating.

c) External equity is critical in executive compensation management. To retain competent executives, SMEs should not pay below the market rate for comparative jobs and positions.

d) It is important to keep in view the scope and nature of job position in compensation plans. In most SMEs you hear people being called "general manager" but such an individual does not have an official car required of the office for official duties. In a situation like this, the individual lacks the psychological balance to perform effectively.

e) SMEs should state clearly the terms of their compensation plans. This will guide potential employees in making informed employment decisions.

f) SMEs should recognize pay-for-knowledge. This means the more education or experience the employee has while on the job, he or she moves up on the pay-for-knowledge scale.

g) Traditional Compensation methods should be constantly reviewed by SMEs promoters. Employees should be compensated consistent with outstanding achievement on the job to encourage productivity and not only through the usual "annual increment" that does not stand the power of inflation.

h) SMEs should encourage knowledge workers and avoid employing largely unskilled people. Because of the fear of adequate compensation most SMEs engage unskilled manpower who accepts "subsistence pay". This practice does not give room for executive manpower development and or the growth of the enterprise.

i) Looking into the future is important. Most SMEs in Nigeria die with the demise of their promoters because of non-development of executive manpower and succession planning. Succession planning is required for SMEs growth and national development.

j) Through good compensation plans the over 17 million SMEs in Nigeria can attract qualified youths and thereby helping in reducing the acute youth unemployment.

k) The Federal Government of Nigeria (FGN) through the National Assembly (NASS) should ensure that all SMEs employing over 20 people comply with the compensation plans applicable in the OPS and in accordance with the minimum wage.

5. Conclusion

Better management of compensation components will provide a veritable framework for the development of executive manpower among SMEs in Nigeria. Executive compensation relates to what CEOs and other executives receive in exchange for their contribution to organizational productivity. Installing good corporate governance arrangements, embracing transparency among SMEs in Nigeria will ultimately reinforce employee and executive behavior in the direction that produces expected results, and equally aligning performance with corporate objectives. It will also help in hiring and retaining the right caliber of executives that will effectively manage the affairs of the enterprise. The huge number of SMEs in Nigeria makes a serious business case for the institutionalization of corporate governance framework that will encourage the implementation of executive compensation policies based on the global recognition of its positive relationship with productivity. In contribution to the debate of executive compensation and productivity, this new study found a positive relationship between executive compensation management and productivity among SMEs in Nigeria. The result supports the earlier findings of Kalisk (2001) and Lin

(2011) that executive compensation is positively related to organizational productivity. This is the crux of the study.

References

[1] Aganga, O. (2012). Nigeria has about 17.3m SMEs. The Nation, vol. 7, No. 2143, pp: 12.

[2] Armstrong, M. (2004) A Handbook of Human Resource Management Practice. 9th Edition, New Delhi, Kogan Page.

[3] Asika, N. (2004) Research Methodology: A Process Approach. 1st Edition Lagos. Mukusamn& Brothers Enterprises.

[4] Bebchuk, L. A. and Fried, J. M (2004) Pay Without Performance: The Unfulfilled Promise of Executive Compensation. Cambridge, Harvard University Press.

[5] Behan, B. (2011) Great Companies Deserve Great Boards: A CEO's Guide to the Boardroom Palgrave, MacMillian.

[6] Boone L. E,andJurt D. C. (1999). Contemporary Business 9th Edition, Oriando, FL Harcourt Brace College Publishers.

[7] Bounds G. M, and Lamb C. W, Jr. (1998) Business, Cincinnati, OH: South-Western College Publishing.

[8] Carpenter, M. A and Sanders, W. G (2002). 10 Top Management Team Compensation: The Missing Link Between CEO Pay and Firm Performance? Strategic Management Journal (23) 367 – 375.

[9] Champagne, P. J, McAfee R. B (1989) Motivating Strategies for Performance and Productivity. New York, Quorum Books.

[10] Core, J. Robert, W. and David, E. (1999) Corporate Governance, Chief Executive Officer Compensation and Firm Performance. Journal of Financial Economics, 11, 371-406.

[11] Davies, J. H, Schoorman, F. D, and Donaldson, L. (1997) Toward a Stewardship Theory of Management. Academy of Management Review, 22, 20-47.

[12] De Jonge, A. (2008) Corporate Governance and China's It-Share Market. Cheltenham, U.K, Northampton, M. A, Edward Elgor.

[13] Dockop, J. R (1988) Determinants of Chief Executive Officer Compensation. Industrial and Labour Relations Review, 41:215-226.

[14] Dockop, J. R, Mangel, R, and Cirka, C. C (1999) Getting More than you pay for: Organizational Citizenship Behaviour and Pay-for-performance Plans. Academy of Management Journal, 42:420-428.

[15] Drucker, P. F (1998) Peter Drucker on the Profession of Management. Boston: A Harvard Business Review.

[16] Dutter, P. H (1972) Compensation Plans for Executives In J. J. Famularo(ed) Handbook of Modern Personnel Administration. New York, McGraw-Hill Book Company. Pp: 32 – 14.

[17] Essiet, D. (2012) Summit to address unemployment: The Nation, vol. 7, No. 2248, Pp: 35, Lagos.

[18] Eshanokpe, J. (2012) "SMEs make N70.6billion from Fund. The Nation, vol. 7, No. 2283, Pp: 52, Lagos.

[19] Fareed, Z. Abidan, Z. U, Shahzad. F. (2013) The Impact of Rewards on Employees. Job Performance and Job Satisfaction. Management and Administrative Sciences Review vol. 2, No. 5, pp: 431-443.

[20] Federal Government of Nigeria (2006) MSMEs Act.

[21] French W. L (1998) Human Resource Management New York, Houghton Mifflin.

[22] Greenberg, J. (1999)Managing Behaviour in Organizations: Science in Service to Practice, Upper Saddle River, N. J Practice-Hall.

[23] Halloran, J. (1978) Human Motivation; What Makes People Move? In J. Halloran (ed.) Applied Human Relations: An Organizational Approach New Jersey. Prentice-Hall, Inc. pp: 91-124.

[24] Henderson, R. I (1994) Compensation Management: Rewarding Performance, 6th Edition, New York, Prentice – Hall.

[25] Ibeenwo, G. I (2015) Entrepreneurship Development and Management in Nigeria, Aba, Living Word Mission Press.

[26] Jenks, J. M, Zernik B. L. P (1993) Employee Benefits. Plain and Simple. New York Macmillan.

[27] Jensen, M. and Murphy, K (1990a) Performance Pay and Top Management Incentives Journal of Political Economy, 98: 225-264.

[28] Jensen, M. and Murphy, K (1990b) CEO Incentives – It's Not How Much You Pay, But How. Harvard Business Review, 68(3): 138-153.

[29] Klein, A. L (1996) Validity and Reliability for Competency Based Systems: Reducing Litigation Risks" Compensation and Benefits Review 28(4): 31-37.

[30] Kalisk, B. S (2001) Encyclopedia of Business and Finance. Volume 1. USA, Macmillan, Reference.

[31] Lin, Y. (2011) Executive Compensation and Firm Performance. Evidence from China's Listed Private SMEs. Unpublished Master Thesis Faculty of Economics and Business, University of Amsterdam.

[32] Longernecker, J. G, Moore, C. W, Petty, J. W, and Palich, L. E (2006) Small Business Management: An Entrepreneurial Emphasis, 13th Edition, USA, Thomson, South-Western.

[33] Madura, J. (1998) Introduction to Business. Cincinnati, D. H: South-Western College Publishing.

[34] Milkovich, G. T, Newman J. M (1996) Compensation: 5th Edition Chicago, Irwin.

[35] Momoh, Y. I (2011) Effects of Government Policies on Small and Medium Enterprises for Wealth Creation in Nigeria. A Study of Idah Town, International Journal of Social and Policy Issues, 8(1): 247-251.

[36] Nelson, C. (2016) $120b Trade Finance Gap Opens Opportunities for Banks. The Guardian, vol. 33, No. 13844, pp: 26.

[37] Nickels, W. G. (1999) Understanding Business.5th Edition, Boston M. A: Irwin – McGraw-Hill.

[38] Noe, R. A, Hollenbeck, J. R Gerhart, B, and Wright, P. M (2004). Fundamentals of Human Resource Management, USA, McGraw-Hill.

[39] Olaopa, T. (2015) Governance Reform in Nigeria: Imperative of a New National Productivity Paradigm. The Guardian, Thursday, May 28, pp: 19.

[40] Osehobo, V. (2012) 67 Million Youths Unemployed – Minister. Nigerian Pilot, vol. 2, No. 154, pp: 1-2.

[41] Osuala, E. C. (2005) Introduction to Research Methodology, 3rd Edition. Onitsha Africana-First Publishers, Plc

[42] Pauline, G. B (1997) Executive Compensation and Changes in Control: A Search for Fairness Compensation and Benefits Review, 29 (March/April) 30-40.

[43] Pfeffer, J. (1994) Competitive Advantage Through People. Boston, M. A: Harvard Business School Press.

[44] Reingold, J. Borrus A. (1997) Even Executive are Wincing at Executive Pay. Business Week, May 12:40-41.

[45] Reingold, J. Melcher, R. A (1998) Executives Pay. Business Week, April 20:64-66.

[46] Strivastav, P. and Singh, S. (2016). Narayana Murthy: The Table Turner in Troubled Times? Amity Business Journal, vol. 5, No. 2, pp: 31-37.

[47] Tharaney, V. and Upadhyaya, D. (2016) New Paradigm in Higher Education in India: Edupreneurship: Amity Business Journal, No. 1, pp: 57-68.

[48] The Holy Bible (1989) Authorized: King James Version. USA, World Publishing.

[49] Torrington, D, Hall, L and Taylor, S. (2005) Human Resource Management, 6th edition, UK, Prentice Hall.

[50] Utah State University (1997) Policy Manual: Compensation No. 384, pp: 1-4.

[51] Werther and Davis (1996) Human Resources and Personnel Management, New York, McGraw-Hill, Inc.

Biography

Dr. Ugoani is a Senior lecturer and Coordinator, College of Management and Social Sciences, Rhema University, Aba, Nigeria. His research interest focuses on business, management, production bank management, organisational behavioural, public sector management, diversity and conflict management, strategic management, emotional intelligence, entrepreneurship, governance, leadership, corruption management, and family business among others. Johnis recognized forpresenting the first best PhD Dissertation in Management at the Faculty of Business Administration, Imo State University, Owerri, Nigeria. Before entering academia, he was a senior manager at First Bank of Nigeria Plc in 2009.