 Engagement and Compensation: A Historical Perspective of Wage Determination and National Minimum Wage in Nigeria

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Abstract

Engagement necessitates compensation in forms of wages and salaries is ideally expected to be an outcome of negotiation between employer and employee. In Nigeria, compensation for labour engagement has always been a source of controversy especially for public sector workers; which has resulted into industrial strikes in the past. In both pre- and post-independence Nigeria, wage determination was burdened on ad-hoc wage commissions whose reports and recommendations have always led to improved financial compensation for workers. This paper traces the history of wage determination in Nigeria to the Hunts Commission of 1934 and reviews the roles played by various wage commissions in determining wages and salaries of public sector workers with its ripple effects on compensation in the private sector. The major motivation for this historical review is to draw insights and lessons of experience that can assist in putting an end to the constant agitations by trade unions for improved pay, leading to the periodical setting up of ad-hoc wages commissions and recommendations of such commissions, leading to increase in salaries of the public sector workers. To break this consistent pattern discernible from the review and properly align wage determination with cost of living, the paper recommends that periodical wage negotiations between workers and government should be entrenched in the constitution with specific milestones for such negotiations to enhance the employee engagement and improve productivity. Employee involvement program is recommended to be integrated into the constitution and other labour laws to empower employees to be part of decision-making process in the workplace.

Keywords: compensation, engagement, national minimum wage, Nigeria, wages.

Introduction

Wages and salaries administration otherwise known as compensation management involves a double exchange relationship between an employee and an employer of labour. It is a contractual agreement for the payment of wages and salaries in exchange for effort (Fapohunda, 2012). Compensation is one of the key aspects of human resources management and it is singularly-significant both to employers and employees. To the employer, it represents the single largest cost item in any organization, while to the employee it represents a means of meeting his or her needs which may be social, psychological, political or economic. In addition to the foregoing, compensation constitutes a major source of conflict and disagreement which sometimes results in dispute in organization. With varying degrees of success, organizations attempt to harness the powerful forces of pay as a motivator to encourage employees to work in ways that lead to the achievement of organizational objectives.

Wage is often used interchangeably with compensation management (Dessler, 2017). In the narrow sense, wage is the price given to a worker for services rendered. However, in the broader sense, wages are compensation or remuneration given for overall services rendered apart from the basic wage. It includes allowances, benefits and other financial support like bonuses, workmen compensation, holiday pay, leave allowances, overtime, etc (Fapohunda, 2012). According to Maduabum (1998), salary could be conceptualized as compensation received by an employee for services rendered during a specified period weekly, monthly, or yearly. Wage on the other hand, refers to compensation paid to an employee as stated sum per piece, day, or any other unit or period for services rendered. Essentially, wage and salary refer to money paid in concrete terms in return for job done. The two concepts could therefore be used interchangeably to mean the same thing. Wage or salary is usually based on an agreement between the labourer
who offers to sell his services to the management who in turn accepts to pay money in return for the services of the labourer. The monetary value of the services rendered by the employee depends on the quality of services rendered and effort put into such services by the employee (Oyedele, 2016; Dessler, 2017; Torrington, Hall, Taylor & Atkinson, 2017).

The International Labour Organization ILO (2001) describes compensation as payment system based on effort, performance and productivity. It refers to a salary or wage and all allowances and financial benefits payable to an employee either in cash or kind in return for services rendered. Henderson (2000) defines compensation as any form of payment given to employees in exchange for work provided for their employers. Compensation can be direct or indirect. French (1998) asserts that indirect compensation is in form of benefits such as healthcare, insurance, pension and others.

According to Oyedele (2016), payment of wage/salary is the single most important obligation owed by an employer to an employee. However, wage/salary administration has always been the bone of contention in labour-management relations in Nigeria. Improper handling of wage/salary administration has adverse impact on the employees’ attitude to work and encourages unethical behaviour such as theft, bribery and corrupt practices at work (Agbanike et al., 2020). Ideally, wage determination should be an outcome of negotiation between employer and employee. However, in Nigeria, wages and salaries determination especially in the public sector has been influenced mostly by wages commissions, pre-independence period inclusive. The main objective of this paper is to review the historical evolution of wage determination in Nigeria with a view to drawing insights and lessons of experience that will put an end to a recurring pattern of ad-hoc wage commissions determining public sector wages.

The rest of the paper is organized into three sections. Section two addresses the objective of this paper presenting a historical review of wage determination from the first wage commission of 1934 to the most recent upward review of the minimum wage to N18,000 in 2011. Section three presents an overview of the recent agitation for an upward review of the National Minimum Wage to N56,000 by the organized labour in Nigeria. The last section concludes the paper and proffers recommendation to make wage determination less controversial in Nigeria.

A Historical Overview of Wage Determination in Nigeria

This section presents the origin of minimum wage legislation across the globe and an historical review of wage determination in Nigeria from the colonial period up till now, most especially, the roles of different wages commissions in setting minimum wage.

Global Origin of Minimum Wage Legislation

The first minimum wage was enacted by the government of New Zealand in 1894. This is followed by minimum wage law enacted by Victoria State of Australia in 1896 where an amendment to the Factories Act provided for the creation of a wages board (International Labour Organization [ILO], 2020). The wages board did not set a universal minimum wage rather it set basic wages for six industries that were considered to pay low wages (Nwude, 2013). This law served as a model used in fashioning out the British Trade Board’s Act 1909. In the USA, Massachusetts enacted the minimum wage law in 1912. This was the earliest enactment of its kind in the USA. Eight other states in the USA followed in 1913. It is worthy of note that even though the practice of minimum wage globally is old, the duration, details and nature of the practice has varied from country to country (Nwude, 2013). According to Dolle (1999) and Metcalf (1999), the USA and France were among the countries with the longest practice of applying a single national minimum wage.

A national minimum wage was introduced in UK in April 1999. UK adopted a new minimum wage with national coverage after dismantling its system of industrial level minimum wages in the 1980s. Ireland introduced a national minimum wage the first time in 2000. Argentina, Brazil, China and South Africa were not left out in the practice of minimum wage with the intention to provide social protection to the vulnerable and non-organized categories of workers. Argentina and Brazil revitalized their minimum wage policy in the early 2000 with the intention to reverse the decline in the wages of workers (Onuegbu, 2010b). China
regulations on minimum wage were issued in 2004 as a result of the growing concerns about the widening wage inequality. South Africa introduced minimum wage floors in 2002 in order to support the wages of millions of low-paid workers in different economic sectors.

According to Nwude (2013), from the origin of minimum wage it is easy to decipher that in the absence of minimum wage, some workers are likely to be subjected to a terrible low wage. With this low wage they are like dis-enabled to act like human beings. This is so because under that condition their ability to discharge their responsibilities to society and even to themselves would be seriously jeopardized. It is not out of place that workers have and do exercise their right to demand that labour be treated with dignity. It is equally not surprising that workers expect the society and the nation to have a corresponding duty to ensure that their right to dignity of labour and the right to minimum wages are respected. Section 17(3b) of 1999 constitution of the Federal Republic of Nigeria directs that the conditions of work are just and humane. The ILO on its own side recognizes the dignity of man and has come up with ILO conventions labelled Core Standards which recognizes four basic aspects in fixing wages.

**Nigeria’s Pre-Independence Experience**

In Nigeria, the history of minimum wage cannot be separated from the history of public service negotiations and increments. It dates back to the colonial era. During the colonial period negotiations and consultations on wages were restricted to public administration and by mainly European officers (Fashoyin, 1980; Yesufu, 1984). Colonial labour policy, during this period; was more a response to demands and protests against working conditions and wage rise by workers. This situation has hardly changed and according to Ubeku (1986), Wage Tribunals and Commissions were major features of this response. The first of those Commissions was the Hunt Committee set up in 1934 and charged with the responsibility of reviewing the wages of unskilled workers and to determine reasonable standard of living for labour. The Bridges Committee of 1941 reviewed wages of African government workers in Lagos and recommended compensatory increase subsequently, called cost-of-living awards (Uzoh, 2015).

As far back as 1943, the wage, fixing and registration ordinance (No. 40 of 1943) came into effect establishing wage boards modelled after those of the United Kingdom. Subsequently in 1946, the British Colonial Secretary issued a circular to all heads of government departments requesting them to take immediate action to ensure that proper wages and conditions of service were observed. The 1943 wage fixing and registration ordinance was later replaced by the Wages Board Ordinance in 1957 also based on the United Kingdom Wages Council Legislation (Onuegbu, 2010a).

Ogunna (1999) notes that prior to the recommendation of Sir Walter Harragin Commission 1946, the structure of the civil service was broadly divided into European and African services in which the former enjoyed better conditions of service, higher pay, etc, than the latter. But following the implementation of the Report of Sir Walter Harragin Commission 1946, this structure was abolished and replaced with the structure of Senior and Junior services. For the first time in the history of Nigeria, the Commission introduced into the civil service the principle of equity and fairness, that is, uniform basic salary for both Europeans and Africans (Okafor and Aniche, 2015).

Tudor Davis Commission of 1945 was appointed in the wake of June 1945 general strike and granted workers demand for cost of living allowance. Miller Committee of 1947 looked into wage rates of daily paid workers. Cowan Enquiry of 1948 investigated and reported on methods of negotiations between government and employees in state owned industrial establishments (Fashoyin, 1980; Yesufu, 1984; Ubeku, 1986).

With the implementation of the report of the Gorsuch Commission of 1955, the old structure of the civil service which divided the civil service into senior service and junior service was abolished and replaced with a structure of five grades, viz, super-scale, administration, executive, clerical and sub-clerical for administrative cadres; and super-scale, professional, high technical, technical and minor technical for professional/technical cadres. The implication of Gorsuch Report ensured revision of the structure of salary
scales based on the revised grade structure (Ogunna, 1999; Okafor and Aniche, 2015). Subsequently, implementation of the Mbanefo Salaries and Wages Commission in 1959 ensured increases in the salaries, wages and allowances of public servants based on the existing five grading system.

Table 1

A Summary of Civil Service Reforms and Wages Commissions in Nigeria, 1934-2015

<table>
<thead>
<tr>
<th>S/N</th>
<th>Commission/Committee</th>
<th>Year</th>
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<tbody>
<tr>
<td>1</td>
<td>Hunts Commission</td>
<td>1934</td>
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<tr>
<td>2</td>
<td>Bridges Committee of Enquiry</td>
<td>1941</td>
</tr>
<tr>
<td>3</td>
<td>Tudor Davis Commission</td>
<td>1945</td>
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<td>4</td>
<td>Harragin Commission</td>
<td>1946</td>
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<tr>
<td>5</td>
<td>Miller Committee</td>
<td>1947</td>
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<tr>
<td>6</td>
<td>Gorsuch Commission</td>
<td>1955</td>
</tr>
<tr>
<td>7</td>
<td>Mbanefo Commission</td>
<td>1959/1960</td>
</tr>
<tr>
<td>8</td>
<td>Morgan Commission</td>
<td>1963/1964</td>
</tr>
<tr>
<td>9</td>
<td>Adebo Commission</td>
<td>1970/1971</td>
</tr>
<tr>
<td>10</td>
<td>Udoji Commission</td>
<td>1972/1974</td>
</tr>
<tr>
<td>11</td>
<td>The Cookey Commission</td>
<td>1981</td>
</tr>
<tr>
<td>12</td>
<td>Dotun Philips Commission</td>
<td>1985</td>
</tr>
<tr>
<td>13</td>
<td>The Fatai Williams Committee</td>
<td>1990</td>
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<td>14</td>
<td>Ayida Review Panel</td>
<td>1994</td>
</tr>
<tr>
<td>15</td>
<td>Philip Asiodu Committee</td>
<td>1998/1999</td>
</tr>
<tr>
<td>16</td>
<td>Ernest Sonekan Committee</td>
<td>2000</td>
</tr>
<tr>
<td>17</td>
<td>Wages, Salaries and Emolument Relativity Panel</td>
<td>2004/2005</td>
</tr>
<tr>
<td>18</td>
<td>Consolidation of Public Sector Emolument Panel</td>
<td>2005/2006</td>
</tr>
<tr>
<td>19</td>
<td>Justice Alfa Belgore Committee</td>
<td>2009/2010</td>
</tr>
</tbody>
</table>

Source: Aminu (2008) and Onuegbu (2010a)

Nigeria’s Post Independence Experience

During the First Republic, the determination of salaries and wages of public officers was regionalized in keeping with the federal principle. Each government of the Federation determined the salary grading and pay for its workers depending on its ability to pay. There was no uniformity of salaries and wages in the Federation. In addition to the differences in the salaries structure of public servants among the various governments in Nigeria, there was also a difference in the salary structure of various organizations within a government such as public corporation, the civil service, the teaching service, local governments and others. The grading and pay of public servants within a state was based on the traditional classes and the cadres of public servants. Consequently, there were numerous and complex salary structures within each government of the Federation.

The Morgan Commission of 1963 introduced minimum wage for workers based on geographical area, varying from region to region depending on the economic conditions of the areas like cost of living. However, the implementation of the recommendations of the Elwood Grading Teams in 1964 upturned this variation in minimum wage to achieve uniformities in the wages, salaries and allowances of workers discharging identical functions in the public service, that is, equal pay for equal work, or in line with the principle of fairness and equity. Also, the implementation of the recommendations of Elwood Grading Teams of 1964 resulted to increase in salaries and wages or higher remuneration for civil servants. The implementation of the recommendations of the Adebo Salaries and Wages Review Commission 1970-1971
resulted to a general increase in salaries and wages of public servants and a total abolition of daily paid system for workers (Ogunna 1999; Okafor & Aniche, 2015). The Federal Government in 1973 enacted the Wages Board and Industrial Council Act which empowered the Minister of Labour to set up machinery for fixing minimum wages and conditions of service in both private and public sectors of the economy.

The Udoji Reform of 1974 brought a unified structure of grading and pay. The Commission established a broad uniformity in the grading and pay of all the public servants within all the public services in the Federation based on a seven-point consideration. It introduced a seventeen-salary grade level with each grade level subdivided into salary steps. The Commission described it as a rational pay system based primarily on the worth of work performed, that is, equal work for equal pay or principle of fairness and equity. The Commission provided for the minimum wage as ₦720 per annum or ₦60 per month which was salary grade 01, step 1 and the highest salary grade level 17, step 4 was ₦5,510 per annum, and above salary grade level 17, the Commission provided for super scales for permanent secretaries (Ogunna 1999; Asodike and Jaja 2012; Okafor & Aniche, 2015).

One disturbing aftermath of the Udoji Commission in particular was the official backdating and subsequent implementation of the increase in wages and salaries (which ranged from 12 to 30 percent) and this served in no small measure to boost the purchasing power of government workers in the 1970s before inflationary pressures later made nonsense of the wage awards (Aminu, 2008; Obi & Iduh, 2011). Ogunna (1999) notes that the unified salary structure introduced by the Public Service Review Commission in 1974 marked the beginning of the Federal Government control of the pay system in the Nigerian public service.

During the Second Republic, the National Assembly was given the powers for the determination of the salaries of public officers in Nigeria. Perhaps, the first legislative process to enact national minimum wage legislation in the post-independence era started on May 28, 1981 and ended in June 15 of the same year culminating into National Minimum Wage Act of 1981. However, the National Minimum Wage Act of 1981 mandated every employer to comply with wage of ₦125 as the basic salary per month. Subsequently, in January 1991, the National Minimum Wage Act was reviewed, and workers started to earn a new minimum wage of ₦250 per month which was an addition of ₦100 representing an increase of 80 percent.

The Babangida Regime (1985-1993) made a series of salary reforms and introduced different patterns of salary systems to various professions taking into account the differing job requirement. The universities, the judiciary, the police, prison service, health, etc, were granted differing salary structures higher than those of the civil service yet the Udoji principle of uniform pay for public servants within a particular service in the entire Federation was maintained in all the tiers of government of the Federation.

The Allison Ayida Panel appointed by the Abacha Regime (1993-1998) in 1997 recommended strongly a substantial review of the wages and salaries of the workers of the Nigerian public service. Following its recommendation, the federal government under General Abdulsalam Abubakar introduced a salary structure based on the minimum wage of ₦3,000 per month for states and local governments and ₦3,500 for federal workers (Ogunna 1999; Asodike & Jaja 2012).

On May 1, 2000 under Obasanjo’s Civilian Administration (1999-2007), the National Assembly continued with the dual salary structure when it enacted the National Minimum Wage Act to pay a wage not less than national minimum wage of ₦7,500 per month to all federal workers and oil producing states and then ₦5,500 to all other states, but this was rejected by the NLC. So, in the same 2000, the Act was amended and the national minimum wage was reviewed upwards for states at ₦6,500 per month while that of federal workers remained at ₦7,500 per month (National Minimum Wage Amendment Act 2000; Arizona-Ogwu, 2007).

It was not until 2010/2011 under Jonathan’s Administration that the issue of national minimum wage was put on the front burner of national politics (Okafor & Aniche, 2015, p. 114). After excessive negotiations and bargaining, the National Assembly enacted a new National Minimum Wage Act which was signed into law by President Goodluck Jonathan in May 2011 at ₦18,000 per month for workers of all tiers of
government including private sector. Section 2 (1) of the National Minimum Wage (fmic.gov.ng) Act of 2011 states “As from the commencement of this Act, it shall be the duty of every employer to pay a wage not less than the national minimum of ₦18,000 per month to every worker under his establishment”. Thus, the Act abolished the dual minimum wage of Abubakar Regime (19981999) and re-introduced the same minimum wage for all the tiers of government in Nigeria.

2016/2017 Agitations for New Minimum Wage

Between 2016 and 2017, the organized labour in Nigeria most especially the Nigeria Labour Congress (NLC) and the Trade Union Congress (TUC) spearheaded the agitation for increase in the National Minimum Wage of ₦18,000 that has persisted since 2011. Specifically, in 2016 the labour unions submitted a proposal of increase in the National Minimum Wage from ₦18,000 to ₦56,000 basing their demand on high cost of living and the poor exchange value of the naira. This demand by the labour unions received both encomiums and knocks from the different segments of the Nigerian society. While activists and others believed that the demand by the labour unions was in order and appropriate to make workers in Nigeria live a decent life, others especially from the government circles believed that the labour unions demand is ill-timed, given the economic recession that the country is wading through and the poor revenue base of the government occasioned by the decline in crude oil prices.

While defending the labour unions demand, the Secretary-General, Association of Senior Civil Servants of Nigeria (ASCSN), Alade Lawal says “while Nigeria totters in better national minimum wage for its workers, countries around the world including those in Africa have moved ahead”. Alade Lawal listed Argentina to be paying $6,370 per month; Algeria, $2,145; Botswana, $652; Brazil, $3,660; Chad, $1,217, Republic of the Congo, $1,826; Ecuador, $5,124; Equatorial Guinea, $2,618; Estonia, $6,534; Gabon, $3,043, while Nigeria’s minimum wage of ₦18,000 translates to $59 (Business Day, 2017).

At a Stakeholders workshop in Lagos, organised by Campaign for Democratic and Workers’ Rights (CDWR), Stakeholders unanimously agreed that a new minimum wage was long over-due judging by the high cost of living in the country among other reasons. Speaking at the event, President of the Trade Union Congress (TUC), Mr. Bobboi Kaigama, said: “Minimum wage in Nigeria is far from being a living wage. The present minimum wage of ₦18,000 which is not applicable in all states of the Federation can barely provide a worker meal for a whole week talk more of meals that will last till the next pay day and the inflation rate in the country has made matters worse for workers in this category” (Okpalaebulue, 2017).

The TUC President further stated that “Minimum wage in a country should be able to cover the basic needs expenses of workers but the country’s minimum wage is barely enough for meals for a week talk more of other needs like housing and electricity and because of this many workers who earn minimum wage live below the poverty line of $1 per day”. Therefore, there is a need for an upward review of the minimum wage so as to improve the living standard of Nigerian workers” (Okpalaebulue, 2017).

At its plenary on Thursday 12 October, 2017, Members of the House of Representatives warned that a nationwide strike by workers over low wages could force the country’s economy back into recession. They therefore urged the Federal Government to consider an increase in wages to ₦30,000 as the new National Minimum Wage to avert an industrial action by workers (Ameh, 2017). In a quick reaction to the proposal of ₦30,000 by the House of Representatives, the organized labour rejected the resolution (Phinan, 2017).

However, the government has agreed to set up a tripartite joint committee comprising the labour unions, the National Employers Consultative Association (NECA) and the Federal Government to study and recommend an appropriate rate to the government. Though this joint committee is yet to be inaugurated, it is believed that something urgent need to be done to put an end to the recurring pattern of workers agitation leading to the setting up of ad-hoc committee with such committee’s recommendation leading to improved salaries for workers. The move is considered good and in line with the study of Ezeanolue and Ezeanyi (2020) which pointed to the importance of employee involvement participation in decision making process in matters that affects them.
Obi and Iduh (2011) suggested five reasons why there must be an upward review of workers’ wages. These five reasons are:

1. The consequence of the abdication of the agreed approach to the implementation of the phased-wage increases has been that wages and salaries are sharply depressed and incapable of meeting the basic needs of most workers.

2. Inflation has intensified with the cost of living index in the urban sector increasing by over 14 per cent. The disproportionate increase (20.9 per cent) in the cost of food means that the erosion in the real wages and salaries of workers is alarmingly severe.

3. The process of monetizing and consolidating in-kind benefits which were hitherto not taxed has resulted in an escalation of the tax paid by workers. This has further depressed the real take home pay of workers.

4. All over the world, salary increase in the public sector is underlined by the principle of equity and the need to bridge social inequality in the face of widening economic and social gaps amongst citizens of a country.

5. In Nigeria, while workers’ salaries increased by 15 per cent between 2006 and 2007, those of political office holders increased by over 800 per cent. The 2008 increase in the compensation of political office holders has further aggravated the disparity. We need to reduce this disparity for greater equity, productivity and morale.

**Conclusion and Recommendations**

Wage determination in Nigeria in pre- and post-independence has been the prerogative of ad-hoc wage commissions. From the colonial period till now, increments in wages and salaries of public sector workers have been determined by the various wage commissions. This paper has reviewed the historical evolution of wage determination in Nigeria from the colonial period till now. A major conclusion that can be drawn from the review is that wage determination has been burdened on ad-hoc wage commissions for all the period under review. Specifically, it is discernible from the review that each time there is agitation for wage increase, governments tended towards setting up Commissions whose reports have always formed the basis for salaries and wages increments.

It can also be concluded from the historical review that labour market in Nigeria is far from being perfectly competitive. It can also be inferred from the review that every increment in wages and salaries of public sector workers has always been followed by inflationary tendencies. The wage-price spiral is believed to have the tendency of eroding the positive impact of salary increment in Nigeria. It is believed that the only way out of the regular pattern of workers agitation leading to the setting up of wage commissions and increment in wages following from such commissions’ reports submission is for the Federal Government to entrench periodical wage negotiation and review in the constitution of the country with specific milestones for such negotiations to enhance the employee engagement and improve productivity. If it is entrenched in the constitution that over a given period of time, there should be wage negotiation between the labour unions and government, there will not be need for agitation for wage increment by the organized labour. Also, it is recommended that the issue of employee involvement program must be integrated into the constitution and other labour laws to empower employees to be part of decision-making process in the workplace.

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59
