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Employee compensation management: The case of the national minimum wage in Nigeria

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ABSTRACT

This article examines the issue of employee compensation in Nigeria with particular reference to the National Minimum Wage. The paper notes that proper employee compensation management is central to industrial harmony in all organizations. The paper however discovered that, over the years, employee compensation as it relates to national minimum wage fixing in Nigeria has remained controversial and problematic. The major cause of this problem is its retention in the federal exclusive legislative list. Having noted all the issues involved, the paper is of the view that minimum wage fixing should be removed from the exclusive legislative list to the concurrent legislative list so that stakeholders can have input in the fixing of the minimum wage in order to maintain the much needed industrial harmony.

KEY WORDS

employee compensation, national minimum wage, federalism, legislative list and controversy

JEL Code: O10, O25, O38, P35

1 INTRODUCTION

Perhaps, one of the most important, complex and controversial issues in the management of human resource in any organization is compensation management. It is usually crucial and problematic in many organizations. This is because the issue of salaries and wages administration is of fundamental importance and of course a matter that is closest to the heart of every employee and the employer in any organization be it public or private. Employee compensation is even more important and sensitive now than ever before in Nigeria. This is as a result of the devastating inflationary trends leading to acute economic hardship particularly in a developing country as Nigeria.

Therefore, if the employees' financial remuneration is not properly managed, it can lead to industrial disputes of varying degree and dimension. On the other hand, proper management of employees' wages and salaries serve as a key factor in attracting, retaining and motivating the employees towards higher performance in any organization. Since the government is a powerful regulator of the relationship between labour and management in the public sector, the federal government in Nigeria plays the role of fixing the national minimum wage for public and private employees in Nigeria.

However, over the years, the issue of wage fixing in Nigeria has been problematic and controversial. This is because of the federal system of government that is in practice in the country. The controversy has been on whether or not the fixing of the national minimum wage should be in the federal exclusive legislative list or in the concurrent legislative list of the constitution of the country. The Nigeria Labour Congress has always been opposed to its removal from the exclusive legislative list in view of the unwillingness, inability or refusal of state governments to pay such national minimum wage fixed by the federal government. Recently, the Nigerian Parliament attempted to amend the country's constitution by removing labour from exclusive list to the concurrent list. This attempt was angrily resisted by the Nigerian Labour Congress which threatened the National Assembly with a national strike if the amendment was carried out as proposed.

This development is an indication that all is not well in the area of wage fixing in Nigeria. It also has great consequences for the state governments in the face of their dwindling financial resources. Most states of the federation have been complaining and bemoaning their inability to survive the wage bills of their workers. They are therefore in support of removing wage fixing from the exclusive legislative list to the concurrent legislative list. The implication of this is that whenever the federal government fixes national minimum wage, there is likely going to be

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issues of industrial disharmony particularly between the labour unions and the state governments over the full implementation of such wage fixing. This is because compensation management remains problematic particularly in the public sector. This is why this paper examines the implications of this unresolved issue of wage fixing in Nigeria. To achieve this aim, the paper is organized into four parts. The first part examines the concept of employee compensation. The second part discusses the significance of employee compensation in any organization while the third part examines the national minimum wage controversy in Nigeria. The fourth part is the concluding remarks.

2 THE CONCEPT OF EMPLOYEE COMPENSATION

Employee compensation in any organization is usually in form of financial reward given to employees in exchange for the services rendered by them. It is any form of payment given to employees in exchange for work they provide their employers. It is useful to emphasize that most experts view compensation administration as an art, not a science (Sanderson 1976). It is customary too to differentiate direct compensation from indirect compensation. For example, Stone (1982) describes financial payment made at, or near the time work is performed as direct compensation. Examples of direct compensation according to him are wages, salaries, overtime pay, commissions and bonuses. Therefore, employee compensation can be defined as the totality of the financial and other non-financial rewards that an employee receives in return for his labour or services offered to his employers. Similarly, wages are usually distinguished from salaries and refer to direct compensation received by an employee paid according to hourly rates. An employee paid on a monthly, semi-monthly, or weekly basis receives a salary. Employees receiving a salary receive their pay regardless of the specific number of hours they work (Stone, 1982). Besides earning a wage or salary, most employees are also compensated for their efforts by certain benefits such as medical care, insurance and holidays. These are forms of indirect compensation. In other words, compensation refers to direct and indirect monetary and non-monetary rewards. The direct compensation includes basic pay and incentives while the indirect compensation entails benefits in kind or cash. However, the discussion on compensation must include the activity by which organizations evaluate the contribution of employees in order to distribute fairly the various rewards (Schuler, 1981).

Employee compensation is a major personnel function in any organization. It is related in some way to almost every other personnel management function. Closely connected with compensation policies and practices are human resource planning, job analysis, performance appraisal and labour relations. Also, compensation directly influences three personnel management functions. These are recruiting/selection, benefits and career planning and development. Usually, an employee receives his pay after some period of time on the job. However, an employee's first contact with compensation is typically during the recruitment exercise. This is because pay can be an important factor in whether or not an applicant accepts a job offer. The issue of equitable compensation can only be understood relative to what other employers are willing to provide and as a comprehensive package involving both pay and benefits. From an employee's perspective, the real value of pay depends on its actual purchasing power (Hay & Reeves, 1984).

2.1 Significance of Employee Compensation

As noted earlier, employee compensation is one of the major functions of personnel management in any organization. It is not just a personnel function; it directly influences other personnel functions such as human resource planning, job analysis, performance appraisal and labour relations, recruitment and selection among others. The issue of employee compensation is indeed very close to the heart of both employees and the employers to the extent that it is very sensitive to them. According to Stah, (1983), in no phase of personnel administration is the possibility for misunderstanding and conflict greater than that of compensation. Employee compensation is also important because its cost usually compromise a major portion of the budgets of many organizations both in public and private sectors. This is why compensation specialists usually conduct pay surveys and job evaluation to ensure that internal pay structure are fair.

The significance of compensation to employees must be known, if compensation is to be used effectively. Compensation serves three main organization needs. These are to attract potential employees to the organization; motivate employees to perform; and to retain the good employees. Pay is a problem of primary importance to any public or private enterprise. Over seventy percent of strikes are on problems of fair pay. The public service always faces turbulent strikes and even professionals are approaching industrial action. Similarly, the importance of compensation to the organization is highlighted by the fact that labour costs amount to between 45 and 55 percent of an organization costs in both the private and public sectors (Anjorin, 1992).

Organizations need to ensure that employees are satisfied with their pay. The three major determinants of satisfaction with pay are pay equity, pay level and pay administration practices. Pay equity refers to the relationship between what people feel they should be receiving and what they feel they are receiving. Pay level is an important determinant of the perceived amount of pay which is compared to what should be received. An employee should receive remuneration appropriate to his contribution to the organization's work. Emphasis is on the individual's salary at a particular point in time. There should be provision for adjusting salaries so that the relationship between salary and performance is continuously updated for all employees (Anjorin, 1992).

On the other hand too, employee compensation is significant to the effectiveness of organizations. This is because it greatly affects organization effectiveness in a number of ways. Stone (1982) identified certain basic ways in which employee compensation contribute to organizational effectiveness. First, compensation can serve to attract qualified applicants to the organization. It is most likely that an organization offering a higher level of pay can attract a larger number of qualified applicants than other organizations. In most cases too, more highly qualified applicants are more likely to be highly productive employees thereby contributing immensely to organization profitability or efficiency in service delivery. Moreover, compensation helps to retain competent employees in an organization. By providing attractive financial and other benefits to employees, the rate of employee turnover is reduced.

Another significance of compensation to organizational effectiveness is that it serves as incentive to motivate employees to put forth their best efforts for the achievement of the organizational objective. Consequently, when employees' put forth their best efforts, average productivity of labour increases, leading to increased productivity and reduced number of employees needed to achieve the same level of output. In other words, labour costs are reduced thereby increasing the organization's profitability or efficiency and effectiveness.

3 THE NATIONAL MINIMUM WAGE CONTROVERSY IN NIGERIA

The Role of Government in Employees Compensation Management

By its nature, employee compensation is a personnel management function which is subject to conflicting pressures from many sources. These sources according to Stone (1982) include management seeking to control labour costs, employees and unions seeking higher pay, the government seeking to control inflation and ensure minimum, non-discriminating pay, and the forces of product and labour markets.

Minimum wage is a compensation to be paid by an employer to his workers irrespective of his ability to pay. The wage must provide not only for the bare sustenance of life, but for the preservation of the efficiency of the workers. For this, minimum wage must provide some measures of education, medical requirement and amenities (khanka, 2013). Minimum wage is important in addressing the right to human dignity at the work place. This is why it is important that employers must work with the framework of the various laws that guide compensation fixing and management in a country.

In most countries of the world, the government is usually a powerful regulator of the relationship between the employees and the employers. Indeed, in modern capitalist countries, it is pertinent to observe that the employment relationship has become so complex with industrialization that government have become more involved in industrial relations through legislation (Okoedion, 1992). The government has powerful influence in compensation management. This is because it has powerful and enormous powers and influence on wage fixing by deciding the minimum pay rate for all employees in a country, below which employers must not pay. For example, the second schedule, section four, part one of the constitution of the Federal Republic of Nigeria, 1999 in item 34 under the legislative powers of the federal government provides that:

> *labour, including trade unions, industrial relations, conditions, safety and welfare of labour, industrial disputes; prescribing a national minimum wage for the federation or any part thereof, and industrial arbitrations.*

In addition to the federal government's powers to fix minimum wage, there are other state and local laws which usually affect compensation policies and practices. Similarly, federal and state tax laws have an important impact on employees' take home-pay and can often affect an employer's compensation policies and practices. The impact of tax laws on the pay of all employees has increased in recent years due to inflation (Stone, 1982).

Over the years, the issue of wage fixing in respect of the national minimum wage in Nigeria has been problematic and controversial while the state governments prefer that the fixing of national minimum wage should be removed from the exclusive legislative list, the labour unions always insist on the retention of this on the exclusive legislative list.

The Controversy

Recently, following the consideration of the amendment to the constitution by the nation's National Assembly, the labour unions expressed their dissatisfaction with the proposal of the National Assembly to remove wages and pension matters from the executive legislative list. Trade Union leaders threatened to call out their members on strike if the proposal was approved. According to labour, the proposal was unacceptable to it on the ground that the basic rationale for fixing a minimum wage is to ensure that employees, particularly the unorganized and unskilled are not exploited by their employees to the extent that their pay becomes so low that it creates a pool of the working poor.

The General Secretary of the Nigeria Labour Congress, Dr. Peter Ozo-Eson added that the removal of wages and pension from the exclusive list means that even individual employer will determine its minimum wage. This is extremely retrogressive and dangerous. The other implication of this according to him is that it will turn the wage determination process in states into a legislative exercise instead of the universal best practice model of collective bargaining, as enshrined in the International Labour Organization Convention 154 on collective bargaining, as well as Convention 98 on the Right to organize and collective bargaining (The Nation, Oct. 24, 2014).

However, responding to the position of labour on the issue, the then Deputy Speaker of the House of Representatives, Honourable Emeka Ihedioha, who was also the Chairman of the Ad Hoc Committee on Constitution Amendment, clarified that status of minimum wage in the Constitution Amendment. According to him, labour was not removed from the exclusive list. He explained that while the Senate put labour on the concurrent list, the House of Representatives retained it in the exclusive list. However, during the harmonization of the reports from the two chambers, the conference committee adopted the House of Representative version and retained labour on the exclusive list which the two chambers thereafter adopted. (The Nation, Oct 24, 2014)

The above is basically the controversy surrounding the fixing of national minimum wage in Nigeria. This problem is likely to remain unresolved as long as the constitution of the country is not amended in line with the requirements of the federal system of government in practice in the country. The practice of federalism in Nigeria today is lopsided in terms of the constitutional allocation of powers and funds for servicing the powers allocated whereas the allocation of powers to the tiers of government is one of the most important ingredients of federalism. According to Ayoade (2011), the federal government has become the ultimate in authority in matters of interest to all states and citizens. The result is a paternalistic federation where all resources and powers reside in the federal government. The constitutional rights of the states are snuffed out leaving the states with positions without power or funds. The states live a precarious existence struggling to meet the legitimate demands of their citizens. For example, the exclusive legislative power of the federal government is overloaded.

Closely related to the above is the issue of integration in the country. As a result of the heterogeneous nature of the Nigerian state, the issue of unity and integration is central to the practice of its federalism. This also has great consequences for policy issues relating to employee compensation. As a strategy for national cohesion, the military, which ruled Nigeria for many years, was aversed to diversity which is a critical defining characteristic of Nigerian federalism. It therefore imposed forced uniformity through a uniform national salary structure, uniform educational system, uniform tax codes, uniform oil and gas prices.

The uniform salary structure for example, destabilized the states by requiring them to pay salaries that are sometimes in excess of their financial capacity (Ayoade, 2011). Many states usually find it difficult to pay the national minimum wage whenever the federal government fixes it. This is partly due to their reliance almost entirely on federal government financial allocation to them. This is usually inadequate to meet the financial requirements of states to pay salaries of their employees and to meet other financial obligation of government. This is also partly because of the failure of most state governments to raise substantial funds from their internally generated revenue. According to Ayoade (2011), even now, it is clear that judging by the criterion of resource viability, many of the present states cannot survive the wage bill of their workers not to talk of providing social services. On the part of the employees of the state governments, they usually hold their state governments responsible for the full implementation of national minimum wage as fixed by the federal government. This has led to a number of industrial disputes in many states of the federation.

The effect of this uniform salary structure on the private sector is equally devastating. This is because it has resulted in strikes, lockouts and even lay offs especially in many small and medium scaled industries in the country. The insistence of the Nigeria Labour Congress on the retention of the national minimum wage law in the exclusive legislative list is a result of the issues raised on the inability or refusal of state governments in fully implementing such laws. If the law is on the concurrent legislative list, it means that each state government will determine its minimum wage.

4 CONCLUDING REMARKS

This paper has examined the meaning and significance of employee compensation management. It also examined the controversy surrounding national minimum wage fixing in Nigeria. The paper concludes that the major source of the controversy has to do with the nature and practice of federalism in Nigeria. While it is important to note that the allocation of powers to the tiers of government is one of the most important features of federalism, inter-governmental relations in the Nigerian system are tailored in favour of the federal government which assumes the position of the senior partner to the extent that the constitutional rights of the states are taken away from them thereby rendering them powerless financially.

The exclusive legislative list is an evidence of power grab by the federal government. It is therefore suggested that in order to resolve the controversy over the fixing of the national minimum wage therefore, wages and pension issues should be removed from the exclusive legislative list to the concurrent list forthwith. This is on the ground that Nigeria is running a federation and most federations world over allow wage fixing on the concurrent list. This is because the financial resources of states differ. There are rich and poor states within the same federation, hence they can pay different wages to their employees in accordance with their financial capabilities and conditions or standard of living in the respective states. The cost of living varies from place to place; certain places may be costly because of their bad climate, or remoteness and inaccessibility. It would not therefore, be fair to pay the employees a uniform rate regardless of the place where they have to serve. Regional differentiation may be made either by different scales of salaries or by a scheme of allowances (Sharma, et. al. 2012).

In most cases, state governments stick to the minimum wage as fixed by the federal government without increasing it thereby taking undue advantage of their employees. Whereas, if wage fixing is taken to the concurrent legislative list, each state government should be able to decide what its minimum wage should be. It is also suggested that no level of remuneration should be fixed without the input of the state governments and the private sector employers because of the involvement of availability of financial resources and consideration of level of productivity on the part of the employees. There should also be periodic review of salaries in line with the rise in the cost of living. This could be within the period of four to five years. If this is done, the level of industrial harmony in both the public and private organizations will increase greatly.

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