

## **WAGE EROSION AND COMPRESSION IN THE NIGERIAN CIVIL SERVICES: IMPLICATIONS FOR PERFORMANCE**

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***Abstract:** The importance of wage or salary administration practice to the achievement of individual and group efforts in any organization cannot be over stressed. It is vital to the achievement of the corporate goal of any organization. Therefore, it is an important personnel management function. Perhaps, payment of wage and salary is the single most important obligation owed by an employer to an employee in organizations worldwide. However, the payment of salary in the state civil services, local government areas and even at the federal level in Nigeria has become problematic and hence worrisome today. This is as a result of the general economic down turn leading to inequitable pay or delay in payment or non-payment of salaries of civil servants coupled with high rate of inflation which constitute what this paper regards as wage erosion. This paper holds the opinion that this trend has grievous implications for the performances of civil servants and national development if not properly and promptly addressed.*

***Keywords:** Wage or Salary; Wage Erosion, Implications for performance; Economic depression; Minimum Wage*

### **INTRODUCTION**

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. Its etymological background is traceable to colonization in Nigeria right through to the attainment of political independence in 1960 and after (Maduabum 1998). Over the years, governments at the three levels (Federal, State and Local) in Nigeria have failed to respond appropriately to the realities of their changing economic environment. Thus, they had continued with the expansion of their civil services several years after independence. This development led to the sharp decline in government revenues while expenditures continued to increase particularly under civil rule with the addition of several political appointees to their pay rolls.

Added to this is the fact that there is a continuous and sharp decline in the prices of oil worldwide leading to a continuous and sharp decline in oil revenue to the country, as well as devaluation of the nation's currency, very high inflation rate and general economic hardship in the country. Therefore, in recent years, government at these levels had come face to face with the reality of badly declined resource base. Indeed, in recent years, it has become increasingly difficult and almost impossible for governments at all levels to pay decent salaries to civil servants regularly or to even pay at all, as many states and local governments and even the federal government are now owing their staff

many months of salary. In fact, many state governments are considering the option of downsizing their work forces or reducing the salaries of their workers. This, according to some state governors is because their financial resources can no longer cope with the payment of the N18, 000 national minimum wage. The labour union on the other hand, opposed this proposal and has been agitating for an upward review of the national minimum wage on the ground that it has become grossly inadequate to meet their needs in the face of a high rate of inflation in the country.

The result of this development is that real wage level fell drastically resulting in severe wage erosion across the civil services in the country. Some of the major implications of this wage erosion is that the motivation, dedication to duty and ability of the civil services to attract and retain skilled and professional civil servants have declined greatly in recent times across the country. This is no doubt catastrophic for a developing country which aspires to achieve rapid national development. This is why this paper is concerned with the implications of this situation for the performances of civil servants. To achieve this objective, the paper is organized into four parts. The first part examines the concept and components of wage or salary. The second part discusses wage erosion and compression in Nigeria's civil services while the third part is the analysis of the major implications of wage erosion and compression for the performances of civil servants in the country. The fourth part is the concluding remarks.

## **THE CONCEPT AND COMPONENTS OF WAGE OR SALARY**

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 of job done. The two concepts could therefore be used inter-changeably 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.

As noted earlier, the importance of wage or salary to employees cannot be overstressed. Indeed, its administration is a major personnel management function which must receive adequate attention by any organization. Therefore, its importance must be well known by an organization if it is to be used effectively. Perhaps, wage or salary administration is the most important obligation owed by an employer to an employee in both private and public organizations all over the world today.

Anjorin (1992) contends that, in practice, wage and salary policy serves three principal needs. These are to: attract capable and sufficient employees to the organization; motivate employees towards superior performance; and to retain good employees. Organizations need to ensure that employees are satisfied with their pay. According to him, the three major determinants of satisfaction with salary or wage are: equity, pay level and pay administration practices. Pay equity refers to the relationship

between what employees feel they should be receiving and what they are receiving. Pay level is a determinant of the perceived amount of pay compared to what should be received. Pay administration suggests that:

- (i) The wages and salaries offered should be approximate the wages and salaries paid to other employees in comparable organizations in order to attract new employees and keep them; and
- (ii) in order to enhance pay satisfaction, pricing of jobs should embody a philosophy of equal pay for equal work

As noted earlier, compensation, that is, the payment of wage or salary is any form of payment given to employees in exchange for work they provide their employer. The components of a compensation system are basically two. They are the direct and indirect compensation. Financial payment made at, or near the time work is performed is the direct compensation. This includes basic and incentive pay. Examples of direct compensation are wages, salaries, overtime pay, commission and bonuses. 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. Besides earning a wage or salary, most employees are also compensated for their efforts by certain benefits. Such benefits as paid vacation days and holidays, health care, insurance, and pensions are forms of deferred or indirect compensation (Stone, 1982). However, the basic pay, that is, wage or salary is the hob around which all other aspects of compensation revolve.

## **WAGE EROSION AND COMPRESSION IN THE NIGERIAN CIVIL SERVICES**

One of the major ecological factors confronting public administration in Nigeria is the poor economic situation of the country. While public sector manpower has risen rapidly over the years, the economic fortunes of the country had fluctuated greatly with grave consequences for the performances of the civil services of the country. This development has impaired greatly, the contribution of civil servants at the three levels of government to nation-building and national development. For several decades, the country had depended heavily on oil as its major source of national revenue. Unfortunately, the world oil market prices have been highly unstable. According to Olowu (1991), since 1977, the oil sector has faced periodic oil gluts and since 1980, a gradual reduction in oil prices has ensued with the result that large-scale contraction (privatization, reduction in employee benefits and retirement) has had to be embarked upon in the public sector. The trend of this economic depression continued in the 1980s. From the mid – 1980s in Nigeria, government resource base had declined sharply. It became increasingly difficult to pay decent civil service salaries at all or pay salaries regularly, and as inflation level rose, aggravated by the adoption of Structural Adjustment Programme (SAP) that necessitated sharp currency devaluations, real wage levels fell by as much as 50 percent and sometimes more –resulting in severe wage erosion (Olowu and Adamolekun, 2005). Over the last few decades, the economic situation of the country has gone from bad to worse. Today, the economy of the country is still faced with many problems, amongst which are high inflation, rising interest rates,

low productivity in the real sectors, inadequate foreign exchange, capacity under-utilization of industries, large external debt burden and import-dependence of the economy (Okunneye, 1985).

In the face of this perverse economic situation, the revenue accruable to the federal government continued to record huge shortfalls in recent years. This has resulted into hyper-inflation trends, massive fall in the value of the nation's currency among other economic hardship factors in the country. Consequent upon this hard economic realities, most states and local governments have become insolvent to the extent that they can no longer pay salaries of their civil servants as and when due.

It has therefore become increasingly difficult and almost impossible for governments at all levels to pay decent salaries to civil servants regularly or to even pay at all. This is because of a continuous and sharp decline in oil revenue to the country, devaluation of the nation's currency, very high inflation rate and general economic hardship in the country. The result is that real wage levels fell drastically resulting in severe wage erosion and depression across the country's civil services.

One major disturbing aspect of this situation is the recent pronouncement by the thirty-six State Governors that as a result of the deteriorating state of the economy, the State Governors were struggling to meet up with expenditure, especially payment of salaries, because of dwindling monthly allocations occasioned by plummeting crude oil, therefore, payment of N18, 000 minimum wage imposed on them is no longer bearable. According to the communiqué released by the Governors forum on 19<sup>th</sup> November, 2015, they were having a hard time meeting up with expenditure, especially payment of salaries because of dwindling monthly allocations occasioned by plummeting price of crude oil. (Tribune, 21 November, 2015). They added that, the economic situation was worrying, as more states would reach a stage where they would not be able to pay salaries of civil servants not to talk of embarking on capital projects, infrastructures development and establishment of industries. Some State Governors are even contemplating on downsizing their workforce. The fact is that the cost of governance is high especially as every state depends heavily on the federal government's monthly revenue allocation for survival.

However, in a swift reaction to the resolution of the State Governors forum, the Nigeria Labour Congress and the Trade Union Congress of Nigeria warned that any attempt to undermine the payment of the N18,000 minimum wage by the State Governors will not be taken lightly by workers. According to the labour unions, the N18,000 minimum wage was not allocated to worker or imposed on State Governors, it was negotiated through a tripartite process hence, a product of law. They argued that the minimum wage was actually due for an upward review. The President of the Nigeria Labour Congress, Comrade Ayuba Wabba and his Trade Union Congress counterpart, Comrade Bobboi Kaigama, announced that if attempt is made to reduce, review downwardly or do anything outside of the legal minimum wage of N18, 000 which cannot even take workers home, workers will be mobilized to resist it by withdrawing their services and close down the country. (Tribune, 21 November, 2015). According to the Unions, the N18, 000 minimum wages is about eighty (80) US dollars per monthly

salary – about 2.5 dollars a day. The fact is that, from an employee's perspective, the real value of pay depends on its actual purchasing power (Hays and Reeves, 1984).

The result of the delay or irregular payment of workers' salaries, low level of salaries, the proposed further reduction in salaries and the hyper inflation in the country all constitute wage erosion and compression that has serious implications for effective personnel management in general and the performance and productivity of the civil servants in particular.

### **THE IMPLICATIONS OF WAGE EROSION AND COMPRESSION FOR PERFORMANCE IN THE NIGERIAN CIVIL SERVICES**

The importance of the civil services of any country to national development cannot be over emphasized. This is because a nation's civil services at federal, state and local government levels are the chief instruments for the implementation of the will of the state as expressed through public policy. They are indispensable to the functioning of the modern state. The new task of the civil servants are therefore comprehensive and include planning, control and guidance of the entire economic as well as social activities. The manner in which work is done and its efficiency now directly impinge on the lives of individual citizens. The welfare of the people will, to an increasing extent depends on the imagination and sympathy and the efficiency with which work is understood and done by the civil servants (Basu, 2012). Therefore, civil service performance is critical to the effectiveness and efficiency of government services. And since the effects and impact of these services are all pervading to every sector and segment of the nation, both public and private, civil service performance is probably the primary determinant of the nation's socio-economic development (Kiragu, 2000).

In view of the importance of the civil services of a country and the civil servants who man them as highlighted above, the salaries and wages of civil servants also constitute a very important factor and indeed sensitive to the well-being and productivity of the civil servants. This is because the health and vitality of civil services depend on the levels of remuneration. Therefore, the salary system must be so designed as to attract, motivate and retain the staff. The tempo of undertaking the challenging and arduous tasks by the government can only be hastened if it has the right number of employees with adequate skills in the proper place, at the proper time, performing the deserved activities to achieve the desired objectives (Basu, 2012).

However, as noted earlier, in the Nigerian civil service, the situation is that the wages paid have become grossly inadequate given the present poor economic situation and the high cost of living. According to Omotosho (2006), despite the increase in salary by the Obasanjo administration, the civil service salary in Nigeria is still very low. One of the major issues which have dominated the pay and benefits scene in personnel management particularly in developing countries of the world is the need to ensure that salaries are revised periodically in response to inflationary trends and in conjunction with the pay for comparative work in other sectors of the economy. This is the justification of the argument for a decent or living wage and for competitive pay to ensure that public

service pay can attract and retain qualified professional and managerial staff (Olowu and Adamolekun, 2005).

Money is perhaps the number one motivator in Nigeria. Therefore, one of the major implications of this is that, if the pay level is too low to sustain an acceptable level of employee motivation and performance, workers either cut back their productivity or hours of work. They may seek to change jobs to the private sector. The issue of employee's motivation has become central in personnel management discourse today. This is because both the public and private sectors accept the need to ensure the safety of their employees, to provide satisfactory welfare services, and to establish working conditions that will attract good-quality personnel committed to the achievement of organizational objectives (Olowu and Adamolekun, 2005). The major theories of motivation emphasized the importance of employee motivation. For instance, Abraham Maslow's theory of hierarchy of needs regard physiological or basic needs (food, shelter and clothing; security and safety needs) as those needs that will ordinarily be covered by most employees. On the other hand, Frederick Herzberg regards the hygiene factors such as maintenance factors which cannot motivate employees but produce dissatisfaction if not present in a workplace. In the case of the Nigerian civil services, the basic needs of civil servants are not adequately taken care of, what more of the motivating factors such as recognition, promotions prospects or even self-actualization needs.

Another serious implication of wage erosion and depression in the civil services is that civil servants will adjust their workplace attitude to this type of situation. For instance, a World Bank survey focusing on African countries has observed that;

*as government compensation falls, both in absolute terms and relative to alternative remunerative activities, civil servants adjust to the new situation. Turnover rates and absenteeism increase; moonlighting and delighting become more frequent, and the latter, more blatant; recruitment and retention, especially of professional become more*

*difficult.*

*It has also been argued that petty corruption rises including the sale of government services themselves, for example, under-the-table charges for livestock vaccinations or the extortion of payments by teachers to instruct school children (The World Bank, 1994).*

The situation in Nigeria today is that productivity of civil servants has gone down to its lowest level. Absenteeism, lateness, strike actions and lack of interest and commitment to work have become the order of the day in most state civil services in the country.

## **CONCLUDING REMARKS**

This paper has highlighted the significance of adequate and regular payment of salary or wages of employees in any organization be it private or public organizations. It has emphasized the importance of this particularly in the public sector as it affects civil servants in the civil services across the three levels of government in Nigeria. This is because the issue of adequate and regular payment of salary to civil servants has

dominated the compensation scene in personnel management in developing countries of the world today. The paper also examined the negative impact of the turbulent economic situation in Nigeria on the adequacy and regularity of salary payment in recent years on civil servants. As a result of this situation, the salary or wage of civil servants across the country has been substantially eroded and compressed to the extent that many states and local governments now owe many months of salary to their employees with the proposal to even reduce workers salary of down-size the work force in the face of inflation and high cost of living.

The implications of this development for the performance and productivity of civil servants were also examined in this paper. Some of them include limited promotion prospects, institutional corruption, low level of employee motivation, laziness, absenteeism, lack of commitment to work, among others. Civil servants may also cut back their productivity or hours of work. They may also seek to change jobs to the private sector organizations as a way of searching for greener pastures. Overall, the inability of the civil services to pay a decent or living wage cannot attract and retain qualified, skilled and professional civil servants.

The disturbing aspect of these implication for the productivity and performances of civil servants is that it reduces the ability of the civil services to contribute meaningfully to the nation's socio-economic development and national development.

In the light of the above and in view of the fact that the performance of the civil services are critical to the effectiveness and efficiency of government services, it is suggested that, in order to make the civil services to contribute appropriately to national development, the issue of wage erosion and compression in the civil services must be checked immediately. Adequate and regular payment of salary must be a priority of every government at all levels in Nigeria.

It must be noted however that the proposal by the Governors' forum on the possible reduction of the N18, 000 minimum wage is untenable and cannot be enforced. This is because the minimum wage was not imposed on the Governors as claimed by them. It was actually negotiated through a tripartite system and legally adopted through a law of the National Assembly. This is contained in the second schedule section 4 Sub Section 34 of the 1999 constitution of the Federal Republic of Nigeria. In order to properly address the issue of paucity of fund as a result of fall in central government revenue, other sources of revenue must be explored to supplement the unstable and unreliable world oil prices. To this end, while it becomes imperative for the central government to diversify its economy, the states and local governments should also explore alternative sources of revenue. Such other sources are investment in Agriculture and solid minerals exploration. However, these sources may require fairly long gestation periods. For immediate generation of additional revenue, these governments should embark on aggressive internally generated revenue drive which has hitherto been largely ignored for a long time. This includes effective collection of all forms of taxes, rates, license fees among others. Board of Internal Revenue should be re-organized for more effective performance. It is also suggested that proper monitoring of revenue collection agencies must be ensured to check corruption on the part of revenue collectors. Accountability and probity must also be ensured by Chief Executives of governments at

all levels. They should reduce drastically the cost of governance by cutting down on expenses of office in order to save more money for the welfare of the civil servants which is the core art of governance. They should reduce the number of political appointees who are not productive. This will reduce the danger of heavy reliance on the Federal government revenue allocation to other levels of government. Public financial management principles must be put into effective practice. When salary or wages of civil servants become regular and adequate, the major challenges to personnel management such as absenteeism, laziness, lack of motivation and commitment to work will be drastically reduced or eliminated. When this happens, the performances and productivity of civil servants will increase and be stable enough to make them play properly, their crucial role as the primary determinant of the nation's socio-economic development.

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