



**COMPENSATION SYSTEM IN NIGERIAN
CONSTRUCTION FIRM**

“PICCOLO-BRUNELLI ENGINEERING LTD”

BY

CHIEF UGWUDIOHA MATTHIAS OFILI

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DECLARATION

I, Chief Ugwudioha Matthias Ofili do hereby declare that this dissertation is entirely my own composition. All references made to journals and other people's works have been duly acknowledged.

Chief Ugwudioha Matthias Ofili

APPROVAL

This is to certify that the research work was carried out under my strict supervision and has been approved for submission to the St. Clements University in partial fulfillment of the requirements for the award of the degree of Doctor of Philosophy Programme in Management.

.....
(Project Supervisor)

.....
(Academic Adviser)

.....
Administrator,
St. Clements University

DEDICATION

This work is dedicated to *Almighty God and Our Lord Jesus Christ* for giving me the inspiration to go into this academic process and for making it possible for me to complete my Doctor of Philosophy Programme successfully.

My dedication also goes to my beloved wife (*Chief Mrs. Ofili Ugwudioha E.*) as well as my lovely children (*Chinonye, Nneka, Chinwe, Obinna and Maria*) for their love, understanding and support during the strenuous exercise of this dissertation.

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ABSTRACT

This project is primarily concerned with the investigation into total compensation system in construction industry, with a special reference to compensation system in Piccolo-Brunelli Engineering

Limited. In doing this, the researcher carried out a lot of field investigations in order to obtain first-hand information on the compensation system prevalent in the firm.

Convenience sampling method was used because of time constraints and other associated costs. The researcher as a professional manager was mindful of some problems associated with this type of sampling.

During the survey, questionnaires, personal interviews and physical observations were used, while secondary data was also used as a complement. The survey cut across all facets of employees, ranging from top management, middle officers and the lower level employees.

Data was analyzed using frequency distribution of the respondents' opinion shown in contingency tables and ranked in percentages.

The researcher further reviewed related literature on the subject matter to sample the opinions of various authors and authorities on the subject. The literature review centered on the key issues involved in compensation system.

Based on the major findings from the analysis of data, conclusions were drawn and recommendations were made on how to improve the compensation system in Nigerian construction industry.

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CHAPTER ONE

1.1 INTRODUCTION

Although all managers are intimately involved in solving problems in their areas and are held responsible for problems arising from their areas, it is generally agreed that for consistency, efficiency, and equity, a central unit stands a better chance of providing supporting personnel services and guidelines for carrying out management personnel functions. This unit is called personnel department, human resources department, employee relations department and in some unionized organizations it is called industrial relations department.

In any organization, it is, therefore, the personnel department that ensures that the organization provides adequate compensation and good working conditions, which will enable the employees to contribute highly to the organizational growth. The major functions of personnel department of any organization include the following:

1. Employment, Placement and personnel planning
2. Compensation and benefits
3. Training and development
4. Health, safety and security
5. Employee and labour relations
6. Personnel research

In dealing with personnel issues, personnel managers make use of personnel manual. Personnel manual contains a brief description of

personnel policies. It is in form of a handbook describing every section of the policy guideline in relation to personnel issues. It serves as a reference book in respect of personnel issues.

Compensation is one of the major issues involved in personnel administration. Some of us who are professional managers have identified personnel administration as one of the major tasks facing the management of any organization. This is because human resource management takes a different dimension and approach from the management of material resources. Human beings can think, move and respond to stimuli while material resources cannot. This makes it imperative for management of most successful organizations to incorporate in their policies adequate compensation and motivation for their employees in order to achieve their organizational objectives.

If human beings are not well compensated and motivated, they will not contribute effectively to the management and control of materials and other resources for attainment of organizational goal. Well compensated/motivated employees contribute highly to the organizational growth and creation of wealth for the organization and its shareholders. Most successful organizations engage in total compensation for its employee for attainment of their organizational goals.

TOTAL COMPENSATION involves the assessment of employee contributions to the organization in order to distribute fairly and equitably, direct and indirect rewards in exchange for the

employee's performance. Total compensation is made up of extrinsic and intrinsic

rewards. Extrinsic reward is made up of direct and indirect rewards while intrinsic is related to job status and security.

This research deals extensively with compensation system in Nigerian construction firm with a special reference to Piccolo-Brunelli Engineering Limited.

Piccolo-Brunelli Engineering limited is a multinational organization and one of the construction giants in Nigeria. The company is rated number seven in construction industry. The company was incorporated in March 1990 but started a major business in Nigeria in 1994. Its registered Head office is at No. 9A Dakar Road, Apapa. Globally, the company employs over 5,000 employees but the Nigerian arm of the firm, which is where this research is limited to, has 1,200 employees.

The company's major line of business is construction and civil Engineering works, with main emphasis on road construction. Its major clients are the World Bank, African Development Bank and Federal Ministry of Works and Housing.

It has branch offices in many parts of the Country including Ile-oluji in Ondo State, Olowo in Ondo State, Ohosu in Edo State, Ado Ekiti in Ekiti State and Abuja the Federal Capital Territory. Its parent company and technical partner is Brunelli International, with head office in No. 30, via G. Pascoli, Milano,

Italy. The company has offices in other countries like Switzerland, USA and Zambia.

Organizations that pay attention to equitable distribution of rewards draw their roots from Mayo's management theory, which is the beginning of human relations movement.

Elton Mayo's Theory of human relations.

Courtland L. Broovee, John V. Thill, Marian Burk Wood and George P. Dovel (1993:53, International ed.) stated that the controversy that trailed Hawthorne studies prompted Mayo to search for a better understanding of human relations in organizations. Mayo was concerned that social order has come unglued by the move from agrarian, family-oriented society to a more chaotic, technological oriented industrial society. He believed that management was more focused on satisfying material and economic needs than unfulfilling the human needs of individuals who work for the organizations. To restore meaning to work and to help employees feel more socially satisfied, he believed that organization needed to consider individuals and their interactions in the work place. The human relations movement that evolved from this thinking is the school of management thought that sees employee's behaviour as responsive to the interpersonal processes within the work unit.

Mayo's theory directs our attention to the following:

- 1. That management should not focus emphasis on only economic and material needs but should also lay emphasis on fulfilling human needs for individuals working in the organization.**
- 2. That organization should consider individuals and their interactions in a work place.**
- 3. That the world has developed from agrarian society to an industrial, technological and now “an information age” with a more dynamic way of handling human and material resources.**

The human relations movement that evolved from this thinking is a school of management thought that sees employee’s behaviour as being responsive to the interpersonal processes within the work unit. To apply the human relations theories, however, managers would have to act more collaboratively and would need good social skill as well as technical skill.

Organizations that engage in total compensation tend to benefit the following: -

- a. To attract potential job applicants in conjunction with recruitment and selection efforts: - The total compensation programme can help to ensure that pay is sufficient to attract the right people, at the right time and for the right job.**
- b. To retain good employees: - Unless the total compensation programme is perceived as internally equitable and externally**

competitive, good employees (those the organization want to retain) are likely to leave.

- c. To motivate employees: - While non-monetary awards may influence an employee's motivation, performance-based pay has been shown to be the most effective motivator. Still, because of individual differences and preferences, organizations must determine the correct blend of monetary and non-monetary rewards.**

- d. To administer pay within legal regulations: - Because several legal regulations are relevant to total compensation, organizations must be aware of them and avoid violating them in their pay programmes.**

- e. To facilitate organizational strategic objectives: - The organization may want to create a rewarding and competitive climate, or it may want to be an attractive place to work, so that it can attract the best applicants. Total compensation can attain these objectives and also other organizational objectives, such as rapid growth, survival and innovation.**

- f. To reinforce and define structure: - The total compensation system of an organization can help define the organization's structure, status hierarchy, and degree to which people in technical positions can influence those in line positions.**

Obviously, these objectives are interrelated. When employees are motivated, the organization is more likely to

achieve its strategic objectives. When pay is based on the value of the job, the organization is more likely to attract, motivate and retain its employees. Non-monetary rewards become more important in attaining the above objectives as monetary rewards decreases.

1.2 STATEMENT OF PROBLEM

Personnel administration is very pivotal to the growth and wealth creation of any organization. Personnel administration is said to be good if it can compensate and motivate its employees to enable them to put in their best performances in the organization. Some of the problems associated with total compensation include the following: -

Negotiation and bargaining period of total compensation system is difficult. This is so because, some portions of total compensation are not backed up by laws/legislations but by negotiation and bargaining processes. Sometimes, the employer proves very difficult to negotiate with. While the employee wants the highest and the best package, the employer would like to minimize cost as much as possible for profit maximization

Bad and depressed economic condition in Nigeria makes it difficult to fully implement a total compensation system. The employers usually cite poor economic condition as their excuses. On the other hand, the employee who knows his

worth usually cite his contributions to the growth of the organization as his reason for the demand for a better condition.

Most employers of labour in Nigeria disregard labour laws and edicts. Sometimes, this situation leaves the dejected employee with no other condition than to accept what is offered to him, otherwise, he will face unemployment consequences. There

were some cases where employees were fired for not accepting paltry compensation.

In Nigeria, especially expatriate firms, there are significant difference between the wages of expatriate staff and the wages of Nigerian staff. Sometimes, an expatriate staff having the same qualification and experience with Nigerian staff may be paid \$4,000 (₦580,000.00)/month while a Nigerian staff may be paid \$300 (₦43,000.00)/month. This situation causes disaffection between the expatriate staff and Nigerian staff and sometimes causes industrial unrests.

Many workers in construction industry are casual workers and thus cannot receive a total compensation package. They are not full employees and therefore cannot receive full entitlements. Efforts by Nigerian Labour Congress and Construction Workers Union to regularize the conditions of all the casual workers who have spent up to 90 days in any

organization have proved abortive. This group of workers is up to 50% - 60% of construction workers in Nigeria.

Fear of losing one's job makes it impossible for him to demand for an improvement in his working conditions. Some workers may know their rights but they cannot demand for them for fear of losing their jobs.

Each time Government increase public service wages, private sectors are usually told to go and negotiate with their employers. This negotiation is difficult, as employers will always come out victorious most of the time.

1.3 SIGNIFICANCE OF THE STUDY

This study is a thorough research into the personnel administration (total compensation system) in construction industry in Nigeria. The study helps to determine how Nigerian firms administer a total compensation system, and its effect on the industry.

The study points out the problems associated with determination and administration of total compensation in construction industry. There is a saying that a problem known is a problem solved. Therefore, by knowing the problems encountered by both parties involved in wages/salary administration, it is easy to proffer solutions.

The study also brings out the legal considerations/implication involved in determining the compensation in our society.

The study is also important in the sense that it is aimed at sensitizing policy makers and planners to have a comprehensive view in total compensation in our industries, Parastatals and ministries.

1.4 SCOPE OF THE STUDY

This work covers compensation system in Nigerian construction firm with a special reference to Piccolo-Brunelli Engineering Limited. It x-rays the issues involved in compensation system in the firm with a view to providing a framework for future solutions. The work lays emphasis on the following areas: -

- (i) Compensation system in Nigerian construction firm.**
- (ii) The forces acting for and against such a system**
- (iii) Different ways of implementing such a system.**
- (iv) Legal issues involved in this dispensation.**
- (v) Issues involved in wages/salary administrations.**
- (vi) The scope also covers direct and indirect compensation in private organizations.**

1.5 LIMITATIONS OF THE STUDY

During this research work a lot of constraints and limitations were encountered. Some of these constraints were usual constraints encountered during the course of such academic exercise while some were unusual and boring.

Collection of primary data for this study was a major constraint, as the researcher has to be on the field personally in all the data collection processes. The company's branches are scattered all over the country and to make a comprehensive investigation, all the sites were visited.

Financial constraints also posed a major problem/limitation during the investigation. The researcher would have wanted to carry on the same type of investigation in a similar firm within the same industry but for financial constraints.

Time is another limitation encountered during the course of the study. Time constraints have forced the researcher to concentrate on compensation system instead of spreading the study to the entire personnel administration.

Sometimes, secondary data collected were not reliable, hence they were rejected. A lot of time was spent on the selection and examination of secondary data for the study.

1.6 AIMS AND OBJECTIVES OF THE STUDY

Human beings within the organization control and manage materials and other resources in the organization in order to achieve the organizational goals and objectives. As a result of this, it is imperative for any organization that wants to be successful to pay adequate attention to the needs of human beings who contribute to the organizational success.

This study x-rays the main problems involved in administration of compensation system in Nigerian construction firm. Some of the key objectives of this study include the following: -

- a. To examine the process of total compensation system in Nigerian construction firms with special reference to Piccolo-Brunelli Engineering Limited.**
- b. To examine the difficulties involved in implementing the system.**
- c. To make recommendations on how best to apply the system in Nigeria.**

1.7 EVOLUTION/DEVELOPMENT OF PERSONNEL MANAGEMENT IN NIGERIA

Personnel administration takes its root from the colonial era. The struggle and negotiations for equitable compensation in Nigerian public and private sectors date back to pre-independence era. Then the personnel managers were Europeans and Americans who were the owners of multinationals. A few Nigerians were found managing some public service and corporations. Nigerians came into the full stream after independence and mostly after the establishment of Nigerian Enterprises Promotion Board in 1972.

Evolution of personnel management in Nigeria.

Before independence in 1960, employers did not quite recognize the personnel officers since the role they envisaged for them was that of pacifying the unions. Those who paraded themselves, as personnel officers, at that time, were not well educated and not much effort were made to recruit the qualified ones. The major factor for the non-recognition of indigenous personnel officers was due to the fact that the business life of the country was dominated by foreign multinational corporations. Virtually all their senior administrators/managers including personnel managers were imported from western countries.

Where the indigenes were considered at all, those put in positions were chief clerks, typists and workers of that level who were promoted to take charge of the functions. No formal training was

organized to equip those individuals for their new roles. While professionals like engineers were rated highly in companies, the “unqualified” and “untrained” personnel officers were looked down upon.

After independence, a lot of private and public enterprises emerged. Then, came the Nigerianisation of the public service and the Nigerian Enterprises promotion Decrees of 1972, which was amended in 1977. These government policies brought many Nigerian into big administrative positions and as the executives of enterprises. Personnel functions grew in importance as most employers made some conscious efforts to recruit Nigerians into managerial industrial positions.

Today, with an onward march to becoming an industrial society, Nigeria is witnessing true emergence of personnel management as a profession. The belief is rather strong among industrial establishments that the necessity of having someone sound in personnel matters can no longer be overlooked.

Development of personnel management in Nigeria

A number of events in the country have accelerated the rapid development of personnel management in the country. The following are some of such events: -

- 1. The Nigerian Enterprises promotion Decrees, otherwise known as the indigenisation decrees, 1972 – 1977. With the emergence of these decrees, Nigerians have acquired majority shares in the ownership and control of businesses in the country. This offered greater opportunities for Nigerians to serve as personnel managers in Nigerian business organizations.**
- 2. The organization of periodic training for personnel managers by management consultancy firms.**
- 3. Organization of courses in personnel management to train professionals to man personnel departments in our organizations.**
- 4. The establishment of Professional Personnel Management Association such as the Institute of Personnel Management of Nigerian, specializing in the training of personnel managers. Other professional management bodies, such as Nigerian Institute of Management (1961), Administrative staff college of Nigeria (1973), Industrial Training Fund (1971), the Center for Management Development (1973) run systematic courses in personnel**

management. They also conduct seminars, workshops, symposia and lectures for personnel officers as part of staff development. All these professional bodies have their membership drawn from the length and breath of the private and public sectors.

- 5. Growth of trade unions and their influences, which contribute to the increasing number of appointments as personnel officers.**
- 6. Increase in size of business units arising from the privatization and commercialization exercise and the various government incentives to promote small-scale enterprise. These encourage business concerns to demand the service of personnel officer.**
- 7. Growing recognition of the need to give attention to human relations in industries.**
- 8. Recognition of the value of having an expert in charge of all personnel matters in business and industrial establishments that required services of such experts.**

1.8 DETERMINATION OF REMUNERATION IN NIGERIAN CONSTRUCTION INDUSTRY

The process of determining remuneration in construction industry takes different processes, this involves the following:

- 1. Determination by a joint meeting of Nigerian Employers Consultative Association and National Union of Construction Industry.**
- 2. Direct negotiation between the employer and the employee and**
- 3. Government legislation.**

(a) Joint meeting of Nigerian Employers Consultative Association and National Union of Construction Industry.

Nigerian Employers Consultative Association is the representative of the employers while the National Union of Construction Industry is the representative of the workers. The two organs meet at intervals to review the remuneration and the working conditions of construction workers. The key areas of discussions are the issue of general remuneration, the annual leave condition, the long service award, the retirement benefits and transfer/disturbance allowance etc.

At present, the negotiation is still going on in respect of the 12.5% salary increase in construction industry.

(b) **Direct negotiation:**

This is a direct negotiation of conditions of employment between the employee and the employer. The negotiation is usually at a professional level where the professional can have a say in determination of his conditions of service. The employee meets the management of the organization and discusses the conditions for hiring his services. At this level, the employee knows his worth and the contributions he will make in creation of wealth for the organization.

© **Government legislation**

Wage Tribunals: The government's usual machinery for regulating wages and salaries has been through Commission of Inquiry and Tribunals. Such Commissions have been set up since 1941. In private sectors, it is the representatives of the workers union and the National Association of Employers that determine wages and other compensation for the employees.

Minimum wage boards: Although collective bargaining is perhaps the best method of fixing wages between employers and unions, the necessary condition for collective bargaining is that there should be a strong and effective union whose leaders are well educated in the field of industrial relations and personnel administration. Collective bargaining can only work where both the employers and trade unions have full knowledge of the

problems and subject matter of bargaining and also accept that their agreement thereafter should be binding.

In many companies and enterprises especially in some developing countries, trade unions are poorly developed. In some countries like Nigeria and other third world countries, trade unions are not in existence. The implication is that the salary level of workers in such countries is very low. Thus, government intervenes in terms of statutory regulations (Decrees and Acts).

In Nigeria, this is contained in the Wages Board and Industrial Council Decree of 1973. This Decree repealed the old regulation, which contained the Wages Board Act.

In addition to the Industrial Wages Board, which corresponds to the Wages Board under the old Act, the 1973 Decree provides for the establishment of National Wages Board and Area Minimum Wages Committee for the States and Joint Industrial Councils for particular industries or organizations.

National wages board: The 1973 Decree provides that the labour Minister may by order, establish national Wages Board for the Federal ministries and parastatals to carry out the following functions:

- (a) To examine the application to all unskilled workers, of any agreed minimum wage rate in any special area.

- (b) To examine from time to time, the adequacy of minimum wage rates to unskilled workers in the light of any recommendations received from Area Minimum Wages Committee.
- (c) To consider any matter that is referred to the Board by the Minister of labour and Productivity in relation to the minimum wage rate of unskilled workers in any area for which an Area Minimum Wages Committee has been set up.
- (d) To report and make recommendations accordingly to the minister and the National Wages Board which comprises in addition to three independent person, representative of the Federal Government, representative of Lawyers and representative of Trade Unions and Employers.

Area Minimum Wages Committee: The Minister may, by order, after consulting with the appropriate authority in the state set up an Area minimum Wages Committee for the State, the function of which will include:

- (i) Making recommendations to the national Wages Board on minimum wages of unskilled workers in the Committee Area.
- (ii) Carry out specific investigations on matters referred to it by the Board.
- (iii) Submitting to the Board reports, minutes, and any other information that it considers desirable for the effective exercise of the function of the Board.**

It is also responsible for determining wages in urban and rural sub-areas in its course of jurisdiction.

Joint Industrial Council: The 1973 Decree also provides that employee and workers in an industry may establish a Joint Industrial council for the purpose of negotiating and reaching agreements relating to such matters as are considered by employees and workers to be matters of negotiation.

Industrial wages Board: The 1973 Decree provides that the labour minister may by Order, direct that an Industrial Wages Board be established. The duty of regulating wages and other conditions of employment becomes the Minister's prerogative if he should find out that wages are unreasonably low.

A similar Order may be made by a Military Government or Administrator of the state.

Components of wages and salaries

Wage is defined as the need and in return of a piece of work done immediately. This is especially for “blue collar labour” or as it is popularly called “casual labour”. Skillful “white collar labour” gets the reward of salary.

Salary is defined as the reward paid to employees after weeks or a month in return for the skillful or unroutinised labour.

Wages/Salaries as structured according to its various elements and the extent to such different organizations can cope.

Collective bargaining applies to those arrangements in which wages/salaries and conditions of employment are settled by bargaining in form of an agreement made between employers or association of employers and workers organizations.

Therefore, collective bargaining is itself a form of job regulation with the representatives of employees and employers jointly sharing the responsibility for content of the rules and their observance thereof.

Components of a Salary Structure:

The total remuneration of employees often consists of many different payment elements. These elements include:

- (i) Base rate**
- (ii) Incentive bonuses**
- (iii) Shift allowance**
- (iv) Merit allowance, etc.**

These elements can be categorized and seen as relating either to the job contents itself, the individual, special circumstances surrounding the job or the company policy aimed at retaining employees. Wages/salaries have some components in salary structure.

The major components are:

- (i) Job rate, which relates to the importance of the job.**
- (ii) Payments associated with encouraging individuals or groups by recording them according to their performance.**
- (iii) Special or personal allowances associated with such factors as scarcity of particular skills or categories of employees or long service, and**
- (iv) Fringe benefits such as holiday with pay, pensions, life insurance, car and so on.**

Surely, salary structures differ to the extent in which they incorporate these components. Generally the job rate is used as a basis for calculating performance and other bonuses and for determining the job holiday's entitlement to fringe benefits.

Wages/salaries are paid to employees on the following purposes:

- (i) As reward for services rendered by labour;**
- (ii) As motivation to employees;**
- (iii) As determinants of the employees purchasing power;
and**
- (iv) As a social status determinant rather than a mere remuneration package.**

Wages/salaries are determined based on several factors like

- The ability to pay;**
- Government policy; and**
- Collective bargaining agreements.**

1.9 RIGHTS AND OBLIGATIONS OF EMPLOYEES AND EMPLOYERS

Oxford Advance Learners Dictionary defines right as what is good, just, honourable etc; a just, proper or legal claim; a thing that one is entitled to do or have by law.

On the other hand, the same dictionary defines obligation as a law, a promise, an influence etc. that forces one to do something; a duty.

Employers are owners of a business or in the case of public property – government. The owners of a company are shareholders or a group of capital owners who have joined together in business.

A worker in the wage-earning system is any person who works for fixed compensation in a business enterprise or government institution. He is subordinate to the authority of the employer, help in any activity assigned to him to produce goods and services for the owners profit.

The Nigerian labour Code Act of 1974 defines worker as “a person who performs manual labour”. It further defines

manual labour as work ordinarily performed by mechanics, artisans, hand-craftsmen, seamen, boatmen, etc.

The Nigerian worker's Compensation Ordinance on the other hand defines a workman or worker as "a person who is working under a contract of service or employment with an employer by way of manual labour, clerical work or otherwise".

The Labour Code states that a worker means "any person who has undertaken to place his gainful activity in return for remuneration under direction and control of another person who may be an individual, a private or public company or corporation... the employer. Thus, the crucial factor differentiating the worker and the employer is the element of subordination in the concept of Contract of Employment.

Having defined worker or employee and differentiating him from employer or owner of business or enterprise, we shall now discuss the rights, obligations and responsibilities of employees or workers and employers/or owners of business.

Employee Rights and Responsibilities:

In order to understand this properly, it is better to define and understand what is Contract of Employment. This may be briefly explained as a relationship established by an agreement between a person who agrees to render services to another, obey his orders and submit to his direction and

control as a worker in consideration for wages paid by the receiver of the labour service (employer).

A contract of Employment requires that those who are going into it:

- (i) Posses the competence to contract or that they have the right legal status, namely the right minimum age, the right state of mind, or the right mental health;**

- (ii) Ensure that the objects of the contract are themselves legal; that they are not against the law of the land.**

- (iii) Ensure that there are clear statements, of the obligations, which each party is agreeing to, i.e. agreement, shall constitute a legal binding contract and give rise to obligation which might be enforced through the court. This means that any breach on the part of the employer or employee shall be backed up by the necessary legal instruments that will make such breached contestable in a law court. In other words, each party to the agreement accepts that his failure to carry out his own part of the agreement is to his own detriment.**
 - (a) In this wise, an employee has the right to receive his pay if he has done the work assigned to him by his employer. Failure to do so can lead to court action.**

- (b) Employees of certain categories are uniformed and such employees have right to be given such uniforms.**
- (c) Certain categories of workers need to be provided work to do. Such categories of employees have the right to be given such work.**
- (d) Employee has rights to be reimbursed if he has used his money to do any assignment for his employer as long as he can produce a genuine receipt.**
- (e) Employee has right to be provided reference or testimonial and given protection by his employer against libel and slander.**
- (f) Employee has right to demand and be given warm clothing by his employer if travelling aboard on training programmes etc. etc;**

Responsibilities of the Employee:

The most crucial thing in a Contract of Employment especially as it concerns the employee is that he should obey the employer's instructions and Orders. The implication is that the employee is involved in a wide range of duties and obligations, the infringement of which may cause the employer to determine the employment contract.

Employers Obligations:

The employer as earlier defined is a businessman, an organization or institution. He is anybody who has invested his capital in business activities and involves himself in combining his capital with labour resources and perhaps, material equipment for the achievement of his business objectives. To be an employer is to be a user of labour services for the achievement of an objective.

There are public employers as well as private employers. The public employer includes the government, the institutions of government, business organizations of government usually called corporation, or public enterprises in which government has shares.

Some of the corresponding and fundamental obligations which the employer owes the employee or worker as implied in the Contract of employment are that:

- (a) The employer must pay the agreed wages. The employer is not however under any obligation to provide the employee with work so long as he pays the contractually agreed wages;
- (b) The method of payment of the wages/salaries which may be regulated by statute should be adhered to;
- (c) The employer is expected to continue to pay wages or salary to employee who is absent from

work on account of illness or injury at work until the contract is terminated by the employer with due notice.

- (d) An employer is strictly under an obligation to provide a safe system of work;**
- (e) An employer has a statutory duty to protect the health and welfare of his employee; etc.**

In Nigeria, as in other countries, these obligations are not easily met. As earlier noted sometimes salaries are unpaid for many months. At other times, they are paid late, while yet at other times, they are paid installmentally.

Some employers are known to have fired employees who have gone on maternity leave and/or who have been convalescing for a long time due to injuries sustained at work place.

Other employees have been known in the past not to receive any compensation for such injuries and sometimes death.

Many employers are known to be working in very unsafe environments. Workers are made to enter lifts that are faulty and can trap them on transit. Some electrical appliance do not have adapters and workers risk their

lives trying to make air conditioners or even fans work by connecting wire to wire in the socket. Fire extinguishers are sometimes not provided where necessary.

Claims of providing Medicare are mere lip service. There are no drugs and some times no doctors for consultation. Examples of the breach of contract agreements include absence of good and enabling environments at work places for the health and convenience of workers.

These breaches are usually brought to the workers unions, which they approach employers for discussions. Such problems are sometimes resolved at this level. Those that are not resolved are communicated to other levels, including the state. Hence, the state steps in to provide some form of legislative protection for the weak employees who act through their union.

1.10 LEGAL CONSIDERATIONS IN TOTAL COMPENSATION

Because there is no clear evidence of our local laws and edicts deliberating on total compensation system, the researcher is therefore, using an international legal

system to highlight on the legal consideration of the total compensation.

As with many human resources management activities, several state and federal laws and court decisions are important legal considerations in total compensation.

Davis-Bacon and Walsh-Healey Acts

The federal government has imposed several laws influencing the level of wages that employers may pay, pay structures, and individual wage determinations. The first federal law to protect the amount of pay employees received for their work was the Davis-Bacon Act of 1931, which requires organizations holding construction contracts with federal agencies to pay labourers and mechanics the prevailing wages of the locality in which the work is performed. The Walsh-Healey public contracts Act of 1936 extended the Davis-Bacon Act to include all federal contracts exceeding \$10,000 and specified that pay levels conform to the industry minimum rather than the area minimum, as specified in Davis-Bacon. This has since been modified so that the area minimum can be used to establish pay levels. The Walsh-Healey Act also established overtime pay at one-and-one-half times the hourly rate. These wage provisions, do not include administrative, professional, office, custodial, and maintenance employees or beginners and disabled persons.

Wage Deduction Laws

Three federal laws influence how much employers may deduct from employee paychecks. The Copeland Act of 1934 authorized the secretary of labour to regulate wage deductions by contractors and subcontractors doing work financed in whole or in part by a federal contract. Essentially, the Copeland Act was aimed at illegal deductions. Protection against a more severe threat from an employer with federal contracts was provided in the Anti-Kickback Law of 1948. The Federal Wage banishment law of 1970 also protects employees against deductions to pay for indebtedness. It provides that only 25 percent of one's disposable weekly earnings or thirty times the minimum wage, whichever is less, can be deducted for repayment of indebtedness.

Fair Labour Standards Act

Partially because the coverage of Davis-Bacon and Walsh-Healey were limited to employees on construction projects, the Fair Labour Standards Act of 1938 (FLSA or the wage and Hour Law) was enacted. The FLSA set minimum wages, minimum hours, child labour standards, and overtime pay provisions for all workers except domestic and government employees. The fair labour standard acts was later extended to State governments.

Minimum Wage

The minimum wage began at 25 cents an hour and had reached to \$3.35 by 1981. Still, sub-minimum wages are permitted for learners in semiskilled occupations, apprentices, handicapped persons working in sheltered workshops, and employees who receive more than \$30 per month in tips (up to 40 percent of the minimum requirement may be covered by tips). While not part of the FLSA, states have also adopted minimum wage legislation for employees who are exempt from the FLSA. Alaska and Washington currently have minimum wages higher than the federal requirement. The lowest minimum wage of \$.50 per hour is paid in Puerto Rico.

Child Labour:

In order to prevent abuses regarding children, the FLSA also prohibits anyone under the age of 18 from working in hazardous occupations. For non-hazardous positions, the minimum age ranges from 14 to 16 depending on the type of work to be performed and whether or not the employer is the employee's parent.

Overtime

The overtime provision of the FLSA establishes who is to be paid overtime for work and who is not. Most employees covered by the FLSA must be paid time and a half for all work exceeding forty hours per week. These are called nonexempt employees.

Several groups of individuals are exempt from both overtime and minimum wage provisions. These exempt employees include employees of firms not involved in interstate commerce, employees in seasonal industries, and outside salespeople. Three other employee groups, executives, administrators, and professionals - are also exempt from overtime pay and minimum wage laws in most organizations. Trainee managers and assistant managers however considered nonexempt and should thus be paid overtime.

To be exempt, professionals must spend 80 percent of their work hours

- Doing work requiring knowledge acquired through specialized, prolonged training;
- Exercising discretion or judgment; and
- Doing work that is primarily intellectual and non-routine.

The criteria for exempt status as an executive include Spending at least 80 percent of work time.

- Undertaking management duties;
- Supervising two or more employees;
- Controlling or greatly influencing hiring, firing, and promotion decisions; and
- Exercising discretion.

In both cases, a comprehensive job analysis is necessary to determine whether or not a job is exempt.

Equal Pay

This fourth provision of the FLSA was added as an amendment in 1963. Called the Equal Pay Act, this amendment prohibits an employer from discriminating between employees on the basis of sex by paying wages to employees...at a rate less than the rate at which he pays wages to employees of the opposite sex...for equal work on jobs the performance of which requires equal skill, effort and responsibility, and which are performed under similar working conditions.

To establish a *prima facie* case of wage discrimination, the plaintiff needs to prove that a disparity in pay exists for males and females performing substantially equal, but not necessarily identical or comparable jobs. To determine this, the skill, effort, responsibility, and working conditions required by each job need to be assessed through careful job analysis. In making this judgment, job content rather than the window dressing of a job title should be examined. If jobs are found to be substantially equal, wages for the lower-paying job must be raised to match those of the higher-paying position. Freezing or lowering the pay rate of the higher-paid job is unacceptable.

However, the existence and use of the following can provide a legal defence to unequal pay for equal work charges

- (1) Seniority system, (2) merit system, (3) system that measures earnings or quality of production, or (4) any additional factor other than sex. As noted earlier, to establish a *prima facie* case, the plaintiff must prove that a disparity in pay exists for employees in equal jobs. If the employer can show the existence of one or more of the four exceptions, however, the differential may be found to be justified. Drawing on a recent case law, Exhibit 8.4 contains suggestions on operationalizing the Equal Pay Act.**

Title VII of the Civil Rights Act

The Equal Pay Act provides legal coverage only for equal pay for equal work. Only when men and women are performing jobs requiring equivalent skills,

Enforcement of fair labour standard act and Equal pay act provisions

- a. **Conduct a systematic job analysis to identify skill, effort, responsibility, and working conditions of jobs.**
- b. **Use an established job evaluation system to determine Whether jobs are similar. Remember, they need to be substantially equal and not identical or comparable.**
- c. **Examine total content, not job titles. Titles may be biased (beautician or barber, orderly or nurse's aide).**
- c. **Examine total compensation including fringe benefits and direct pay.**
- d. **Examine employees who are not exempt from equal pay stature. Those performing substantially equal work need to be paid the same rates of pay.**
- e. **If a violation is found, raise the pay of the lower-paid job. Do not lower the pay of higher-paid job.**
- f. **Keep records including job descriptions, job evaluation, minimum wage information, overtime, and hours of employment.**
- g. **Don't hide behind a union contract. If a violation is found, the employer, not the union, foots the bill because the employer pays the wages.**
- h. **Remember, males and females can sue under the Equal Pay Act. Minorities cannot.**

Effort, and responsibility: Are they entitled to identical pay (unless there are differences in performance, seniority, or

other conditions). Title VII of the civil Right Act of 1964, however, provides broader legal coverage for pay discrimination.

In cases where a complainant meets the jurisdictional requirements both laws, the rules say, “any violation of the Equal Pay Act is also a violation of Title VII.” But since Title VII covers types of wages discrimination not actionable under the EPA, “an act or practice of an employer of labour organization that is not a violation of EPA may nevertheless be a violation of Title VII,” according to the rules.

If an employer violates both EPA and Title VII, the complainant may recover under both laws for the same period of time, as long as the individual “does not receive duplicative relief for the same wrong,” according to the regulations. Relief will be computed, the rules say, “to give each individual the highest benefit which entitlement under either statute would provide (e.g., liquidated damages may be available under the EPA, but not under Title VII).

Comparable worth

Because comparable worth, or the pay equity, is a significant compensation issue, it deserves a separate discussion. The heart of the comparable worth theory is the contention that while the “true worth” of jobs may be similar; some jobs (often held by women) are paid at a lower rate than others (often held by men).

The resulting differences in pay that are disproportionate to the differences in the true worth of jobs, therefore, amount to discrimination. Consequently, legal protection should be provided in these cases, according to the comparable worth advocates.

1.11 RESEARCH QUESTIONS

In order to facilitate data collection so as to arrive at conclusion, the following hypotheses should be used as a guide to the study:

- (i) Organizations that are practicing total compensation for their employees are more likely to succeed.**
- (ii) Construction companies having 50% - 60% of their workers does not need to engage in total compensation for their workers.**

- (iii) Equitable compensation does not result in high productivity and achievement of organizational goal.**

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CHAPTER TWO

COMPENSATION AND REWARD SYSTEM

INTRODUCTION

- 2.1 Compensation (reward system) is a vital subsystem in personnel administration. Employees are employed in an organization to expend their times, efforts, energies and expertise in order to contribute to the attainment of organizational goal. These employees expect adequate compensation and rewards for their contributions. The compensation and reward system will therefore enable the employees to satisfy their personal needs, which include economic needs, psychological needs, social needs and growth needs.

Many management scientists give different definitions of compensation according to their understanding of the system.

Dunn and Rachel (1971), defined compensation “as a reward for services rendered by people at the work place.”

According to *Stahl (1995:265)*, “compensation is the monetary payment such as wages, salaries, emoluments and bonuses (current and deferred) used to reward employees.” This definition attaches only importance to monetary aspect of compensation. It does not take into consideration the intrinsic reward system, which is a long-term measure of rewarding and compensating good employees.

Cascio (1987:399) considers compensation rewards as “including direct financial payments and indirect payments in form of fringe benefits.” A critical look at this definition can observe that it is not all encompassing. Cascio’s use of the term “fringe benefits” can be called

to question because compensation (reward) system goes beyond ordinary financial rewards and fringe benefits.

Later, *Cascio (1995)*, *Mondy et al (1988)* and *Mathis and Jackson* came up with a more acceptable definition of compensation. They described compensation as all rewards (direct financial payments plus indirect payments/benefits plus incentives individuals receive in an organization plus non-compensation rewards), all those aspects of the pleasant work environment that serve to enhance their sense of respect and esteem by others.

Hale and Goodale (1986) opined that compensation is the money and benefits that organizations give employees in exchange for work. Compensation is more explicitly defined as any form of payment or reward in exchange for work provided for their employers.

Schuler (1975) said that total compensation is the activity by which organizations evaluate the contributions of employees in order to distribute fairly direct and indirect, monetary and non-monetary rewards within the organization's ability to pay and within what is allowed by legal regulations.

Financial payment made at or near the time the work is performed is called direct compensation. These include wages, salaries, overtime, commissions and bonuses etc. Wages refer to direct compensation received by an employee based on hourly or piece rate, while salaries are pay regardless of specific hours worked, which can be received weekly or monthly. Indirect compensation comes in form of insurance, pension, health care, childcare, golden parachute, game and

awards, golden handcuff, paid absences, paid vacations, working conditions, self-realization, vesting, wellness program, etc.

Ofili Ugwudioha (2003) opined that total compensation is the process of assessing the employee's contributions to the organization fairly and equitably direct and indirect rewards in exchange for his performance. Total compensation helps the organization to retain good employees, enhance competitiveness, growth, survival and profitability of the organization concerned. This is because human beings in the organization are responsible for control and management of materials and other resources for attainment of organizational objectives. If human beings in the organization are poorly treated, they will not put in their best performance and this will consequently affect the overall performance of the organization. Organizations that fail to embrace total compensation package usually experience high rate of labour turnover, and also find it difficult to face the dynamic and competitive business environment (*Ofili Ugwudioha, 2004*).

Total compensation is classified into two main headings such as intrinsic reward and extrinsic reward.

An intrinsic reward is simply known as non-monetary reward. Intrinsic reward is made up of the following:

- (a) Job security
- (b) Status symbol
- © Social rewards
- (d) Task/self reward

An extrinsic reward, which is also known as monetary reward, involves direct and indirect compensation.

Direct compensation system is subdivided into base wage pay system and performance based pay system.

The base-pay system involves shift pay system and premium pay system.

Another form of extrinsic reward system is the performance based pay system. This is the equitable form of payment based on the performance and contributions of the employees and reward according to each employee's contribution.

Performance based pay system include the following reward systems:

- (a) Stock options: - The employees are given the option of acquiring stock and shares in the organization as recognition for his contributions in the organization.
- (b) Performance bonus: - This type of bonus is given only to workers who have contributed to the growth of the firm within a given period. It encourages them to work harder. Most firms in this technological/information age are using performance bonus to encourage the workers to put in their best for the organization. Employers of labour prefer this method to a mere traditional way of granting annual merit increment. The bonus pay helps both the employer and the employee in the following ways:

- I It helps the hard worker to improve his living condition while it also helps the employer to increase the productivity.
- II It maximizes the relationship between the pay (earnings) and performance (output).

Direct compensation can also come in form of merit pay plan. Merit pay plan is more commonly used because it is easy to administer and easy to set up. A guideline is usually set up for administration of merit pay plan.

Incentive pay plan is another form of direct compensation used in the industries and firms. This is made up of individual incentive plan and group incentive plan. This is the most popular incentive plan method because each person's output is measured and subsequent reward is given according to the contribution of the individual concerned. This type of plan is more common in factories than offices.

The second group of extrinsic reward system is the indirect compensation. This include public protection programme, paid leaves and miscellaneous benefits.

Some laws and edicts provide for indirect compensations in public and private sectors but in practice it is observed that both public and private sectors do not implement this system fully. In a developing society like Nigeria where employers exploit the employees, most of these edicts are not implemented. They hide under the guise of economic depression.

The concepts of motivation and compensation are most discussed and most researched in management science. Renowned management scientists all over the world have carried out different researches aimed at discovering the most acceptable compensation systems in different organizations. The works of some eminent management scientists are briefly reviewed below:

[The Hawthorne studies:](#)

This research was carried out by three prominent management scientists like *Elton Mayo, Roethlisberger, F.J. and William J. Dickson*. The Australian born *Elton Mayo (1880 – 1949)* - studied the relationship between people who worked together and was involved in series of experiments that helped in shaping the development of behavioural management movement.

Mayo conducted this experiment when he was in the faculty of Wharton school. The experiment was conducted at a Pennsylvania textile mill and found that employees morale and productivity could be improved by introducing rest periods. The Hawthorne studies were started in 1924 by the National Academy of Sciences in an attempt to learn whether changes in illumination had any impact on employees' productivity. The result showed that productivity was higher when there was illumination.

They also conducted other studies from *1927 – 1937* in which pay system, supervision and other elements were manipulated. At this point the researchers found once again that productivity has increased without physical factors like length, timing of rest periods, length of workday, but with the company-provided lunch and beverages. This experiment revealed that employees, if treated in a special way would

improve their performance, precisely because of the special attention. This theory is known as *Hawthorne effect*.

The Human Relations Movement:

The **Hawthorne studies** moved some steps further by developing another theory called human relation movement. *Mayo* was concerned that the social order had come unglued by the move from agrarian, family oriented society to a more chaotic, technologically oriented industrial society. Mayo and his team believed that organizations were more focused in satisfying material and economic needs than on fulfilling the human needs of individuals who work for the organizations. To restore meaning to work and to help employees feel more socially satisfied, the theory believed that organizations needed to consider individuals and their interactions at the workplace.

The human relations movement that evolved from this thinking is the school of management thought, which sees employees' behaviour as responsive to the interpersonal processes within the work unit.

Other theorists that contribute to human relations development include *Abraham Maslow and Douglas Macgregor*.

2.2 MOTIVATION AND JOB SATISFACTION:

Motivation and job satisfaction are very important issues in management of human and material resources. The two concepts are very complex to define and sometimes they are interchangeably used to mean that a motivated worker is a satisfied worker (*Peretomode 1992*).

Motivation

The word motivation is derived from Latin word “*Movere*” meaning to move. *Hoy and Miskel* opined that motivation is used to describe the complex forces, drives, tension state or other mechanisms that initiate and maintain voluntary activities directed towards the achievement of goal. *Benson and Steiner (1964:239)* described motivation as “an inner state that activates and moves.”

Mathis and Jacksons (1982) put it thus “it is an emotion or desire (needs) wants, drives and other semantically similar words as “move”), operating on a person and causing the person to act. Motivation according to this definition is much more concerned with the “whys” rather than “hows”, the whats and the wants of human behaviour. It attempts to account for the drives inside an individual rather than describing the individual’s actions or behaviour.

Donnelly, Gibson and Ivochivich (1984:309) Opined that from a manager's perspective a person who is motivated could be described thus,

- (a) The person works hard
- (b) The person sustains a pace of hardwork
- (c) The person directs his behaviour towards important goals.

Job Satisfaction:

Job satisfaction has also been defined by various authors and management scientists in different ways, which were directed towards feelings (good and bad) which one has about the work and the environment that causes one to say that he is satisfied or dissatisfied with his job.

Middlemist and Hitt (1981), Hopock (1985) described it as a pleasurable or the appraisal of ones job or job experience.

Locke (1976) opined that it is an appraisal that must have taken into consideration the work content and a combination of psychological and environmental circumstances. This definition embraces all factors that will make a job satisfactory or unsatisfactory.

THEORIES OF MOTIVATION AND JOB SATISFACTION

The three main theories on motivation and job satisfaction are the content theory, the process theory and the integrative theory. These theories help managers to understand why employees behave the way they do in the organization.

(a) The content theories:

These theories were developed by *Abraham Manslow, Mc Clelland and Herzberg* but for the purpose of this study, only Manslow and Herzberg theories are to be discussed briefly here.

(i) Manslow's need Hierarchy theory:

Bovee, Thill and Wood (1993:53) pointed out that *Abraham Manslow* (a clinical psychologist) propounded the needs hierarchy theory of motivation in organizations. Manslow's theory viewed motivation as a dynamic force, which activates the individual. Manslow hypothesized that in every human being there is hierarchy of needs

Clatt et al (1985) opined that motivation is simply the drive to reduce a tension caused by an unsatisfied need.

Donnelly et al (1984:310) saw motivation as a deficiency of something within the individual and it provides the spark that begins the chain of events leading to behaviour.

Manslow argued that human beings are not only complex animals but also have a number of needs affecting their behaviours in life. These are classified into hierarchy of importance and arranged into five ascending order as follows: -

(a) Physiological needs: -

Basic physiological needs of hunger, thirst, shelter, sex, clothing, temperature etc. Management can positively influence these needs by providing fair and adequate compensation such as salaries and wages, good working conditions and other incentives that will enable the employees to put in their best.

(b) Safety and security needs: -

These needs include physical security, protection against physical harm, danger, accident, threat, pain and illness, economic disaster or deprivation, psychological security and the unexpected. These needs are taken care of by the management by providing safe working conditions, security, fringe benefits, retirement benefits/pension, medical, insurance etc.

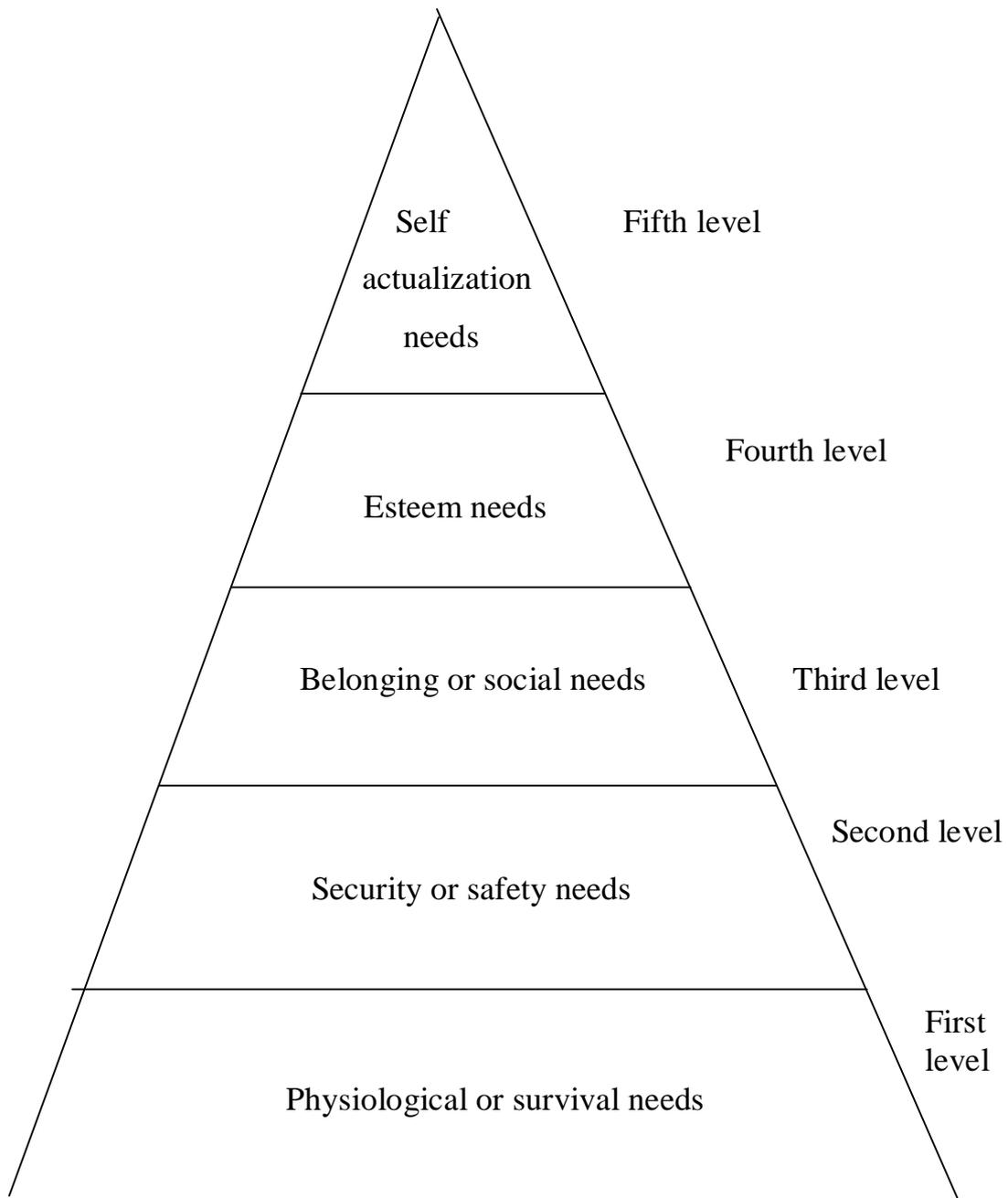
(c) Social needs: -

These needs involve needs for satisfying social relationship with others, needs to feel needed, need for affection and love, need for interaction and acceptance in relation with other people. Management can fulfill these needs by permitting employees to partake in social interactions, membership groups and encouraging participation among employees.

(d) Esteem or Ego needs: -

These are the needs for self respect, recognition, importance, self worth within and outside the work place. Management can fulfill these needs by providing greater responsibilities, high job titles and by recognizing and publishing good performance.

Figure 1. Abraham Manslow’s hierarchy of needs



Source: [Akinwale E.J – Human Resources Management “an overview” \(1999:159\), Concept publications.](#)

The above pyramid shows Abraham Manslow's hierarchy of needs. This demonstrated different categories of needs required to move somebody's motivation in a work place. When these needs are satisfied, the employee will be motivated and be able to put in his best performance.

Critics of the theory have argued that it is not true that issues below the pyramid need attainment before moving up to the next step in the hierarchy.

(ii) [Herberg's dual factor theory:](#)

Herberg propounded the dual factor theory of motivation and job satisfaction. He argued based on his research works that there are two separate categories of factors in the work place (those that are related to job satisfaction and those that are related to job dissatisfaction.) Those that relate to job satisfaction are called the motivators or the satisfiers. He pointed out that when motivators are present in the work situation, they lead to strong motivation, satisfaction and good performance but do not cause dissatisfaction when they are absent. At work, the absence of no satisfiers can cause no satisfaction.

The motivational factors include:

- (a) Achievement
- (b) Recognition
- (c) Advancement/ Promotion
- (d) The work itself
- (e) The possibility of Professional growth
- (f) Responsibility

The second category of the factors is referred to as the hygiene factors, the dissatisfiers, the maintenance factors or the extrinsic factors. These factors are related to job context.

Herzberg maintained that if these extrinsic factors are present at work place, employees would not be necessarily motivated or satisfied. They will simply not be dissatisfied either, when the maintenance factors are not forthcoming, dissatisfaction occurs and the opposite of satisfaction is no satisfaction. Herzberg identified the following ten hygiene factors:

- (a) Company policy and administration
- (b) Technical supervision
- (c) Interpersonal relations with supervisor
- (d) Interpersonal relation with peers
- (e) Interpersonal relation with subordinate
- (f) Salary/wages
- (g) Job security
- (h) Personal life
- (i) Working conditions
- (j) Status

Herzberg dual factor theory has important application in human resource management. It shows that to motivate employees, managers should focus on the motivators and at the same time try to maintain the hygiene factors at appropriate level so as to prevent dissatisfaction.

Middlemist and Hitt (1980) suggested that managers who want to motivate employees should try to provide a job that has potentials for achievement and responsibility by manipulating the job content factors and those of the job context.

The [process theories](#) focus on explaining how individual behaviour is energized, directed and stopped.

The [integrative approach](#) attempts to synthesize ideas of other theories of motivation and job satisfaction.

Nmadu, T.M (1998:170) in her book titled Human Resources Management described motivation “as the willingness to exert high level of efforts towards organizational goals, conditioned by the efforts ability to satisfy some individual needs.” While general motivation is concerned with effort towards any goal, the researcher narrows the focus to organizational goals in order to reflect his singular interest in work related behaviour.

Figure 2. MOTIVATION PROCESS



Source: [Robbins, S. P., Organizational Behaviour \(1991:192\), Prentice Hall, New Jersey.](#)

2.2.1 WAGES THEORIES

The wage theories fall under compensation theories. *Dunn and Rachel (1971)* described wage theories “as generalizations that attempt to explain the entire range of questions about the relationship between a man, his work and the reward he receives for the work”

They explained wage theories using the concept of labour supply and demand, long and short- run, micro and macro economic analysis.

The major wage theories include the following:

- i. The subsistence theory of wages
- ii. The wage fund theory of wages
- iii. The marginal productivity theory of wages.
- iv. The bargaining theory of wages
- v. The investment theory of wages.

(i) THE SUBSISTENCE THEORY OF WAGES

The theory of subsistence wages was developed by *Malthus and Richardo*. The theory pointed out that wages will remain at subsistence level in the long run but in a short-run it will rise and fall continually. The authors further pointed out that in good times, the wages of the population will rise and in bad times it will fall. When it rises labourers will purchase more food. More food will consequently result in more children, and more food will also result in fewer people dying of malnutrition and diseases. At bad times, there will be more poor which will result in malnutrition and starvation. This theory is focused on hovering of wages at subsistence level and the

consequences of the hovering on the populace. Some management scientists argued that the theory is wrong and this resulted in the development of other theories.

WAGE-FUND THEORY OF WAGES:

John Stuart (1891) developed this theory in his work titled “**Principles of political economy**”. *The wage-fund theory came after the subsistence theory. The theory goes in this way: - wages cannot rise but by an increase of aggregate funds employed in hiring labourers, or a diminution in the number of competitors for hire, nor fall, except either by a diminution of funds devoted to paying labour, or an increase in the labourers to be paid. Wages then depends on the proportion between the number of labouring population and the capital or other funds devoted to the purchase of labour.*

Dunn and Rachel (1971:35) explained that the theory assumes that there is always a fixed fund. The wage level is therefore the ratio of this fund to the number of labourers.

This is explained as follows:

$$\text{Wage level per worker} = \frac{\text{Wage as fixed fund in the short run}}{\text{Number of labourer}}$$

If for instance the fixed fund is ₦100,00 and the number of labourers is 20 the wage level is therefore,

$$\frac{100000}{20} = \text{₦5,000}$$

(iii) **MARGINAL PRODUCTIVITY THEORY OF WAGES:**

This is the most perfected and most logically constructed theory of wages, which explains the short and long term wage determination. *Dunn and Rachel* explained that the marginal productivity of wages holds that the labourers cause surplus of labour themselves by simply asking too much for their services. They explained that unemployment can only exist for a shortwhile, and if the unemployment does exist, it is only because the workers are shiftless on their demands and would not work for the existing wage rate.

(iv) **THE BARGAINING THEORY OF WAGES:**

The proponent of this theory held that short run wages have always been determined to some extent by collective bargaining.

At the early stage, bargaining was by individuals but later collective bargaining started with industrial revolution.

Collective bargaining theory emphasizes on the short run and deals with specific situation.

(v) **INVESTMENT THEORY OF WAGES:**

Giteman (1968) proposes an investment of wages to replace the Marginal productivity theory (MPT). Whereas the marginal productivity theory is focused on output of labour, Giteman's theory is focused on labour input (another side of the same coin). The theory states that if wages are assumed to be a return on workers investment, then logically, one would assume that the larger the investment, the higher the wages.

2.3 NATIONAL MINIMUM WAGE

According to *Uvieghara, E.E (1999:404)*, the Nigeria Labour Congress put a charter of demands in *1980*, which included the fixing of a national minimum wage. This led to the enactment of the National Minimum Wage Act in 1981. The Act lays down a national minimum wage. Every employer must pay a wage not less than a national minimum wage of ₦5, 500 per month to every employee under his establishment. Any agreement for the payment of wages less than the national minimum wage is void and has no effect whatsoever. The employer must pay the wage clear of all deductions except those required by law or deductions in respect of contributions to provident or pension funds or schemes agreed to by the employees and approved by the Minister. If the employer fails to do so he is guilty of an offence and on conviction liable to a fine not exceeding N100 and in the case of a continuing offence to a fine not exceeding N10 for each day during which the offence continues. On conviction for an offence the court may make an order that the convicted employer must pay, in addition to any fine, such sum as appears to the court to be due to the employee on account of wages, the wages being calculated on the basis of the national minimum wages. However, this power of the court is not in derogation of the right of the employee himself to recover wages due to him by any other proceedings in a court of competent jurisdiction.

The duty to pay the national minimum wage does not apply to an employer in an establishment in which less than fifty employees are employed or in which employees are employed on part-time basis or at which employees are paid on commission or piece-rate basis or in

respect of employees in seasonal employment such as agriculture or to any person employed in a vessel or air-craft to which the laws regulating merchant shipping or civil aviation apply. In addition, the Minister may, by order published in the Gazette, grant other exemptions as he deems necessary in the interest of the national economy taking into consideration reports from wages boards or such other body as might make representation for exemption.

If the Minister is satisfied that any employment or desiring to be employed in any occupation to which the national minimum wage is applicable is affected by an infirmity or physical injury which wage is incapable of earning the national minimum wage, the Minister may, if he thinks fit, grant a permit to the employer, subject to such conditions, if any, as he may impose, exempting him from the provision relating to payment of wages less than the national minimum wage in respect of the employee. While such permit is in force and any conditions imposed are complied with, the employer will not be guilty of an offence if he pays to the employees a lesser wage than the national minimum wage. A permit may be so granted as to have effect from the date on which the application was made to the Minister and may be suspended or revoked at any time by the Minister.

Every employer who is affected by the Act must keep such records of wages or conditions of employment as are necessary to show that the provisions of the Act are being complied with in respect of the employees in his employment. Such records must be retained for a period of three years and if the employer fails to do so, he is guilty of an offence and on conviction liable to a fine not exceeding ₦100 for each day during which the offence continues.

2.4 National wages board and Area minimum wages committees.

Uvieghara, E.E (1999:401) asserted that the Wages Board and Industrial Councils Act make provision for other machinery for settling of terms and conditions of employment of workers. The agreement signed between the government of the Federation, the Nigeria Employer's Consultative Association and officials of the Joint Action Committee of Trade Union on 24 July, 1964, in conclusion of the negotiation which followed the general strike of June 1964 provided, inter alia, for the establishment of National Wages Council Country. These terms of agreement have been given effect to in the Act.

The Minister may, by order, establish a board to be known as the National Wages Board, for the Federation and may, after consultation with the Governor of a State, set up an Area minimum Wages committee for the State. The function of the board will be:

- (i) To examine the application to all unskilled workers of any agreed minimum wage rate in any specified area.
- (ii) To examine from time to time the adequacy of minimum wage rates for unskilled workers in the light of any recommendations received from area minimum wages committees.
- (iii) To consider any matter referred to it by the Minister with reference to the minimum rates of unskilled workers in any area for which an area minimum wage committee has been set up; and
- (iv) To report and make recommendations accordingly to the Minister.

The functions of an Area Minimum Wages Committee are:

- (i) To make the recommendations to the Board on the minimum wages of unskilled workers in the committee's area.
- (ii) To carry out specific investigations on matters referred to it by the Board.
- (iii) To submit to the Board reports, minutes and any other information it considers desirable for the effective exercise of the Board's functions and
- (iv) To determine urban and rural sub-areas in its area.

Both the Board and the Committees are therefore, to be concerned primarily with the minimum wages payable to unskilled workers. However in 1981 a national minimum wages was fixed by statute although an earlier recommendation for the enactment of a three zonal minimum wage had been rejected by government.

2.5 WAGES AND SALARY ADMINISTRATION

Akinwale, A. (1999:26) described wages and salary as “the outcome of symbiotic relationship that exist between the employer and the employees.” He further explained that employers provide work for the employees just as the employees’ contributions enable the organization and the nation to produce goods and services for the ultimate benefits of mankind. When goods are provided and services rendered, economic benefits also come to play.

Wages and salaries are very important to the employees because they are the most significant rewards that will enable them to have good living standards. Wages and salary administration is used as a motivational strategy.

From the author’s viewpoint, Wages and salaries are not charitable grants by the organization but a significant aspect of workers’ right in the productive process. Payment of wages and salaries must be made promptly for the job done to avoid a situation where employers of labour make super-profits for growth and development of their firms, while the workers are left to languish in poverty and penury (subjecting the workers to suffer economically, physically and mentally for no fault of theirs)

2.6.1 WAGES AND SALARY STRUCTURES IN NIGERIA:

Wages and salary structures in Nigeria takes the following forms:

-

(1) Incremental Salary scale

In this process, salaries are laid down for various groups but provision is made for increments, which technically should be related to merit (employee's performance during the year). For generality of Nigerian workers, this system has come to stay. These increments are related to the years of service on a particular grade, which is simply called "service increments". More prominence and attention have been given to this scheme since the elongated salary scale of 1988.

(2) Salary Grade Structure

A good salary must take account of individual efforts. Salary changes should be related to merit of employees (those who contribute more should benefit more). Depending on the organization's structure, the numbers of good grade of jobs in the firm are computed, the overlaying scales are decided on (which will not stay too long) and then a scale is arrived at.

(3) Individual rate change

This is a very sophisticated type of wage rating, which is based on job evaluation. Only firms with qualified compensation officers are able to operate this system. It

requires jobs to have been previously evaluated and analyzed and surveys of other jobs made with their pay. A mid point salary is then set with adequate spread based on the analysis and evaluations made.

(4) **Employees on the maximum**

This is a situation where employees reach their maximum without prospects of promotion or further promotions. Especially for the elder people, it is a problem to keep such groups, movable up. The most common motivation for this group is to give them continued good service bonus (CGSB) (a set of increment granted workers outside their normal scale, with an interval period spaced in).

2.6.2 **PROBLEMS ASSOCIATED WITH WAGES AND SALARY**

Akinwale opined that the problem associated with wages and salaries include the following:

1. **Job evaluation:**

This is the most valuable way of fixing wages because it determines payment in relation to input and output for overall significant of corporate objective.

2. **Government order:**

One of the keys that have been used to open doors in western nations is the development of citizens. When citizens are catered for, they contribute to nation building

process. Social economic strength of nations were attained through proper attention to the needs of the citizenry, especially in the financial realm. In order to accomplish the economic survival of citizens, governments enact rules and regulations guiding minimum wage that must be obeyed by organizations. This gives the bench mark below which employers of labour must not fail.

3. **Ability to pay:**

Organizations ability to pay determines greatly the wages structure of the firm. It should be noted that not all organizations maintain the same pay structure.

4. **Living standard:**

The cost of living in any particular nation greatly affects the cost of labour. For instance, the cost of living in United Kingdom is higher than the cost of living in Nigeria. This accounts for the difference in the pay structure in the two countries.

5. **Collective Bargaining:**

Wages structure is affected by collective bargaining process, this mostly occurs in unionized firms.

2.7.1 METAGOALS OF COMPENSATION AND REWARD SYSTEMS

According to *Cascio (1995)* Metagoals are broad, open-ended ideas that help to shape the effective planning and administration of compensation and reward systems. These ideas are very important for effective implementation and monitoring of the system.

Patten (1977) identified eight of some metagoals, which had been succinctly put by *cascio (1995:399)* as follows:

(i) **Adequacy:**

This pointed out that there is a “floor” and a “ceiling” to adequacy of compensation. For instance, federal regulation on wages provides the floor while management pay policy provides the ceiling or by the power of the union during the collective bargaining process (in case of a unionized firm).

(ii) **Equity:**

Equity refers to fair days work for fair days pay. There are many theories and legislations concerning equitable payment for work. Every individual tries as much as possible to obtain equitable payment for his contribution to the organization in which he works.

(iii) **Security and Estate building:**

Security of life, against unemployment, sickness, retirement, diseases and industrial accident is vital to the well being of the employees. Security of investment, estate and assets of the firm is also vital to the organization.

(iv) Acceptability:

Metagoals suggests that organization should attract and retain competent and loyal employees if the compensation and reward system are acceptable to the employees concerned. Total compensation system that is carefully designed, systematically developed and clearly explained to the employees is likely to be acceptable to both parties.

(v) Cost Control:

This suggests that there should be careful control of payroll costs. This can be achieved through reduction of unnecessary expenses and avoidance of over-generous pension and other benefits that can render the organization bankrupt. Efficiency of operation is also a better way of reducing unnecessary cost.

(vi) Balance:

This refers to efficient combination of direct and indirect compensation, of financial and non-financial reward. If compensation planning and implementation must proceed every month, balance must be restored.

(vii) Incentives:

Effective compensation and reward systems should provide the type of reward that are capable of retaining the employees and making them contribute their best to the organization.

(viii) Pay and effort bargain:

Employees exchange their efforts and contributions for pay and reward systems. Bargain for pay is struck collectively or individually before arriving at the acceptable point.

2.7.2 COMPENSATION STRATEGY:

Ferris and Buckley (1995) defined compensation strategy “as the repertoire of pay choices available to management, which may under some conditions have an impact on organizational performance and the effective use of human resources.” Ferris and Buckley identified some key dichotomies in the system which include the following:-

(i) Job vs. Skills:

Job based pay is used in traditional pay system where the firm assumes that job values can be determined and their value reflects on their contribution to the organization. Skill-based pay is used in non-traditional setting where the firm attaches importance to skills rather than the job value. Few companies particularly in developing countries attach importance to skill based pay system.

(ii) Performance vs. Seniority:

This evaluation depends largely on the organizational goals as well as the firms ability to measure performance effectively. If the organization is able to measure performance effectively the employees will perceive the system as being effective and this will consequently result in desired behaviour. *Pearce(1987 and Formbrum (1982)* argued that most firms want to pay for performance but because of their inability to measure performance, they ultimately pay for seniority.

(iii) Bonus vs. Deferred Compensation:

Salter (1973), Carol (1987) and Kerr (1982) theorized that frequent bonuses and merit pay bases lay emphasis on short-term performance while deferred compensation is aimed at long-term perspective.

(iv) Intrinsic vs. extrinsic rewards:

Lawler (1983) stated that a firm can obtain a competitive edge if it combines a good pay package that is made up of intrinsic and extrinsic rewards systems. This good combination gives the employees equitable compensation system, which in turn results in high motivation for employees

(v) Fixed pay vs. group incentives:

Carrol (1987) argued that individual performance should be used as the basis for pay because it can be a powerful motivator. Lawler argued that management's inability to measure performance accurately often results in rewards being incongruent. If the employees do not perceive the link between rewards and performance, the motivational effects disappears.

(vi) Individual vs. incentives:

Higher risks are associated with opportunities for longer income. Mature firms trying to maintain their market shares tend to offer more job security, which also translates into higher compensation. (*Salschieder 1982*). The firms that are aggressively tending to maintain their market shares pay higher incentives and higher base pay.

(vii) Participation and non-participation of employees:

Low participation of employees is usually associated with a traditional approach while high employee participation is associated with non-traditional approach. *Lawler (1983), Balkin and Gomez-Mejia (1987)* said that knowledgeable and experience employees are actively involved in decision making process of non traditional firms.

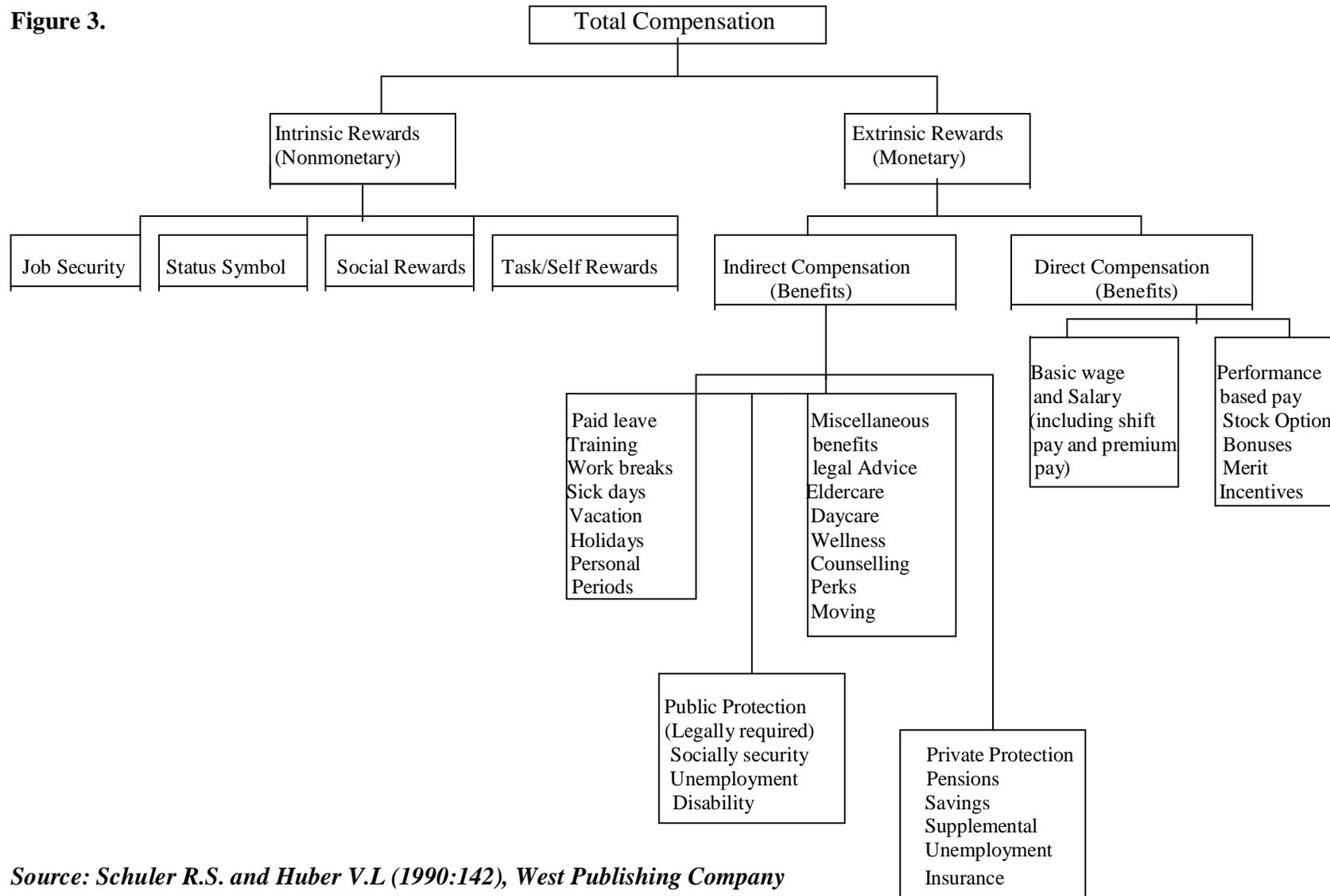
(viii) Bureaucratic vs. Flexible pay policies:

Hambrick and Snow (1987) warned that frequent change in pay policies can result in lack of coherent policies, thereby resulting to a compensation system misaligned with the organizational strategy. The system should be formalized and at the same time remain flexible.

2.7.3

Components of Total Compensation

Figure 3.



Source: Schuler R.S. and Huber V.L (1990:142), West Publishing Company

2.8 IMPORTANCE OF TOTAL COMPENSATION

Randall S. Schuler and Vandra L. Luber (1990:266) titled personnel and Human Resource Management pointed out that organizations that engage in total compensation system derive the following benefits:

- (1) Attraction of potential applicants: -
This is because the applicants will like to work where the compensation package is adequate.
- (2) Retaining good employees: -
Good employees tend to remain with an organization that practices a total compensation system. This results in low labour turnover.
- (3) Gaining competitive edge: -
Any organization that engages in total compensation usually gains competitive edge over others. This helps in attainment of organizational objective and wealth creation for the firm.
- (4) Motivation: -
It is a motivating factor. It motivates the employee and makes him feel that he is a part of the organization. This motivation enhances performance and productivity.
- (5) To administer pay within the legal system: -
Because several legal regulations are directed towards total compensation, an organization that engages in total compensation is regarded as good corporate citizen.

- (6) It facilitates organizational strategic objective: -
Some organizations use total compensation as their management strategic objective. This enables them to have competent employees that will pilot the affairs of the organization.
- (7) To define organizational structure: -
Some organizations engage in total compensation as a way of defining and reinforcing their organizational structure and status hierarchy.
- (8) To dominate market shares: -
It is a known fact that human beings within an organization make the organization what it is. In this direction, some organizations use total compensation package to attract the best people. This will consequently enhance the organization's performance and overall objective.

2.9.1 FACTORS AFFECTING TOTAL COMPENSATION

Some authorities like *Nmadu T.M, Peremode V.F and Peremode O*, have hinted on some factors affecting total compensation system. Extracts from these authors work indicate that total compensation is affected by a lot of factors which are for the purpose of this study compressed into internal and external environmental factors as well as relationship with other personnel / human relations activities. The internal environmental factors are such factors found within the organizational environment while external environmental factors are those factors that are outside the scope of the organization. These factors are discussed below: -

1. Internal Factors:

Internal factors as mentioned above are such factors within the organizational environment, which include corporate culture, organizational strategy and organizational life cycle. These factors are briefly discussed bellow:

(a) Corporate Culture:

Organizations differ in value, norms and expectations that make up their culture. An organization's compensation system is an important signal of what is valued by an organization. Organizational culture affects how important a job is to the organization and consequently the salary structure. Some organization's requirement may need the services of Engineers while some do not. Such

organizations whose jobs are technical in nature need the services of Engineers and consequently, the Engineers are rated high there.

Some organizations have well-structured and objective way of linking rewards to performance. This type of organization is basically market driven. In this culture, the relationship between the individual and the organization is contractual, with obligations specified in advance. This type of culture does not give rooms for godfatherism, allegiance to certain way of doing things but focuses emphasis on result oriented way of doing things. This culture influences employee's value, attitude, styles and makes him highly responsible and responsive to the needs of the organization.

An organizational culture that uses subjective method of rating and evaluating employee's performance usually lose good employees. This is because good employees are usually disfavoured because of godfatherism. This type of organizational culture also disfavour total compensation because there is no objective way of assessing employee's performance.

(b) Organizational Strategy:

Compensation can be integral to an organization's strategic plan. For instance, a manufacturer of technology-based products can develop a new strategic vision of itself as a leader in the new technologies. A textile firm located in

Lagos, which plans to dominate the market, may decide to establish a subsidiary company in the North with the aim of using the subsidiary firm for cotton production. The company may establish two different pay structures for the main company and the subsidiary firm. Because the main firm is technologically based, the salary structure may be higher than the cotton firm.

In modern banking these days, people are employed not only on the normal commercial banking services but also for managing investments, handling corporate mergers/acquisition, bonds and currency trading, and in support function like data processing.

To some extent, each of these functions has its own unique features because of diverse natures of each of these functions. The salary and compensation structure are different.

At present, some money centre banks are now offering different compensation systems in the following ways:

- I The one providing salary alone**
- II The one providing hourly pay**
- III The one offering compensation based on job accomplished.**
- IV The one stressing on commission.**
- V The one combining limited salary with potentially large bonuses.**

Sometimes, an organization may have a personnel policy that has a diverse impact on compensation. For instance, an organization may decide to be a pay-leader in the industry. If the planning unit identifies a shortage of personnel, the compensation level can be adjusted upwards so as to attract more individuals.

Some organizations may decide to pay below the market average but can provide large package of indirect compensation. Some may change their focus from short-term employee performance to long-term employee performance.

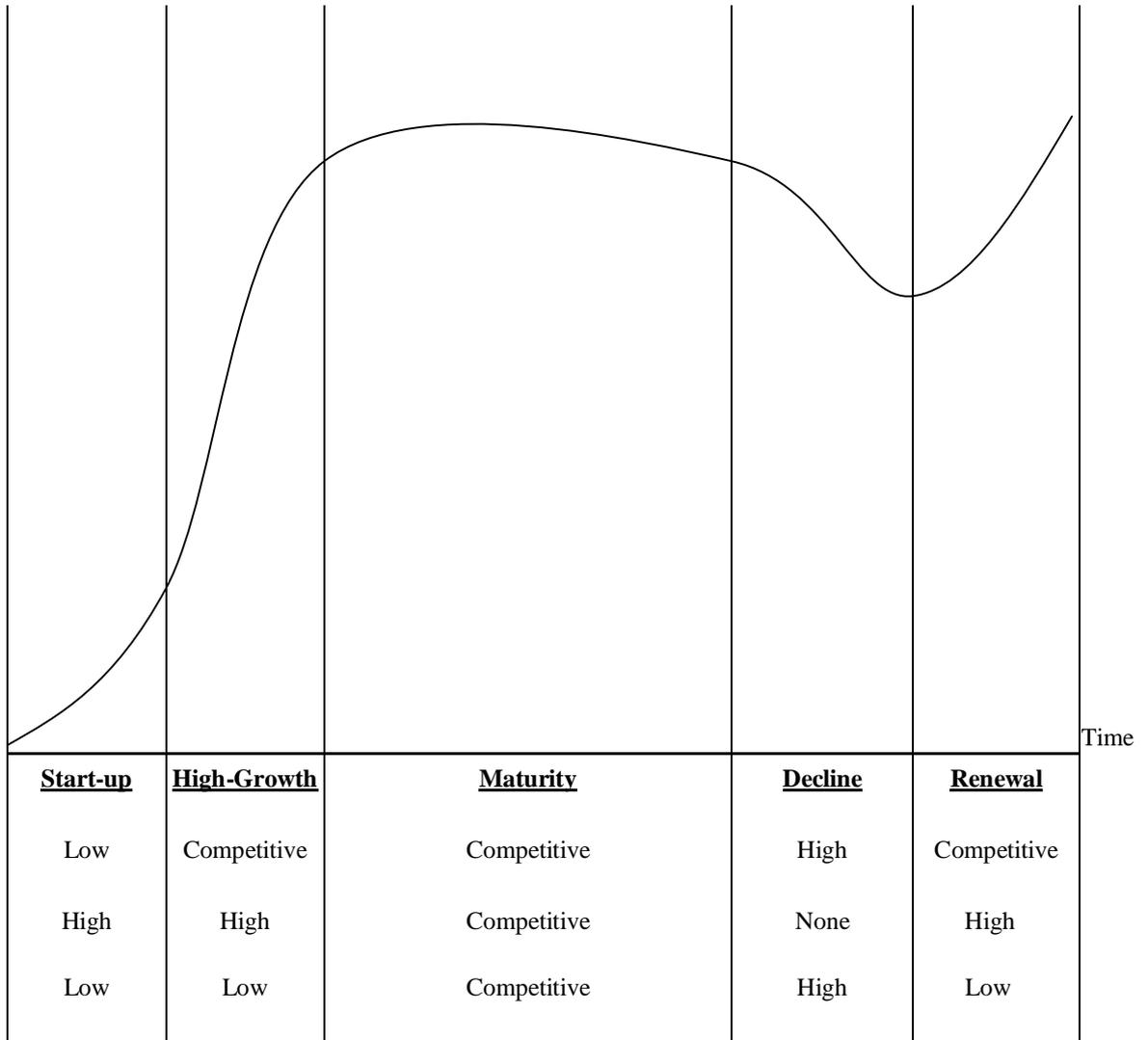
© Organizational Life cycle:

Usually, compensation system ought to be congruent with the firm's stage of development. During the start-up stage of most organizations, emphases are laid mostly on products and market development. Because a lot of money is spent on product and market development, the organization has limited cash and therefore base pay and benefits are very poor. When the organization comes out of that start-up stage, it starts increasing the welfare of its staff. The compensation structure continues improving as the firm grows until it comes to maturity stage.

Figure 4.

Potential pay Mixes for Different Stages of Organisational Life

Revenues or
Market share



Source: Modified from Mikovich, G and Newman, J – Compensation (Plano 1988), 2d.

The above fig 2 shows different pay matrix of an organization at different life cycle of the firm. The chart shows that at the start-up stage, base pay and benefits are low, while incentives are high. At high growth stage, base pay is competitive, and incentives are high while benefits are low. At maturity stage, the base pay, the incentives and the benefits are competitive.

During the decline stage, the base pay is competitive; the incentives are high, while the benefits are low. This shows that an organization can implement different categories of salary structure, depending on the organizational life cycle at the time of implementation..

External Factor:

External factors greatly influence the compensation structure of any organization no matter how large the organization is. Marginal revenue product theory in labour economics states that the value of a person's labour is equal to what someone is willing to pay for it. In setting rate of pay, organizations rely on wage surveys developed by public agencies like Bureau of labour statistics and companies. Some of the factors affecting the compensation system include the following:

(a) The Market:

Organizations use wage and salary surveys to determine the prevalent rate of pay. The surveys are used to ascertain wage rates for comparable work in other sections of the industry as well as the wages paid around the locality or the

relevant labour market. For instance, a business administration graduate in Lagos may be receiving ₦40, 000.00 while somebody on the same qualification and on a similar job at Nsukka may be receiving ₦ 30,000.00

(b) Specialization:

Specialization is also another factor that affect compensation package. For instance, the salary of an accountant may be higher than the salary of office manager. Market demand and market value of the profession affect the labour rate greatly. If the market is tight, the rate will increase but if the market is loose, the rate will decrease. It should be noted that paying one employee more than another for the same type of job is not necessarily illegal if the market conditions for the two employees differ. Market data can be used directly or indirectly to set the rate of pay and compensation system.

(c) Indices:

Other criteria for wage determination are labour market condition, tradition and past history of the organization's wage structure, indices of productivity, profit figures, turnover data consumer price index etc.

(d) Personnel/Human Relations Activities:

Personnel/human relations' activities such as job analysis, recruitment and selection, performance appraisal and

union-management relations also affect compensation practice.

It is a normal practice in most performing organization to carry out job analysis in order to determine the actual worth of a job. By analyzing a job, all compensable factors are examined before deciding the actual compensation to be attached to the job. This includes the skill, the effort, the responsibility and the working condition.

Recruitment and selections play vital roles in job compensation package. Employees differ on the value they put on their pay, individual employees differ on their choice of job. Such factors as location of the firm, the reputation of the organization, nature of the job and what friends and relations think of the job affect the compensation package demanded by the applicants.

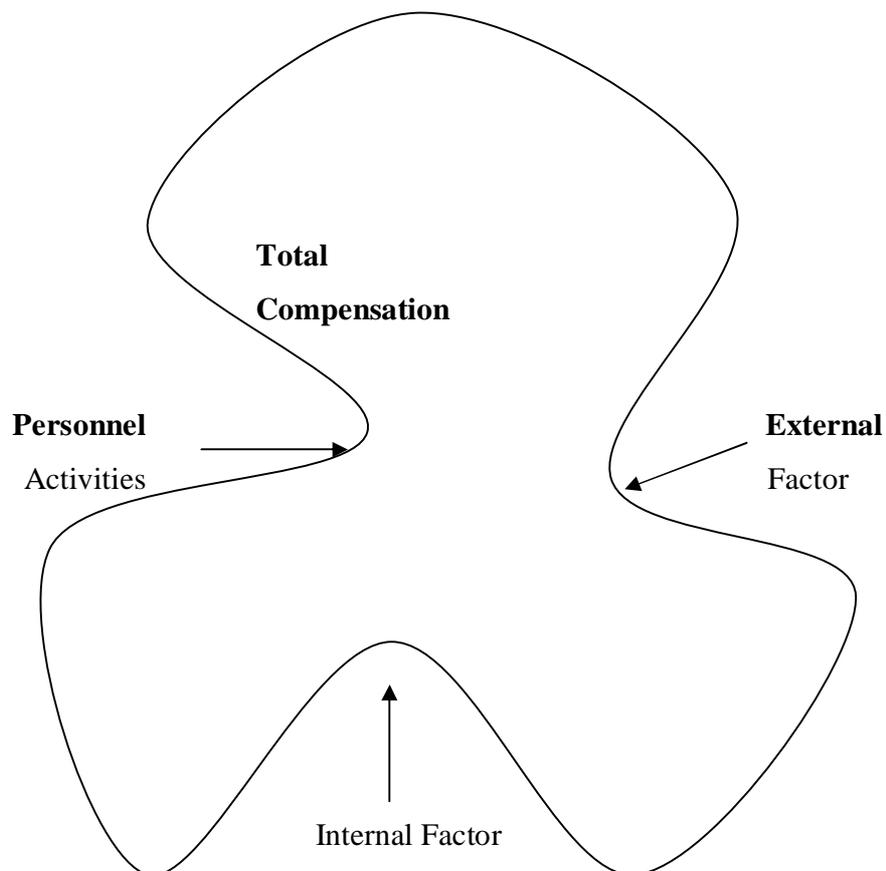
Performance appraisal is carried out to measure performance of employees based on the attributes, behaviour and outcome. The appraisal is done purposely to link the contributions of employee to the compensations package due to him.

Union-Management relations have contributed immensely to the wage structure, wage level and individual wage determination in many organizations.

Salary negotiations in some organizations are so difficult that individual employees cannot influence their organizations unless with the help of workers union.

2.9.2 [Illustration on factors affecting total compensation](#)

Figure 5.



Source: The author

Fig 3 above is an illustration of total compensation system and the forces acting on it. The factors affecting the implementation are broadly divided into three main headings such as internal factor, external factor and personnel activities.

2.10 SINGLE PLAN VERSUS MULTIPLE PLANS

Job evaluation plan can be either single plan or multiple plans, depending on the organizational requirement. Job variation plans vary depending on the job family. This approach is based on the premises that the work content of various job families is too diverse to be captured by one single plan. For instance, manufacturing jobs may vary in terms of working conditions and physical efforts, while professional jobs may not differ in terms of these compensable factors.

Proponents of multiple plans contend that these are necessary to capture the unique job characteristics of all the job families. The proponents of comparable worth and pay equity advocate a single pay plan. Their argument is premised on the assumption that there are universal compensable factors that relate to all jobs. Only when jobs are evaluated using the same criteria that the relative value of all jobs can be properly determined. The most universally accepted methods are the Hay plan and Arthur Young's Decision Banding method (DBM).

2.11 Comparable worth

The issue of comparable worth is so important in wages and salary administration that we have to treat it briefly in this study. The heart of the comparable worth theory is the contention that while the “true worth” of jobs may be similar; some jobs (often held by women) are paid at a lower rate than others (often held by men). The resulting difference in pay that is disproportionate to the differences in the true worth of jobs, therefore, amount to wage discrimination. Consequently, legal protection should be provided in these cases, according to the comparable worth advocates.

The two major cases concerning comparable worth are *Gunther V County of Washington (1981)* and *AFSEME V state of Washington (1985)*. In *Gunther*, the united state supreme court ruled that women prison guards suffered pay discrimination not because they were being less than the male prison guard doing the same jobs but because they were being paid at a rate lower than male guard based on the prison job evaluation result. That is, the job evaluation result indicated that the two guard job were different (they were given different point values), but in relation to their separate evaluations, the women were being paid at a lower percentage of their job evaluation value than the man were.

In the state of Washington, a united state district court ruled that the state had systematically paid less for job dominated by women than the value indicated by the job evaluation.

The consulting firm of Willis and Associates conducted a job evaluation in 1970 but the state set it aside when setting up the wage rate of men and women.

Many countries have legislated against wage discrimination and therefore, there is a decreasing trend of wage disparity between male and female.

In Nigeria, for instance, there is no more wage discrimination in both public and private sectors. The worth of a job is now based on the actual job involved, the position held and the importance of the job to the organization. At present in Nigeria there are instances where female employees are rated above their male counterparts mainly because of the importance of that job to the organization concerned.

2.12 DETERMINING THE RELATIVE WORTH OF JOBS:

Job valuation methods vary from one organization to another. Some firms evaluate the whole job while others evaluate jobs using compensable factors. Some of the most frequently used evaluation methods are the following:

(i) **Ranking method:**

This is the least evaluation method. The approach to ranking method relies mostly on the market value of each job. Another method of ranking is on the basis of such factors as difficulty, criticality of the job to the organization and skills required. This method is used when there are only few jobs to evaluate and when one person is familiar with all the jobs. When the numbers of jobs increase, and the likelihood of one individual knowing all the jobs declines, the ranking is then done by a committee.

Mathis and Jackson pointed out that ranking is associated with the following problems:

- (a) Distinctions between similar jobs are difficult
- (b) Disagreement arises
- (c) All jobs are forced to be different from one another.

(ii) **Classification Method:**

Job classification is not much different from ranking, except that classes or grades are established and then the jobs are placed under the classes or grades. Job analysis information is needed when classifying jobs and benchmark jobs are established for each class.

Classification method is more commonly used in government work. In government work the classification ranges from grade level 1 to grade level 18.

The main advantage of job classification method is that it can be used for a wide range of jobs.

The major disadvantage of job classification method is that it either uses one method or it makes the use intuition. The problem of using one factor like skill is that it may not be relevant for all jobs. Some jobs may require high skill while others may require high degree of responsibility.

(iii) **Factor comparison method:**

This method links external pay rate with the internal pay system and also links work related compensable factor with the pay system in the organization. This method is very significant in evaluating job because it makes use of compensable factors. In using factors comparison method, the following steps are taken:

- (a) The first step is to select compensable factors such as skill, mental requirements, physical and working conditions.
- (b) The compensable factor is to be selected among these ones.
- © Conduct job analysis: The next step is to conduct job analysis to evaluate each job and link the job with the compensable factor.
- (d) Pick benchmark job: Benchmark job serves as a reference point, therefore, care should be taken when choosing it. The content of benchmark job should be well defined and it should be consistent with the external market.
- (e) Allocate benchmark wages across factors: Compensation committee should be used in allocating the benchmark wages. For instance, an office manager on a salary of ₦60, 000 is broken down as follows:
₦15, 000 for skill, ₦10, 000 for responsibility, ₦9, 000 for problem solving and ₦6 for working conditions.
- (f) Slot non-benchmark jobs:

Other jobs that are (non benchmark) are then slotted into the scale based on the amount of pay assigned to each factor.

iv **Point ranking method:**

This is the most widely used method of evaluation. This involves assigning point values to previously determined compensable factors and then adding them together to arrive at a total. Compensable factors also play key roles here. Just like

factor comparison method, point ranking method has the following advantages:

- i It is widely used throughout industry thereby permitting comparison with other firms within the industry.
- ii It is simple to understand
- iii It has a considerable stability. The greatest asset of this method is also its consistency, uniformity and widespread usage throughout industry.

Limitations

- i The major disadvantage is on its assumption that jobs can be described with the same factor.
- ii This method incorporates the potential subjectivity of the job analyst.
- iii Bias and wage discrimination can also occur.

Hay Guide chart method:

This is one of the most widely used methods of job evaluation in the world. This method combines the best characteristics of point evaluation method and factor comparison method.

The method is mostly used for job evaluation for people on executive positions, managerial positions and professional positions.

The Hay Guide relies on three primary compensable factors such as problem solving, accountability and know-how. Point values are determined for each job, using the three factors and their sub-factors. Jobs are also compared to one another on the basis of each factor.

Hay Guide combines the factor comparison and point ranking methods to arrive at a universally accepted method.

Advantages

Some advantages of Hay Guide method include the following:

- i It is universally accepted.
- ii It provides clients with comparative data by industry and firms.
- iii It has been legally challenged and found acceptable by court.

Limitations

- (1) In as much as it is acceptable by industries, it may not reflect an organization's true values. An organization needs to consider whether its job problem solving, accountability and know-how are truly congruent with its values.
- (2) It is also difficult to explain to employees why some jobs receive more points than the others.

Figure 6. RANKING METHOD OF EVALUTION

Job	<u>Ranking method of evaluation</u>			<u>Average</u>	<u>New Ranking</u>
	A	B	C		
Booking machine Operator	2	2	3	2.3	2
Clerk file	4	4	3	4.3	4
Typist	3	4	3	3.3	3
Messenger	5	5	4	4.7	5
Secretary	1	1	1	1	1

Simple ranking's greatest virtue is its simplicity but its basic weakness is that it does not provide a very refined method of measuring each job's worth i.e. how much more is one job over another. The rankings merely indicate the relative importance of jobs but not the differences. It is suggested that the job ranking plan be used when time or resources to employ a better method are not available or as a check on the accuracy of other methods.

vi **Decision banding method:**

This is known as Arthur Young's Decision Banding Method (DBM). This method measures the amount of decision-making and decision discretion an employee has in a job. Decision banding method categorizes the decision into six categories such as defined, operational, process, imperative, programming and policy, using task associated with the highest level of decision-making required for the job. The jobs are then classified as either coordinating (the job of others) or non-coordinating jobs. The coordinating job is coded with "C" while the non-coordinating job is coded as "NC". The jobs are also categorized into sub grades based on such factors as the number, frequency and diversity of decision at the highest band.

vii. **Skill based evaluation:**

Whereas the first five evaluation methods are jointly called "pay for the job", skill based evaluation method is called "pay for the person" or simply called "pay for knowledge". The skill-based evaluation begins on starting rate given to each employee on his commencement. After coming on board, the employee advances one pay grade for each of the jobs he learns. The employee advances to the top of the ladder after learning all the jobs concerned.

2.13 DIRECT COMPENSATION

This is one of the extrinsic reward systems prevalent in most organizations. It is also known as monetary reward. This type of reward is sometimes called the motivator because studies have shown that money motivates employees more than materials. Employees prefer to have reasonable sum of money by the end of the month so as to enhance their purchasing power. They prefer immediate monetary rewards to future benefits and/or material benefits because they feel that a bird in hand is worth more than two in the bush. They prefer direct reward system to other forms of rewards because it will help them to solve their immediate problems. Their belief is that there is no need to suffer now only to gain the reward in the future, which they don't know whether they will be alive then.

Direct compensation system is very important to both the employees and the employers in the following ways: -

- i It is important to the employer in the sense that it is a motivating factor.
- ii It helps to increase productivity of the organization.
- iii It is important to the employees because it raises the employee's purchasing power.
- iv It also encourages the employee to put in his best.
- v It enhances organizational survival and existence since the employee feels committed to the course of the organization.

2.14 PERFORMANCE BASED PAY: -

Performance based pay system is the direct reward system that links performance to the reward. It measures the performance of individuals or groups in the organization and compensate adequately according to output. Most high performing organizations make use of both performance based pay system and indirect pay system.

In as much as both systems are important and serve different purposes, performance based pay system is mostly preferred to indirect pay system. This is because it gives immediate benefit to both the employer and the employee. It serves as a motivating factor to the employee and it gives high productivity to the employer.

When employees partake in sharing the benefit resulting from their endeavour they tend to put in their best, which consequently results in increased productivity and overall success of the organization.

Performance based pay has some disadvantages, which include the following: -

- i It takes time to administer.
- ii Occasionally conflicts arise since it is not administered to all workers.
- iii It is difficult to administer.

2.15 TYPES OF PERFORMANCE BASED PAY SYSTEM

Performance based pay system of an organization comes in the following ways: -

i. **Performance Bonus:**

Employers of labour give performance bonus based on the employer's performance for a given period. This is much more preferred by the employers to the normal annual increment. The bonus can come in lump sum basis or in a traditional method (i.e. by dividing it into parts and adding it to the pay packet). In administering a bonus package, certain percentages of the employee's salary is worked out and then added to his normal salary.

Bonus package has the following advantages:

- a. Bonus increase motivates the employee and gives him a sense of belonging.
- b. It increases productivity
- c. It increases the purchasing power of the employee.
- d. It harmonizes the relationship between pay and performance.

Bonus administration has some disadvantages such as:

- i It stretches the employee beyond limit since the employee must perform above average before he qualifies for the bonus.
- ii Sometimes conflicts arise during implementation.

iii Administration is difficult since it undergoes series of appraisal before implementation.

2. Incentive pay plans:

Incentive plans found in most organizations are many. Every Organization uses the incentive plan which soothes the organizational set up. Some of these include the following:

a Individual-level incentive plan:

This is the most popular form of incentive plan. In this type of incentive plan, individual performance is measured and the incentive is given according to individual employee's contribution. Incentive plans differ in terms of method and rate of determination.

When the cycle is short, units of production is used in determining the plan. For a longer cycle jobs, the assessment is based on the time required to complete the job unit given. Some organizations may pay a consistent amount at all levels; for instance ₦1, 000 for any unit of production completed within schedule. Another method may be to pay a certain amount of money to the employee per day for any day the production capacity is up to ₦10,000 tones of flour or any product concerned.

b Piecework plan:

Piecework plan is a very common type of incentive pay plan. In this type of plan, employees are guaranteed on standard pay rate for each unit of output. Under a piecework type of plan, employees are given a standard pay rate for each unit of production. An organization may

establish (for instance) N100 incentive a person pay for any unit produced after the normal production standard.

The piecework incentive plans can come in the following forms. Straight piecework plan in which the pay plan is based on the standard output and the base pay rate.

- i) The differential piece rate plan in which every employee receives an incentive plan differently from each other depending on the value of his contribution. For instance insurance commission differ from one person to another, depending on the performance. *Frederick Taylor* established the theory of differential pay plan.
 - b) *Merrick's* Multiple-wage plan operates the same way, except that three rates of pay are established. The success of this type of plan largely depends on how well the employees are treated in the organization.
3. Standard hour/plan:
- Standard hour plan is the second most popular incentive plan. It is like a piecework plan except that standards are denominated in time per a unit of output rather than in money per unit of output. This can be established using the theory of time and motion study.

2.15.1 FACTORS AFFECTING PERFORMANCE BASED PAY

Performance based pay is affected by a lot of factors. Some of these factors include the following: -

- a. Performance appraisal
Sometimes, the traditional pay system does not provide leeway to reward the really good performance without penalizing some other workers who must be retained if the organization must move forward.
- ii Managers are not comfortable with basing large pay distinction on the often lazy performance information.
- iii Sometimes performance appraisals are erroneous and subjective
- b. Training and development:
Managers need to be trained to be able to understand the effects of contingent rewards on performance and to be able to observe employees performance accurately. Employees must also be trained and developed to be able to perform as expected.
- i Union–management relations:
Union-management relations greatly affect the performance based pay system. Because wages and salaries are bargainable

issues, the acceptance of performance based pay system depends on the agreement of both the union and the management of the organization concerned. On many occasions, implementation of the system depends on the final agreement between the two parties.

ii. Organization culture:

Pay for performance is not acceptable to all organization. This system is more acceptable in labour oriented organizations (i.e. is where labour accounts for a larger percentage of the total cost production). Organizations that are more technology based prefer performance-based system.

For performance based system to work, employee-management trust must be maintained at a high level.

2.17 GROUP COMPENSATION:

As an organization grows and the activities become more complex, a growing number of jobs become inter-dependent in terms of sequencing of actions or joint effort. In this case, the measurement of individual effort is almost impossible. As a result of this, group level incentive plan becomes the viable option. Group incentive plan is a system of distributing incentives on the basis of profits earned or cost savings. The group that contributes to high profits or cost saving usually receives group incentive plan.

Organizations all over the world device different means of group compensation for their employees. This group incentive is paid to any working group or department that contributes highly to profit making or wealth creation of the organization. The group incentive plans may come in form of straight commission, game and awards, combined plan and profit-sharing plan.

i Straight Commission:

This is the commission attached to the volume of production or sales made by a particular department or group.

The percentage of the commission varies from firm to firm and from individual to individual. The exact percentage depends on the industry concerned, the product being sold, the organization concerned, the economic condition and special pricing during sales promotion. *Abel Ubeku (1975)* stated that commissions are more commonly paid to salesmen especially among the insurance salesmen.

ii Game and Awards:

This is the system whereby top employees from different branches of the firm are identified and flown to the headquarters, and paid to spend about three days playing job related games. The winner of the game will be paid a substantial cash reward.

iii Combined Plan:

A combined plan is made up of both the base pay and the incentive. In this regard; the employer has to determine which percentage of the total compensation package will be on salary and what percentage will be on commission. This will consequently depend on the sales criteria such as sales volume, unit sold, product mix, retention of account, and the number of new clients. The commission portion of the sales compensation can be established in one of the two ways. The simplest method is by the one combining a commission with a draw. Under this arrangement, the sales person receives a specific salary plus cash draw on each payday. Another form is the bonus given to person when sales reach a specific level.

iv Profit sharing plan:

Metzger (1966:vi) and Cooper (193:487) identified the three major profit sharing plans as Cash profit sharing plan, deferred profit sharing plan, Combined profit sharing plan.

Profit sharing plan exist most in the Western world where the employee's rights in the work place is protected to some extent.

This plan includes any programme under which the employer pays the employee special amount or deferred sums of money from the profit of the business in addition to their normal pay. Like the cost reduction plan, profit sharing plan is designed to pay out incentives when the organization is most able to afford it. It comes in three different forms viz:

- a. Current distribution plan, which provides for between 14 – 30 percent of profit. This is distributed quarterly or annually to employees who are qualified for it.
- b. Deferred plan: This is the fastest growing type of profit sharing because of its tax advantage. Savings are placed on escrow fund for distribution on retirement, termination, death or disability.
- c. Combined plan: In combined plan, part of the profit is distributed immediately to the employee while the remaining is set-aside in designated account for future benefits.

v. Improshare:

Mitchell Fein developed improshare plan in mid *1970s*. If there is any savings arising from production of agreed-on output in a fewer than expected number of hours, the excess savings are shared between the organization and the employees who contributed to the savings. Although the profits and savings are shared between the employees

and the organization, no employee can receive more than 30 percent of his base pay number this arrangement.

However, there are some prerequisites to the effective administration of group incentive plan packages. These include the following: -

- i Group or organizational performance measures must exist.
- ii Group members must believe that they can affect performance output.
- iii Organizational culture must be congruent with team problem solving and participation. When these conditions do not exist, the benefits of group incentive plan may be undermined.

Group incentive plan can be influenced by such variables as the following:

- i. New machines or other technological changes.
- ii. Changes in methods of operation or procedure.
- iii. Changes in product mix.
- iv. Availability, cost and quality of raw materials.
- v. Inventor policy and backlog.
- vi. Delivery procedures
- vii. Sales price of products or services.
- viii. Financing and funding patterns.

- ix. Labour cost including overtime, hourly rates and sub-contracts.

2.16.1 COMPENSATION FOR SPECIAL GROUPS

Special groups here refer to those groups of employees who are not covered by the Fair Labour Standard Act (FLSA). These special groups are discussed below: -

i Sales personnel: -

Because a large proportion of sales persons' jobs are unsupervised, performance based compensation programme is very vital in directing sales activities. This is why the compensation packages of sales people are made up of salary and individual/group incentive pay plans.

ii Straight salary:

About 30% of sales people's salaries are paid through straight salary. This is appropriate when the major function of the salespersons is providing customer service or prospecting new accounts under low success conditions.

From the sales person's point of view, straight salary has the following advantages:

1. It is not ambiguous.
2. It is easy to administer.

The disadvantage is that it reduces the relationship between the pay and the performance.

iii **Executive Compensation:**

Different organizations compensate their executives in different ways but the most prevalent methods are the bonus system and the stock option.

iv **Bonus:**

Companies pay annual bonus of 20% - 45% of the employees' basic salary as an incentive for the person concerned. Research carried out across the world on various industries showed that the system is very effective in motivating executives.

v. **Stock Option:**

This is the process of allowing an employee in executive position to acquire shares in the organization where he works. A stock option is an opportunity for a manager or nay one in executive position to buy organization's stock at a later date but at a price established when the option is granted. Awarding of stock option is premised on the assumption that managers will work harder to increase their performance and the performance of the firm if they share in the term's long run profits. This emerges from the fact that high performing organizations focus more attention on long run goals than on short run goals.

vi **Expatriate compensation:**

Some multi-nationals and international organizations engage in international compensation programmes. This may be in cash or kind. In Nigeria for instance, some

expatriates from Europe and America are treated in different (better) compensation packages from their Nigerian counterparts.

Italian nationals working in Nigeria have special pension and insurance schemes in addition to their salaries and other incentives. This is because Italian law makes it compulsory for any Italian company that employs Italian nationals outside the shores of Italy to pay insurance and pension scheme in respect of such workers. Some United States citizens working in other countries are engaged in such a programme that will enable United States citizens working outside the shores of their country to receive almost the same amount they would have received if they were working in United States. Such a programme is called “keep the employee whole”.

Such a programme comes in three main components such as: -

(a) Base Salary:

The base salary of those working in foreign countries should be the same or not much lower than those working in United States. For such a condition to apply, the two jobs and responsibilities should be the same.

(b) Equalisation premium:

This allows the United States citizens working outside the shores of their countries to be exempted from economic recovery tax. This provision is mostly meant

for the citizens whose companies have most fully complied with the “keep the employee whole program”. This reduces tax liabilities on such employees so as to alleviate their living standard. Allowances are also provided to offset the difference between the housing

allowance in United States and the housing allowance of United states citizens working abroad.

© **Incentives:**

Another components of expatriates compensation include a premium for accepting foreign assignment. This is because expatriates in foreign assignments face a lot of constraints such as:

- (i) Leaving one’s family behind
- (ii) Difficulty of facing foreign culture and languages.
- (iii) Difficulty of foreign climatic and weather condition.

2.17 INDIRECT COMPENSATION

This is another form of intrinsic reward system. High performing

organizations, particularly in the Western world engage in indirect

compensation system for their employees. Since the world is now

a global village, many organizations in developing countries have

started embracing the indirect compensation system. Although

some of the indirect compensation systems are mandated by the

Federal and State Governments and must therefore be administered

Within the framework of legal system, some organizations have

joined the system voluntarily. This is purposely done in order to

make the employees put in their best performance, which will

consequently result in organizational growth.

The beneficiaries of indirect compensation appreciate it because it

helps to alleviate their suffering during their working age and

after the retirement. indirect compensation is broadly classified into

public protection, private protection, paid leave and miscellaneous benefits.

i PUBLIC PROTECTION PROGRAMMES:

Public protection programme is outgrowth of social society

system. The programme was initially established to take care of retirement benefits, disability and unemployment insurance but later, Health insurance such as medicare was added to it. Some of the public protection programmes all over the world today include the following:

(a) Social Security System:

Social security system is jointly funded by the employers and the employees. The beneficiaries of the system are usually the employees. The employees start to reap the benefit of the system on retirement, disability or death.

(b) Unemployment compensation benefit:

This system is mostly the responsibility of Federal and state Governments. In Nigeria the system is not effective. In some countries like Italy and France, the system is very effective. In developed parts of the world like United States of America, Germany, Italy and France, employers contribute effectively to the scheme. In such places,

profit-making organizations are taxed for the scheme but the percentage of the tax depends on the number of employees. During the period of high unemployment, employers are taxed more than the period of low unemployment.

In as much as it is specifically designed for the unemployed, not everybody who is employed can benefit from the system. Social security system is designed for the people who satisfy the required conditions. To be eligible for benefits, the unemployed must fulfill the following conditions:

- i The person must have worked for a specified number of years as contained in the act establishing it
- ii He must be able and available to work.
- iii The cause of his unemployment must not be due to labour dispute.
- iv He must not have been terminated as a result of gross misconduct.
- v He must not have terminated voluntarily.

The function of how long the employee will receive he benefits is how long the employee has worked in the organization.

© [Disability and workers' compensation benefits:](#)

This system is fully financed by the employers to assist the

workers who cannot work any more because of occupational injury or ailment. Workers' disability benefits are for temporary and permanent disabilities, disfigurement and medical rehabilitation. The awards may be in lump sum, payment of medical benefits or long-term payment tied to the beneficiary's income level. It is provided irrespective of the cause of the disability or accident. Because of the rising cost of disability programme, the employers are finding different means of reducing the costs.

(d) Medicare:

This is more prevalent in United States of America. This is meant for taking care of those who have retired from service, provided the person is not below the age of 65 years. This type of post retirement health care is not found in Nigeria and in most third world countries.

ii PRIVATE PROTECTION PROGRAMMES

These are those programmes offered by organizations but not required by law. They include benefits for health care, income after retirement, insurance against loss of life and occasional supplemental unemployment benefits. This comes in the following ways:

(a) Retirement Benefits:

In most countries of the world, it is a known fact that private sector employs between 60 – 75 percent of the workforce. This scheme is mostly for private sector employees. The system is fully funded by the employers. Most private pensions were non-contributory and consequently were completely funded by the employers. As modern trend in business grows and the industrial relations developed more and more in both the private and public sectors of the global economy, public sectors started showing more concerns for private protection programme.

(b) Insurance Benefits:

Insurance benefits have considerably become operational in many parts of the world. Organizational environment has changed over the years and employees have become much more aware of their rights. The growing awareness of the employees' rights has forced the employers to embrace such programmes as basic life insurance, accidental death insurance and disability insurance.

Employees now provide basic life insurance, supplemental life insurance and health insurance programmes. The new trend in employees'

insurance benefit has now extended to business travel accident insurance. Life insurance scheme is more prevalent in Europe and America than in third world.

© **Supplemental Unemployment Benefits:**

This is the system whereby the employees are compensated if they lose their jobs before retirement age or loss of income during engagement. The Unions usually negotiate the benefits. When this benefit is combined with unemployment compensation benefit, the employee may receive nearly 95 percent of the earning when he was on employment.

iii **Paid Leave:**

Paid leave is one of the incentives given to employees in both private and public sectors. The paid leave is made up of paid off-the-job component and payment for time not worked on the job component. The components are

briefly discussed here:

(a) **Off-the-Job:**

The most common paid off-the-job components include vacations, sick leave, holidays and personal day.

i **Vacations:**

Vacations are granted when the employee needs time to

recuperate away from the physical and mental demands

of the job. Vacation time is also an appropriate reward for service and commitment to the organization. Sometime vacations attract some incentive packages like overseas trip at the expense of the employer. The Length of vacation and the incentives attached to it depends on the following variables:

- i The industry concerned.**
- ii The employees importance and position in the organization.**
- iii The length of service rendered by the employee.**
- iv The size of the organization**
- v The profession of the employee.**

When setting a vacation programme, the following issues need to be

looked into:

- i Whether the vacation pay should be based on the scheduled hours or on the hours actually worked.**
- ii Under what circumstances can an employee be paid in lieu of a vacation.**
- iii Whether the vacation can be deferred and whether it will be lost if deferred.**
- iv What pay rate will be applicable if the employee works during his vacation.**

ii Holidays:

Several holidays are observed in different parts of the world. most of these holidays are public holidays. These holidays are paid holidays as they are established by law or declared by the Federal authorities. The new trend in union or employee's contract negotiation is the negotiation for periodic personal holidays in addition to compulsory public holidays.

Conversely, some organizations are cutting back on the number of paid holidays because of the rising costs of such holidays on the organization. Some organizations also establish holiday policies, which is aimed at reducing the rate of absenteeism in the organization. The policy is established in such a way that for an employee to be entitled to paid holiday, he must have worked a day before and a day after the holiday.

(iv) Paid Absences:

The demand for leisure is being met with more paid holidays, longer vacations and shorter working weeks. In this dynamic business world, employees have received more paid holidays than during the previous business era. These leisure days (holidays) are so important to the executives that sometimes they feel that without it, they will be unable to cope with work stress. Some organizations pay their employees the full month salary even though such employees may be absent for some days because of health or family problem. This is one

of the ways of motivating an employee and appreciating his contributions to the organization.

In order to reduce the rate of absenteeism, some organizations

engage in some programmes that reward attendance.

These

include cash prizes, bonuses and conversion of unused

holidays into vacation days. This increases productivity in the

long run as the employees feel more committed to the course

of the organization.

Some organizations engage in negative strategies of controlling

absenteeism. These negative strategies include punitive

disciplinary actions against the employees who engage in

absenteeism. Sometimes this action may be counter productive

and sometimes result to low productivity.

(iv) Working conditions:

Attractive working condition is now considered as a part of the

employees benefits. These include comfortable and spacious

office, air conditioned office, good parking space, modern furnishing, etc. These days executives in some organizations are

having their offices equipped with satellite television network, internet services and art display. Some managers and executives feel that self satisfaction at work place is a good motivator.

Industrial psychologists also believe that some of these non-monetary compensations helps to increase productivity.

The only inherent problem of these fringe benefits is the rising costs it imposes on the organization concerned.

(v) **Self-realization:**

As self realization becomes a more sought for goal, employees

(particularly at managerial level) want their jobs to be fulfilling.

Since few jobs provide an exact match between organization's

needs and personal desires, employees want released time (while maintaining their regular salaries) to attend to their professional and personal needs. This type of self-realization is a good incentive (though unquantified) to the employee. Employees at managerial or professional level feel more fulfilled when they are allowed to attend to their professional engagements like seminars and workshops as well as having enough time to attend to their personal or family needs.

(vi) Vesting:

Vesting is the process of protecting the employee's pension fund so that he will benefit from it in future even if he changes employment to another organization.

In the past, many employees lost their pension benefits because they quit their present organizations or because they were fired by the organizations. In some cases, the pension benefits may be lost because the company has wound up.

Nowadays, some countries have enacted laws establishing vesting. This is aimed at employee's rights to some proportions of accrued pension benefits, depending on the length of the employees service.

Obviously, vesting increases employers costs. Formerly, employees who left before retirement lost their accrued benefits. The funds they left behind could then come back to the organization for other uses.

Apart from the increasing costs to the organization, it also weakens the grip of the organization on the employee because of the pension benefit.

(vii) Portability:

Portability is another growing trend in pension benefit. This enables the employee who is leaving his employment to carry accrued pension benefits and deposit them with his new employer (with no tax due). This scheme is backed up by law in some countries (mostly in Europe and America). This procedure is designed to reduce the employers'

resistance to hiring older workers and having to make up for their rather costly pensions.

Although vesting and portability are costly, both the employees and the employers gain from the scheme. Employees who stay on the job merely to keep their pension benefit are probably not going to be very effective. On the other hand, employers who may be reluctant to terminate an unsatisfactory employee now have the flexibility.

(b) On-the-Job:

Pay for the time not worked on the job include the following:

- i Payment for time spent on lunch.**
- ii Payment for the rest periods.**
- iii Payment for get ready time**
- iv Payment for time spent on clothes change.**
- v Payment on time spent on wash-up.**

Research has shown that the organizations that pay for the time not worked on the job tend to benefit greatly in the long run as the employees feel more committed to the organizational goal.

© Miscellaneous Benefits:

Miscellaneous benefit is another category of indirect compensation. Modern organizations are encouraging the implementation of miscellaneous benefits in their bids to make the employees happy. These miscellaneous benefits include elders care, day care or child care, wellness

programme, employee services and perquisites, golden parachutes and golden handcuffs.

i Elders Care:

This type of benefit is more commonly found in the Western part of the world, mostly in United States and United Kingdom. This scheme is meant for assisting the dependent relatives of the employees. This helps to motivate the employees concerned and make them more committed to their duties.

ii Day Care / Child Care:

This is the type of benefit accrued to working mothers of child bearing age. Some organizations recognize that women of child bearing age get some distractions when at work because of their children. In this direction, some firms establish day care/child care system as a joint responsibility trust (shared between the employees and the organization).

The Day care system helps to take care of the children of the Working mother during the working hours. This form of assistance helps in motivating the working mothers to put in their best performance. Although child cares benefit is very expensive, employers embark on it for long term benefit as the beneficiaries feel committed to the course or the organization.

iii Wellness programme:

This programme is aimed at improving the health of the employees to enable them to cope with the work stress. With increased awareness of the relationship between job stress and coronary heart diseases and other physical and mental disabilities, organizations have become more concerned with improving the employees' health.

Research indicates that when employees are in good health, they can deal with stress better and have fewer side effects. Organizations these days provide athletic, tennis and other sporting activities to improve the health, for mental and physical fitness of the employees.

In order to maintain good health of the employees, some employers ban the smoking of cigarette in the work place. Some organizations also provide guidance and counseling unit for employees.

iv Employee Services and Perquisites:

This is a growing trend in management of organizations in this modern society. Some of the employee service and perquisites include registration of employees in country club, golf club, giving scholarships to the employees' children, giving low cost loans to employees, giving company-leased vehicles to the employees and so on. This type of incentive helps to boost the employees ego and wealth as well as motivating them to put in their best performance.

v **Golden Parachutes:**

One of the most recent incentives given to executives in the organization include golden parachutes. This Arrangement generally provides financial protection or top corporate executives in the event of a change in control of the company. This protection comes in form of guaranteed employment or in form of severance pay on termination or resignation. This type of incentive gives the employee a sense of belonging and makes him feel committed to the course of the organization.

vi **Golden Handcuffs**

The Golden handcuffs make it difficult and costly for an employee to leave the organization. The package include stock option for the executives, high salary scale (which will be difficult for another organization to take the employee away) and high retirement packages. The standard established by their type of package is too high for any other organizations to meet up. This is why the package is called executive handcuff, because it ties the employee fully to the organization.

vii **Overtime**

The Fair Labour Standard Act requires hours worked in excess of 40hours per week be paid at the rate of one-and half times the regular hour rate. Sometimes, the union – management agreement goes beyond that requirement. Overtime is usually paid for hours worked in excess of 8hours in a single day. The rate of overtime varies from one industry to another and from one profession to another. In

construction industry for instance the rate of overtime per hour is 1.25per hour for normal working days, 1.50 per hour Sundays and 2 per hour for public holidays. In some organizations, overtime accounts for upto 25% of the total salary/wage bill. It is beneficial to both the employers and the employees.

2.17.1 IMPORTANCE OF INDIRECT COMPENSATION

Indirect compensation has been on the increase in both public and private sectors of the global economy. Some of the benefits are discussed below:

- i Indirect compensation increases the wealth and value of the employees economic condition.**
- ii indirect compensation helps in wealth creation of the organization.**
- iii The Golden handcuff and golden parachute systems help the organization to retain good top executives.**
- iv It helps to increase productivity because the employees feel more committed to the organizational goal.**
- v It helps to attract good employees.**
- vi Indirect compensation reduces labour turnover.**
- vii It enhances the organization's image among the employees and within the business community.**
- viii It increases job satisfaction.**
- ix It is a motivating factor - as it motivates the employee to put in more efforts.**
- x It increases the employees morale. It is therefore a morale booster.**

2.18 FACTORS AFFECTING INDIRECT COMPENSATION

The issues involving indirect compensation are more than what a layman can perceive. So many factors affect indirect compensation. These include the following:

(i) Industry:

Implementation of indirect compensation depends on the industries concerned. Different industries implement compensation and other benefits according to industrial practice. For instance indirect compensation system is more attractive in banking and oil industries than in fashion industry.

(ii) Organizational Size:

The size of the firm in question determines to a large extent the degree of indirect compensation plan the organization will map out for its employees. For instance, a small firm may not be able to give such benefits as housing loans and car loans while large firms can easily do it.

(iii) Organizational culture:

Organizational culture is one of the determinants of the type of compensation system found in an organization. For instance, there are some organizations whose policies and culture will not allow them to build houses for their employees, no

matter how important such employees are to the organization

Conversely, some organizations imbibe the policy of building houses for their executives and important employees.

(iv) The Market:

Wages, salaries and other benefits attached to them partly depend on market survey. In setting up salary structure and other benefits attached to it, organizations try to find out what is applicable in other sections of the industry as well as the wages paid within the locality.

(v) Labour Market:

Labour market situation greatly affect the extent of compensation attached to a job. In a country where the labour market is full (i.e. where too many people are looking for jobs), compensation rate is very low, but in a country where unemployment rate is low compensation rate is high.

(vi) Union Management Relations:

The workers union and management relationship affects the indirect compensation system in an organization. In some organizations union has an influence in determining the wages

structure as well as other incentives attached to it.

(vii) Employment Level:

The level of the employee involved is a major determinant to the establishment of wages structure. An employee who is on employment on a professional basis or on executive position will get more attractive compensation (both direct and indirect compensation) than ordinary employee in the same organization.

2.19 ADMINISTRATIVE ISSUES IN INDIRECT COMPENSATION

Management struggle to keep the cost of indirect compensation under control because they are aware that the scheme is getting more costly from year to year. Pension law is extraordinarily complicated and uneasy to handle in many organizations. Some organization in developed countries establish individual retirement accounts for their employees, contributing up to 15 percent of the employees earnings to those separate accounts.

Health and retirement programmes can be administered by insurance companies. Some organizations that want to minimize the administrative issues of indirect compensation like health, retirement and deferred benefits pass it on to an insurance firm.

In some developing countries like Nigeria, some indirect compensation programmes like pension, gratuity, health and insurance are not administered properly. The National Provident Fund meant for workers benefit at the retiring age was rather a disaster. The National pension insurance that replaced the National provident fund was worse than what it was meant to replace.

In Nigeria today, the employees in the private sectors do not have any viable pension or retirement scheme to take care of their retirement. The employees in this sector are left at the mercy of their employers during the retirement.

In public sectors where there is adequate legislation, implementation of pension gratuity and other retirement benefits becomes difficult. Some public servants who retired 4years ago have not been paid their gratuities. Death benefit is almost impossible. In most cases, the bereaved ends up spending his last kobo in pursuit of death benefits of his relation for three or four years after which the person will give up without collecting anything.

Some workers in many sector of Nigerian public service have not received their pension benefits since two or three years. This causes untold hardship to the pensioners and their dependent relatives.

Administration of Indirect Compensation is not an easy task. Sometimes confusion may arise and sometimes, the employees have different views of the issues from the employers view points. This is because the employers to be more careful in handling the indirect compensation issues. Some of the issues involved in indirect compensation packages include the following:

i **Determining the packages:**

The packages should be determined on the basis of what is good for both the employee and the employer. Knowing employees preferences helps in determining the type of benefit to be given to the employees concerned. For

instance, in some organizations, employees prefer dental insurance to life insurance, even though dental insurance may be cheaper and of less value.

ii Providing benefits flexibility:

There is a need for flexibility in administration of indirect compensation. If the original programme designed is not suitable or acceptable by the beneficiaries, there is a need to change the programme to a more suitable and acceptable one. It is of no use giving somebody an assistance, which he does not need. Since the programme is designed to improve the quality of life of the employees, something acceptable to them should be the focus of the programme. Some organizations that do not take the employees' opinions into consideration when designing the programme always meet some opposition during the process of implementation.

Recent benefit survey shows that employees prefer to choose

the benefits to be given to them and that they would like to modify these benefits from time to time if given the chance.

iii Communicating the benefits package:

Effective communication system between the management and the beneficiaries is very imperative for the programme to succeed. Employees should be educated fully on the programme designed for them and the procedure of

administering the benefits.

Some benefits programme objectives are not met because of ineffective communication system existing between the management and the beneficiaries. In some cases, the communication techniques used may be inadequate or ineffective. Organizations should be able to device the most effective means of conveying the incentive messages to their employees.

Through communicating the benefits package and providing employees with benefit flexibility, positive image of indirect compensation can be increased.

iv Strategic aim of indirect compensation:

A trend in indirect compensation is to use the gain of indirect compensation to gain competitive advantage for the organization. Organizations should conduct surveys to determine whether their compensation packages are sufficient to attract and retain talented and experienced employees.

2.20 EMPLOYEES WANTS

Human beings within an organization have various needs, which eventually translate into wants. A good organizational policy should incorporate both the organizational and personal needs of the individuals that contribute to the growth and wealth creation of the organization. Researches have shown that a motivated worker is a satisfied worker; and a satisfied worker puts in his best performance.

Some of the personal needs of individuals within an organization include the following:

(1) Pay:

An employee needs his pay to be able to satisfy his economic, physiological, security and egoistic needs. *Chief Ofili Ugwudioha in his paper titled "Business ethic (2003:24)* asserted that organizations should stop giving their employees salvation wages as this amounts to unethical practice.

(2) Job Security:

This is of paramount importance to every employee. Job security is much more assured in Europe and America than in third world countries like Nigeria and Benin Republic. In Nigeria today, job security is not certain, particularly at this period of economic depression. Employers of Labour hide under this guide to exploit the poor employees.

(3) Congenial Associates:

This stems from the social needs of acceptance and approval. Employees need freedom of association within and outside the work place. Management can fulfill this goal through planned and execution of social programmes as well as promotion of formation of work teams with the organization.

(4) Credit for work done:

Employee deserves to be given credit for work done. The manager should not claim credit for the job done by the subordinate (*Ofilu Ugwudioha business ethics 2003:29*). An employee feels motivated if he is given credit for his efforts and contributions.

(5) Meaningful Job:

Employee's desire is to have a meaningful job, which will help his self-realization drive. Though this is very difficult, some employees still achieve this goal.

(6) Opportunity to advance:

Employees need opportunity for advancement in their organizations. Management should provide opportunity for employee's career advancement and improvement.

(7) Comfortable working condition:

Every employee desires a comfortable, safe and attractive working condition. This includes good working climate, good office layout, air-conditioned office, computerized office system with internet access and cable television to link other business world etc.

(8) Competent and fair leadership:

Good leadership gives the employees confidence that the organization will not fail in the near future. It is also important that the person who gives the command is the one who is qualified and capable of doing it. This makes it possible for employees to obey the commands.

(9) Reasonable orders and direction:

A reasonable order is the one capable of being executed and the one that relates to the situation in question. Unreasonable orders make the employees frustrated on the job.

(10) Socially relevant organization:

Social situation of any organization impacts much on the organizational staff. Employees would like to work in an organization with goal social status.

2.20.1 FRINGE BENEFITS IN NIGERIAN ORGANIZATIONS

The fringe benefits offered in most Nigerian organizations includes the following

- Salary advance
- Transport allowances
- Housing allowance/house rent subsidy
- Touring allowance
- Annual leave/leave grant
- Disturbance allowance
- Casual leave; study leave, examination leave
- Sick leave
- Maternity leave
- Medical leave
- Overtime pay
- Retirement benefits – gratuities, pension
- Death benefits
- Children education/tuition assistance
- Academic allowance (academic staff of tertiary institutions)
- Disability retirement benefits
- Paid vacations / paid holidays
- Employee meals / meal subsidy
- Entertainment allowance
- Christmas bonus / other special bonuses.
- Recreational facilities.
- None accident bonus
- Other special bonuses

2.21 FACTORS DETERMINING COMPENSATION POLICY

Many management scientists and authors analyzed the factors, which affect the compensation system in Nigeria. Some of these people include *Nmadu, T.M (Human Resources Management)*, *Akinwale E.J (Human Resources Management)*, *Micheal Poole and Malcoms Warner (Human Resources Management)* and *Peretomode. (Human Resources Management)* The author's consultations on the above works coupled with his field and professional experience identified some of these factors to include the following:

1. Labour Market Condition:

If the labour market is tight, wages and compensation tend to increase but if the labour market is full (loose) wages and compensation system tend to be low. In this case the economic forces of demand and supply applies.

2. Legislation

Legislation has a great effect on compensation system in Nigeria. Legislation stipulates the amount of wages/compensation to be paid to employees in both private and public sectors. In most cases in Nigeria the employers like to stick to the minimum wage system rather than paying a compensation system that is competitive in the world market.

3. Productivity

In a producing economy like Great Britain, the compensation system tend to be high because the demand

for labour is high but in a consuming economy like Nigeria the compensation is low because the demand for labour is low.

4. [Collective Bargaining](#)

This process in Nigeria has a great influence on compensation system. *The elongated salary scale of 1981* came as result of collective bargaining between the labour union and the employers of labour in Nigeria. *The Udoji salary Award of 1975* came as a result of Labour's demand for improvement on the economic condition of Nigeria workers. *The present 7.5% annual increment in construction industry* comes as a result of collective bargaining between the labour union and the employers. At present, Nigerian labour congress is into a negotiation for 12.5% increment for Nigerian workers.

5. [Cost of living](#)

If the cost of living in a country is high it, affects the cost of labour and consequently, the compensation system. For instance, in Nigeria, the cost of living has risen considerably within the last few years and this necessitated the continuous demand for wages and salary increase by labour union.

6. [Financial Ability of the Employer](#)

The profit level and the financial capability of an organization greatly affect the compensation system in the organization. In Nigeria, companies even within the same

industries can establish different wage level for their employers provided the organization does not go below the national minimum wage.

7. **Comparable wage**

Comparable wage system in this context simply means that people in the same industry should maintain averagely the same pay system. Labour unions during the bargaining process put more pressure on the employers to maintain the same wage level. In some cases, what the employers association do is only to make sure that they do not pay below the minimum wage and in most cases they allow organizations that want to pay higher to do so.

8. **Industries**

Industry in which one works greatly affect the level of compensation attached to him. For instance, in Nigerian, oil and Banking industries attract more compensation than the other industries in Nigeria.

9. **Employees level**

The level of employee involved greatly affect the compensation system attached to him in any organization. An employee who is engaged in an organization at a professional level receives more attractive compensation than an ordinary employee in the same organization.

10. Living Wage

In Nigeria, the wages and salary commission base their recommendations on the current living wage in the country. Living wage in this context simply means the pay that can sustain a man and his family in a depressed economy like Nigeria.

2.22 WORK SATISFACTION

Work satisfaction is very important to both the employers and the employees. Work satisfaction largely depends on the compensation system attached to the job (both direct and indirect compensation)

Michael Poole and Malcolm Warner in their book titled International Encyclopedia of Business and Management, The Handbook of Human Resource Management (2000:573) opined that work satisfaction comes in different forms and dimensions. Some of the categories and dimensions of work satisfaction in different organization include the following:

(1) Progressive work satisfaction:

A person feels satisfied with the work. By increasing the level of aspiration, a person tries to achieve an even higher level of satisfaction. Most employees prefer progressive work satisfaction and aspiration which eventually results in organizational progress.

(2) Stabilized Work Satisfaction:

This is a situation where a person feels satisfied with the job and is motivated to maintain the level of aspiration and

pleasurable state of satisfaction. A stabilized satisfaction is also a good signal for both the employee and the employer.

(3) Resigned work satisfaction:

In this situation an employee feels indistinct work dissatisfaction and decreases the level of aspiration in order to adapt the negative aspects of the work situation.

(4) Constructive Work dissatisfaction:

This occurs when the employee feels dissatisfied with the job. While maintaining the level of aspiration, the employee tries to master the situation by problem solving attempts on the basis of sufficient frustration tolerance. This situation is very dangerous for the organization's growth; as the employee will either quit or engage in acts of sabotage if the frustration continues.

(5) Fixated Work dissatisfaction:

This is also a situation where the employee is dissatisfied with the job. He still maintains the level of aspiration but does not try to master the situation by problem solving attempts. Frustration tolerance makes defense mechanism necessary for efforts at problem solving seem beyond any possibility. Therefore, the employee gets stuck with its problems and pathological development cannot be excluded.

(6) Pseudo-work satisfaction:

This situation of work dissatisfaction is also a bad development for both the employee and the organization.

This is a situation where the employee faces insolvable problems or frustration at work and at the same time maintaining ones level of aspiration. For instance, because of a specific achievement on motivation or because of strong social norms, a distorted perception may result in pseudo-work satisfaction.

2.23 COLLECTIVE BARGAINING

Collective bargaining has been the most contentious issue in personnel administration from time immemorial, Many authors in the field of personnel and human resource management have given different definitions of collective bargaining. Some of the notable definitions include the following:

Labour Act (1974) defined collective bargaining as the process of arriving at, or attempting to arrive at a collective agreement.

Obeku (1975:181) defined collective bargaining as “a negotiation about working conditions and terms of employment between an employer, a group of employers or one or more employer’s association, on the one hand, and one or more representative workers’ organization on the other, with a view to reaching agreement.” Obeku’s definition sheds more light on collective bargaining. It identified the employer and the employee as the major stakeholders in collective bargaining.

Fashoyin (1992:103) gave the definition as “a machinery for discussion and negotiation whether formal or informal, between employer(s) and workers’ representatives aimed at reaching mutual agreement or understanding on general relationship between the employer(s) and workers.” Fashoyin’s definition is also broad, as it sheds light on what is being negotiated as well as the people involved in the negotiation.

2.23.1 COLLECTIVE BARGAINING IN NIGERIAN PRIVATE SECTOR

Collective bargaining in Nigerian private sector takes a different dimension from that of public sector. Collective bargaining in private sector is more involving and more tasking than that of the public sector. This is because government legislation on wages and reward system covers mostly the public sectors. Whenever there is increase in the reward system of the public sector, the Government usually directs the private sectors to go and negotiate with their employers. This is always very difficult as the employers always use threat of retrenchment to subdue the employees when the negotiation gets tough. Sometimes the employers will hide under the guise of economic depression to offer the employees salvation wages.

Chief ofili Ugwudioha in his lecture titled social responsibility and Business ethics (2003:24) asserted that employers of labour in Nigerian economy hide under the guise of economic depression to

pay their workers what is known as “salvation wages”. He opined that this amounts to unethical business conduct.

The four principal levels of bargaining in Nigerian private sector include the following:

- i The industry level
- ii The company level
- iii The branch level
- iv The plant level

In collective bargaining process and issues, there are some negotiable and non-negotiable issues as well as management issues.

- i. *Negotiable issues* are those issues regarded as mandatory issues. In most cases such issues are not legislated upon and therefore custom prevails in arriving at the final agreements. The law of the land prevails in any issue that is not in the constitution or in the company’s handbook.
- ii *Discussion issues* are those issues that are neither mandatory nor exclusive to the management, but open to discussion by both sides.
- iii *Management issues* are the issues that are exclusive to the management. These are the issues that bother on organizational policies and guidelines.

The workers and the employers in the same industry establish a *joint industrial council* for the purpose of negotiating and reaching agreements relating to such matters as are considered by the parties to be matters of negotiation.

The National Joint Industrial Council has the right in matters of interpretation where the parties do not agree on issues in respect of collective bargaining.

2.24 CONTEMPORARY ISSUES IN COMPENSATION SYSTEM IN NIGERIA.

Compensation system in Nigeria has undergone a lot of reforms and changes, either through legislation or by bargaining process. Some of the contemporary issues in reward system in Nigeria include the pensions scheme reform, the new minimum wage and the monetization policy of the Nigerian Government. It is worthwhile to highlight on some of such issues in this study.

PENSION SCHEM IN PRIVATE SECTOR.

In 1961, National Provident Fund (NPF) was established essentially for the private sector. Both the employers and the employees

contribute to the Fund for the benefit of the employees. The scheme was established to take care of employees' retirement, survivorship and validity benefits. The scheme was meant to take care of private sector employees (who are not included in pension scheme of federal and state governments). The scheme was a failure, as the retired workers used to spend their last kobo trying to collect the benefits, at the end of which they will collect little or nothing at all.

Nigerian Social Insurance Trust Fund

NPF was replaced by the Nigerian Social Insurance Trust Fund Act of 1993 The new Fund covers every person who is employed by a company incorporated under the Company and Allied Matters Act or by a partnership, irrespective of the number of persons employed by the company or partnership or in any other case where the number of persons employed is not less than five. It is compulsory for companies and their employees to register with the scheme, even if the company operates a private pension scheme. Every employee contributes 2.5% of his earnings to the scheme while the employer contributes 5% of the employee's earnings to the scheme monthly.

This scheme is also a failure, as employees go through hell in trying to collect the benefits after retirement. This is why many employees in different organizations kick against contributing to the scheme.

The 5th May, 2004 edition of the punch newspaper reported that the house of representatives began deliberation on pension reform

presented by President Obasanjo. The pension reform bill seeks to merge the private and public pension schemes. The house of representative committee on the pension reform has a different view from the president. The committee recommended that there should be separate scheme while the president wants a joint contributory scheme for both the public and the private sectors.

The new minimum wage:

A press statement by Segun Sango (the secretary of Democratic Socialist Movement) dated 22nd September 2003, argued that state Governments should implement the 12.5% salary increase approved by the Federal Government. The group believed that State Government, are buoyant enough to effect the increase.

Prior to the press release, the State Governors rejected the salary increase through a press statement by Dr. Chris Ngige who spoke on behalf of other Governors of the 36 states in the country. The Governors argued that some states would not be able to pay the 12.5% increase because they are not buoyant enough.

Moreso, Nigeria being a federal structure, State Governments should be allowed to negotiate and reach agreements on wages with the trade unions and the state chapters of the Nigerian Labour Congress in their respective states.

The group believes that, if, some State Governors could afford to pay some billions of naira to their political godfathers, they can equally afford the increase.

The 4th May, 2004 edition of This Day newspaper reported that The Nigerian Labour Congress is demanding a new wage increase to

cushion the effects of inflation on Nigerian workers. It can be recalled that the federal government accepted the implementation of 12.5% salary increase only last February. As at today, Only four states such as Nasarawa, Zamfara, Akwa Ibom and Rivers states have joined the federal government in implementing the 12.5% salary increase.

The 2nd May, 2004 edition of Catholic Herald (back page) reported that other state governments do not agree to join in the implementation of 12.5% salary increase.

The present demand for new salary increase will be a hard nut to crack, as the federal government accepted the previous increase in pains. The state governments that could not implement the previous increase cannot also implement the new one.

As at today, the private sector employees are still negotiating with their employers for the 12.5% increase, which is already being implemented in the public sector. This demonstrates the difficulties encountered by the private sector employees in bargaining their conditions of service.

The joint industrial council circular dated 6th December 2003 showed that negotiation for 12.5% salary increase for workers in construction industry is still in progress.

Monetization Policy

On November 11th, 2002, President Olusegun Obasanjo set up a committee under the Chairmanship of the Secretary to the Governments of the Federation, Chief Ekeatte U.J with the aim of monetizing the fringe benefits of all public servants in Nigeria.

Government argued that the objective of the monetization is to reduce the high cost of fringe benefits in public service. The establishment of the committee became necessary because the cost of providing fringe benefits has been on the increase over the years. The cost of providing such amenities as residential accommodation, transport facilities, medical facilities, electrical bills, telephone bills, water bills etc. is on steady increase.

The merits of monetization include the following:

1. Reduction in the cost of providing such amenities.
2. Efficiency in resource allocation.
3. Encouragement of public servants to build houses of their own.
4. Equity in provision of amenities.
5. It enables the public servants to plan for more comfortable post service periods.
6. The amount saved as a result of monetization could be used for providing social amenities for the teeming population.
7. When public servants start building their houses, rents will come down.

FRINGE BENEFITS IN PERSPECTIVE

Provision of fringe benefits for public servants in Nigeria took its root from the colonial era. During the colonial era, the colonial Masters provided housing, transport facilities, free stewards and other fringe benefits for expatriate staff. This was done as added incentives to the expatriate colonial staff who were risking their lives in hostile territorial environments.

After independence, the top Nigerian civil servants took over the positions of the expatriate colonial staff as well as the benefits accruing to them. The Nigerian civil servants that took over the civil service were more ethical in handling the facilities provided by the Government than those we have now. In the past, a civil servant was entitled to one house, one car, one telephone, one steward, one overseas leave per annum etc. but today a civil servant can use ten cars, three houses, three or more stewards at the expense of Government.

This basically accounted for the high cost of providing such services to the civil servants.

Government explained on several occasions that salaries and other benefits for public servants takes about 60 - 75% of the federal budget. The Government also explained that the number of people that consumes this 60 – 75% of the budget is about 5% or less of the entire population.

If 5% of 120 million consumes 60 - 75% of the total revenue, how can Government provide infrastructure and other services to the masses? Based on Government reason, it will be unreasonable for any good citizen of this country to kick against this policy. This is because,

there was an abuse of the process and fraud that made the Government to scrap the fringe benefit system. A situation where one public officer keeps about ten vehicles, three houses, and travelled overseas more than four times a year with his family all at the expense of the Government is unpatriotic.

HISTORY OF CONSTRUCTION INDUSTRY IN NIGERIA

INTRODUCTION

The history of construction industry in Nigeria dates as far back as the time Nigeria was founded as a nation. During that period all the construction firms were foreign firms. Some of the foreign construction firms that were operating in Nigeria during the colonial rule include the following:

- (a) Costain (West Africa) Ltd.
- (b) Cappa & D'Alberto Ltd
- (c) Borini Prono & Co. (Nig) Ltd
- (d) H.E.B Greene & C. Ltd
- (e) G. Cappa Nig Ltd
- (f) Poletti Costain Ltd
- (g) Richard Costain Ltd
- (h) Taylor Woodrow (W.A) Ltd

These firms continued operations without having an umbrella body until 1954. In 1954 the British Government under McPherson Constitution began the final devolution of power to the nationalists in the three regions of Nigeria such as the western region governed by Chief Obafemi Awolowo, the Northern region governed by Ahmadu Bello and the Eastern region governed by Dr. Nnamdi Azikiwe.

It was the McPherson constitution of 1954 that gave impetus to the formation of the Federation of Construction Industry (FOCI) then known as the Federation of Building and Civil Engineering Contractors in Nigeria (FOBACEC).

The three regional leaders of Nigeria (Dr. Azikiwe, Sir Ahmadu Bello and Chief Awolowo) were all eager to develop their respective regions and this informed their interest in construction industry. In the contrary, the key actors in construction industry feared that these regional activists might not adhere scrupulously to the rules of contractual practices in the same way as the colonial leaders were doing (especially when such a situation would only favour foreign-owned contractors at the expense of the nationalist governments).

In spite of the fear, the foreign construction firms could not resist belonging to the association because they were compelled by the following contemporary issues, which informed the rationale for an employers association:

- (a) The phenomenon of political change (its frequency) and magnitude as well as its impact on existing structures and practices in the construction landscape.
- (b) The inescapable influence of legislation and public policy on the management of construction companies e.g. the rules on “rise and fall” or fluctuation of contracts).
- © The pressures from the environment to which all enterprises were exposed without discrimination. For instance the repeated calls for a ban on mobilization fees rather than strict guidelines for meeting payments where necessary.
- (d) The availability and disposition of resources in the labour market, in such a way that the interest of small and medium scale categories will be protected (e.g. fixing of minimum wage).
- (e) The need to make national joint industrial council as the instrument for regulating wages in Nigeria.

Inspite of the fact that the constitution made the door open to both the foreign and local contractors to invest in the industry, there was no local firm in the industry until 1956 when C. Wilton Waddel joined the federation.

At the moment, there are as many local construction firms as there are foreign ones in the industry. The industry is conversely made up of local and foreign firms.

COMPOSITION OF CONSTRUCTION INDUSTRY IN NIGERIA

The Federation of Construction Industry is currently made up of firms engaged in road construction works, building construction, railway construction, bridge and foundation construction, shore protection work, borehole engineering work, drainage and dredging works as well as furniture and wood works.

There is only one umbrella controlling all the firms engaged in construction works in Nigeria. All the firms engaged in any form of construction work in Nigeria is a member of construction industry (no matter the size).

Even though the small, the medium and the large construction firms in the country belong to the same industry, the size of a company's business usually determines its grade in the industry.

Generally, ministry of industry grades all companies in Nigeria into four different categories such as micro enterprise, small-scale enterprise, medium scale enterprise and large-scale enterprise: -

- (1) Micro enterprise:

Any enterprise whose capital investment excluding cost of land is not more than ₦10 million and/or with a work force of not more than 30 full time workers and/or a turnover of not more than ₦2 million belongs to this category.

(2) Small scale enterprise:

This is made up of any enterprise whose capital investment excluding cost of land is between ₦10 million and ₦100 million and/or with a work force of between 31 and 70 full time workers and/or with a turnover of not more than ₦10 million.

(3) Medium scale enterprise:

An enterprise whose capital investment excluding the cost of land is between ₦100 million and N300 million and/or with a work force of between 71 and 200 full time workers and/or with a turn over of not more than ₦20 million is a member of this group.

(4) Large scale enterprise:

This is a firm whose capital investment excluding the cost of land is above N300 million and with more than 200 full time employees, and/or with a turnover ranging from 20million to billions of naira.

Construction industry in Nigeria is mostly made up of private firms, but there are still a few government agencies involved in road maintenance. In the past, the public work department (a government construction agency) was involved in construction works in Nigeria, but it ceased to function nearly two decades ago when federal government decided to maintain the federal highways through contracts. The most recent federal government effort on direct-labour road maintenance came in 2001 when the federal road maintenance agency was formed. At present, a few State governments involve in direct-labour maintenance of roads.

All the firms engaged in construction work in Nigeria belong to the same industry. The large, the medium and the small-scale firms are under one umbrella body known as the federation of construction industry in Nigeria.

The private construction firms in Nigeria are made up of both foreign and indigenous firms. Private construction firms get their jobs through contract award from the following sources:

- (1) From the Federal Government Ministries/parastatals
- (2) From the State Government Ministries/parastatals.
- (3) From public corporations/public companies
- (4) From private companies.
- (5) From Individuals.

SEARCH FOR ROAD MAINTENANCE CULTURE IN NIGERIA

Several efforts have been made in search of good maintenance culture for Nigerian roads. Some of the efforts made by different administrations include the following:

1. **PRIOR TO 1927**

Prior to 1927, there was no special organization for maintaining road in Nigeria. During this period, road maintenance was done by unskilled labour from different villages, under the direction of the village heads. The villagers used local implements like hoes, cutlasses, axes etc to construct and maintain the roads. This was done to enable the villagers to evacuate their farm products through the local markets and to foster social integration among the villages.

2. 1927 – 1974 EXPERIMENT

The establishment of the communication Board in 1927 marked the beginning of maintenance organization in Nigeria. A provincial Engineer was then made responsible for all the road network within his province. He is assisted by the District Engineers, the Road foremen, the Road overseers and the section-men. The Road overseers and the road foremen were provided with bicycles and motor cycles to go round and see the conditions of road under their jurisdictions and report the situation to the District Engineers, who subsequently report the matter to the provincial Engineer for appropriate action. All these people work under public work Department which was then established for the sole aim of road maintenance throughout the country.

Training institutions were established at Public Work Department (PWD) training schools and trade centers. Training schools were established in Enugu and Zaria for training of Road overseers and other road supervisory workers.

The growth of road network in Nigeria outpaced the training institutions for road maintenance. Apart from the slow building of the institutional capacity, other reasons for inadequate road maintenance in Nigeria during this period include lack of co-operation between the regional or state governments and the Federal Government. Inadequate funds also contributed to maintenance failure on both state and Federal levels.

1974 –1979 FEDERAL MAINTENANCE ORGANISATION

In 1974, a Highway Maintenance Study commissioned by the Federal Government led to the take over of federal road maintenance by the Federal Government. The experiment started with two pilot scheme and in 1974 but with the aim of completing 52 district highways in 1980. In 1979 (one year to the end of projected period), only 12 district roads were completed.

The scheme could not attain its goal because of the following:

1. The scheme lacked enough equipment/machinery for its execution.
2. It lacked enough technical know-how.
3. It lacked appropriate funding
4. The scheme was accorded more priority than training of Engineers and technicians for the project.

1979-1980 REVISION TO STATE AUTHORITIES

In April 1979 the maintenance of both federal and state roads throughout the country was reverted to state governments. This came as a result of pressures from the state governments as well as the fear that the federal maintenance organization might not live up to expectation. This is the second experiment on maintenance of roads by the state governments, after the experiment of 1927-74. The second experiment on state government road maintenance lasted only 8 months.

This experiment failed again and the federal government had no other option than to take the federal roads away from the state governments.

1980-1988 CONTRACT AND FORCE ACCOUNT MAINTENANCE

The contract maintenance replaced the state government maintenance. Under this policy, the maintenance of major federal roads were to be done by contract. This process continued until 1988. Although the policy is meant to maintain all the federal highways, the federal government later combined the contract and force labour account because of the excellent performance of the force labour maintenance unit in its area of operation. Both worked simultaneously, each making remarkable progress on its area of operation.

At the end of its tenure, only 13,000km out of 28,570 intercity roads were constructed by contract and force account maintenance.

The force labour account gradually faded out by natural death as most of the road network had been constructed by road contractors. This process continued up till the present administration.

ROAD REFORM POLICIES

Government had proposed a lot of measures aimed at reforming Nigerian roads. Some of these policies had been overturned by event or other policies that came subsequently. Some of the most recent reform attempts by the government include the following:

(1) The Nigerian Road Board:

This reform is aimed at reforming Nigerian road policy to include all stakeholders as against the previous ones. Members of the board were meant to be drawn from organizations like the chambers of commerce, Agriculture, mine and power, Road

Transport owners, road transport workers, farmers organizations, professional ministries responsible for road sector.

In order to demonstrate government readiness to involve the private sector on road development, majority membership of the board were meant to come from the private sector.

The board will lay out policy and procedural guidelines for carrying out the job. A slim outfit envisaged as actual execution of work would be carried out by the consultants and the contractors. Selected consultants were also supposed to take the place of the zonal board in management and maintenance of roads.

(2) The Road Fund

The objectives of establishing the road funds include the following:-

- (a) To secure a stable fund in order to eliminate the uncertainty of budgetary allocations.
- (b) To encourage the spending decisions based on the needs and strict criteria.
- (c) To reduce political influence on road funds budgetary allocation.
- (d) To establish a direct link between the revenue contribution by road users and the expenditure on roads.

The road fund should be sourced from the user funds related revenue like registration and licensing fees as well as the import duties on automotive parts.

Management of the fund will be private oriented and in accordance with the viability of business in such areas.

(3) The Federal Highways Department:

The Federal highways department is the supervisory body for all the Federal highways throughout the country. The department is subdivided into the following units:

- a. North West zone with the headquarters at Katsina.
- b. North Central with the headquarters at Minna.
- c. North East zone with the headquarters at Bauchi.
- d. North West zone with the headquarters at Ibadan.
- e. South East zone with the headquarters at Enugu.
- f. South South zone with the headquarters at Portharcourt.

(4) Federal Roads Maintenance Agency (Ferma)

The federal roads maintenance agency was introduced in 2001 by the federal government to undertake emergency repair of the major highways throughout the country. It was initially suppose to be a direct-labour agency of federal ministry of works and housing but because the road network in the country has gone so dilapidated (beyond the capacity of the agency), some of the roads now under the agency are being contracted to major contractors in the country.

In 2003, the agency contracted out 500 major roads (tagged operation 500 roads) to major contractors in the country.

Therefore, the agency is involved in direct-labour operation as well as supervising the roads given to contractors.

The impact of Federal Road Maintenance Agency in socio-economic life of Nigerian citizens is very great. It is indeed a very commendable effort of government aimed at road maintenance in the country.

(5) Build Operate and Transfer:

This is the process whereby the Government wanted to involve private operators on road construction and maintenance in the country. In this way, construction firm and other capable firms are encouraged to construct or maintain Federal highways with their own funds after which they will recoup the funds back by charging tolls on the road users. The firm will be allowed to change tolls for an agreed period, after which they will transfer the road to the owner (the Government).

Where studies showed that high tolls would be charged, some periodic payments can be made to the concessionaire to keep the tolls within limits. For private sectors to actually agree on the build operate and transfer plan of the Government, an enabling atmosphere such as the following has to be put in place:

- a. There must be proper risk analysis and the risk sharing formula between Government and the concerned operator should be clearly stated.
- b. Incentives should include tax concessions on equipment.
- c. There must be a clear legal framework.
- d. The operators must be guaranteed that the privatization will not affect the programme.

- e. The operators must be guaranteed that the counterpart funding should always be available.

FEDERAL HIGHWAYS MONITORING TEAMS:

Apart from the zonal headquarters, there are various monitoring teams that supervise road projects handled by contractors to ensure that substandard products are not used and that substandard jobs are not executed by the contractors. Some of them include the following:

1. **Engineering Monitoring Team:**

Members of this team are experienced Engineers some of whom were retired Directors of the Ministry and other esteemed Engineers with similar experience.

2. **Payment Evaluation Team:**

This team ensures that the contractors are not paid more than the actual job performed. They visit working sites to ascertain the quantity and quality of the job done.

3. **Due Process:**

This is an arm of budget monitoring unit attached to every ministry and parastatals. This unit reports directly to federal ministry of finance.

The function of due process unit is to ensure that execution and payment for any contract follows international standard as recommended by International Monetary Fund and the World Bank.

Any project that does not follow this standard on award and execution of jobs will not receive payment.

4. Ministerial Inspection Visit:

The Minister of works pays periodic visits to project sites to ensure that the job is actually executed according to the specification.

IMPACTS OF CONSTRUCTION INDUSTRY IN NIGERIAN ECONOMY

Construction industry has a significant role to play in overall economy of a nation, particularly in Nigeria, which is a developing nation. Construction industry is the sector of national economy that translates the idea of gross domestic product into direct and indirect physical development.

Direct development is in the form of finished products like housing, bridges, roads, dams, seaports, airports, railways, water work etc. while indirect development products of the sector is in the form of finished manufacturers' and suppliers products like paints, cements, aluminum, iron and steel products.

The industry accounts for a very high capacity for employing large number of professionals, technicians and trades-men operating in the economy. It is indeed the largest employer of labour in Nigerian economy after government. Employment capacity of some other sectors that supply or provide other services to the industry also depend on the position of the construction industry.

Construction industry in Nigeria contributes positively to the growth and development of Nigerian economy. The contributions are outlined as follows: -

1. Development of road network: The development of road network and bridges across the country rests on the shoulders of construction industry since the only arm of Government that used to develop roads (Public work Department – PWD) wound up about two decades ago.
2. Development of building, dams, airports, seaports, railways etc. and drainages within the states and across the country is the responsibility of construction industry.
3. Employment: Construction industry is one of the industries that employ the highest labour in this country. The industry employs all facets of labour ranging from executive positions, semi skilled labour and unskilled labour.
4. New town development: One of the key aims of construction is for rural and city development. Construction opened up many towns and villages and brought them to national limelight. This includes road construction, electricity, water installation and other infrastructures that enhanced national development.
5. Contribution to Gross Domestic Product: Construction industry contributes immensely to the development of Gross Domestic Product of Nigerian economy. It is one of the corner stones of the national economy.
6. It increases Agricultural Productivity: Through construction works many towns and villages were opened up. The opening up of the villages enables the villagers to evacuate their farm products to towns and cities where they would be sold.

PROBLEMS FACING CONSTRUCTION INDUSTRY IN NIGERIA.

The problems facing construction industry in Nigeria is divided into the following headings, which include legal constraints, operational constraints, financial constraints, manpower constraints, economic constraints etc. These are briefly discussed below: -

- (1) Legal constraints: One of the major constraints that face construction work in Nigeria is legal constraint. The legal process is too slow. A single case takes between one to three years before judgment is pronounced on a case. Law enforcement agents find it difficult to enforce the verdicts of the court, particularly when the case involves government or government agencies.

Taking government to court by contractors is easier said than done. Sometimes if the contractor succeeds in winning the case against the Government, he may end up not getting another job from the government in future.

- (2) Operational problem: The cost of procuring raw materials as well as difficulties of servicing machines and equipment is very high. The cost of getting the service parts of construction equipment has increased substantially within the last six years. If the firm is to import from abroad, the bottleneck involved in getting the necessary foreign exchange is a serious problem. However, the procurement problem, affects mostly the smaller firms.

- (3) Manpower problems: Labour turnover is too high in the industry. Because the Government has discontinued with most capital projects initiated by the previous administrations, most employees are employed on short-term basis. This short-term basis employment does not help matters, because the skilled employees don't remain permanent in a firm.

In another dimension, some of the construction equipment cannot be maintained by the local technicians. The firms resort to importing technicians from Europe and America for maintenance. The salaries of these expatriate technicians are too high.

- (4) Financial constraints: The poor and cumbersome process of funding projects by Governments as well as poor financial base of some construction firms affect construction industry in Nigeria. The lukewarm attitude of banks and other financial institutions to lend money to construction firms is a serious threat to construction industry. Banks and other financial houses prefer lending money to traders to lending it to the construction firms. Their reason is usually that it is risky lending money to construction firms because of the firms' inability to recover huge debts owed to them by various arms of government.

Governments' inability to fulfill their part of the contract by paying the contractors when the jobs have been successfully executed is a major cause of the financial constraints facing the industry.

The client's failure to pay for the jobs already executed is a violation of contractual obligation.

(5) Economic constraints: The most serious problem facing the industry is the economic adjustment of the Federal Government. The continuous devaluation of the Nigerian currency (Naira) is a serious blow on the industry. The cost of procuring machinery and equipment as well as the technicians to maintain them causes a serious financial problem for most firms in the industry.

(6) Natural constraints: Natural constraints such as wind, rainstorm, desertification etc pose a lot of threat to completed and uncompleted structures like roads, houses, dams, shore protection etc.

Experience has shown that most of natural hazards confronting construction industry arose out of the many inadequacies that have plagued the industry.

(7) Inconsistent policies: Inconsistent policies of different administrations have contributed to abandonment of construction projects, which consequently affects the construction firms handling the projects.

Abandonment or discontinuation of ongoing projects does more harm than good to the economy of Nigerian nation.

(8) Political influence: Political influence on award and execution of projects affect the economy greatly. Some politicians brought in new (mushroom firms) into the industry. These

mushroom firms cannot execute the projects awarded to them successfully and this results in projects abandonment and non-completion of projects.

- (9) Debt collection constraints: Debt collection is one of the major problems facing the industry particularly during this democratic dispensation. Debt owed to firms in the industry ranges in hundreds of billions of naira. This has threatened the progress in the industry; the high debt profile has incapacitated many firms in the industry. Some firms wound up as a result of high debt profile mostly from governments and Government agencies.

Due process, which has been established in Nigerian payment system, constitutes bottleneck in settling debts. Critics see due process system as a duplication of efforts since these debts have already been scrutinized by various government agencies.

2.25

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CHAPTER THREE

METHODOLOGY

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CHAPTER THREE

METHODOLOGY

3.1 INTRODUCTION

The preoccupation of this research work is to carry out a thorough investigation on the degree of implementation of compensation system in Nigerian construction firm with special reference to Piccolo-Brunelli Engineering Limited.

As a Professional Manager, the researcher relied mostly on the conventional primary data and complemented the work with some secondary data. His sound knowledge of the subject matter as well as his practical experience on the field contributed immensely to the success of this work.

Majority of the work was a field investigation because of the need to interview both the employees on the field and the management of the firm. During the work, several visits were made to the company's Head Office in Lagos, employees of the firm in various branches, members of National Union of Construction workers (workers' Union) and members of Federation of construction industry in Nigeria (employers representatives).

Questionnaires were administered through personal interviews to the following groups of people:

- (i) The Management staff of the firm in Lagos and Ondo.**
- (ii) Members of senior staff and junior staff of the Organization in Lagos, Ondo and Abuja.**
- (iii) Staff of National Union of Construction workers in Ondo and Lagos.**
- (iv) Members of Federation of Construction industry in Nigeria, Construction house, Victoria Island, Lagos.**

The researcher used convenience sampling procedure during the interview. This is done to reduce cost and time. The use of convenient sampling enabled the researcher to get a large number of respondents.

This method being a non probability sampling. The researcher made extensive use of his knowledge in the field during the sampling. The researcher being a professional, was also aware of the danger of generalization and inferences in non probability sampling of this nature, and therefore, tried to avoid generalization and inferences.

The ratio of management staff to junior employees interviewed is 1:3. The ratio of workers union to employers association interviewed is 1:1

The researcher used Qualitative approach mostly for simplification purposes. This is done in order to make the work easily readable by most audience, since not everybody is conversant with Quantitative method of research.

a. [JUSTIFICATION FOR THE APPROACH](#)

The researcher is a professional Manager and a practical manager in the field. He is of a sound opinion that in order to obtain a quality research work, extensive use of primary data is more reliable while secondary data was also used as a supplement.

This approach makes the research work very comprehensive and more reliable since all the stakeholders were personally interviewed.

3.3 INSTRUMENTS USED

The researcher made extensive use of primary data, supported by secondary data. In primary data collection, several visits were made to different locations (branches) of the company. Oral interviews were conducted personally on all the stakeholders. In some cases, secondary data were also obtained from various sources to complement the primary data.

Data from questionnaires form the primary data while secondary data were drawn from personnel manual of Piccolo Brunelli Engineering limited, workers' Union handbook, Employers' association handbook, periodic circular from construction house in Victoria Island, Lagos as well as personnel management textbooks.

Majority of the questionnaires were from employees and management staff of the firm. About 44 questionnaires were administered during the study.

Personal interviews were also administered along with the questionnaires. This helps in clarification of the questions.

3.4 THE RESEARCH POPULATION

Population means the total number or aggregate concern, which may lead to obtaining relevant information required for the study.

The study examined the compensation system in Nigerian construction firm with a particular reference to Piccolo-Brunelli Engineering Limited.

The population of this research embraces all the stakeholders in the firm, the workers union, the employers association and the construction house in Lagos. The essence of having a large population is to enable the researcher to carry out extensive study on the subject matter.

3.5 SAMPLE

A sample is a group of items taken from the population in order to obtain the required information for the purpose of analysis. Because the population is very large, the researcher decided to select samples from the population upon which the study was based. .

Since a good sample must be as nearly as possible the representative of the entire population, care was taken to ensure that the sample size is large enough to convey a measure of credibility to the outcome of the study. Care was also taken to ensure that the choice of the sample is left to chance, so as to reduce the possibility of bias in sampling.

In order to facilitate easy administration and collection of questionnaires, a total number of 44 respondents was chosen based on the following breakdown:

(i) Federation of construction industry	----	8
(ii) Workers union	-----	8
(iii) Management staff	-----	6
(iv) Employees	-----	18
(v) Construction house	-----	<u>4</u>
Total	=	<u>44</u>

The questionnaires were administered using convenient sampling procedure (with adequate care of deficiencies of non-probability sampling).

The researcher tried as much as possible to avoid the problems associated with convenience sampling. Convenience sampling was used in order to reduce cost, time constraints involved and to allow a large number of respondents.

The researcher as a professional of high repute and outstanding experience is quite aware of some problems associated with convenient sampling (non-probability sampling) such as subjectivity of judgment, intuitiveness of the judgment, the difficulty of making

inferences, the problem of generalization, the reliability of the sampling result and the inaccuracy of potential sampling errors.

In order to avoid the problems associated with this sampling method, the researcher relied on the following during the survey:

- (a) His professional experience
- (b) His field experience
- (c) Industrial standard
- (d) Experience of those interviewed

3.6 SAMPLE PROCEDURE

The researcher adopted extensive use of primary data collection, but secondary data was also used, as no research work will be complete without the use of some secondary data.

Structured interviews of relevant stakeholders were conducted and first hand information was usually obtained at any point in time.

After interviewing both the workers and the management staff of the firm, the researcher went ahead to interview the

workers union and the employers association. This enabled him to have a comprehensive view of all the stakeholders so as to avoid one-sided information. Although this procedure is very costly, the researcher decided to embark on it because it is more viable and more dependable.

3.7 STATISTICAL TECHNIQUES USED

The statistical technique used in data analysis is the qualitative technique. This is supported by the use of tables and percentages for illustration. The researcher found this technique more appropriate for clarity purpose.

3.8 CORPORATE BACKGROUND OF THE COMPAN USED AS A CASE STUDY

Piccolo Brunelli Engineering limited was incorporated in March 1990. The company was formed by the current Managing Director, Dr. (Engr.) Francesco Piccolo-Brunelli, a civil engineer by profession. He is an icon and a role model in construction industry.

The company started its major business in Nigeria in 1994. The registered Head Office of the firm is in 9^A Dakar road Apapa, Lagos. Globally, the company employs over 5,000 employees, but the Nigerian arm of the firm, which is the main focus of this research, employs 1,200 employees.

Its technical partner is Brunelli International with the Head Office in No. 30 via G. Pascoli, Milano, Italy. The technical partner gives engineering, technical, financial and other assistance to the firm in time of need.

Some of the technical and engineering assistance include the provision of specialist engineers and technicians, which cannot be found locally. At present, the company has 40 expatriate engineers and technicians in its pay roll. Some of these expatriates are on contract employment while others are on full employment.

Apart from expatriate engineers and technicians, the company also employs Nigerian engineers and technicians as well as workmen who do the majority of site work. Expatriate staff is mostly on high technical and supervision work.

The firm's major line of business is road construction and civil engineering works, with main emphasis on road construction. Its major clients are the World Bank, African Development Bank and Federal Ministry of Works and Housing. The company does not take jobs from state Government and Local government because of inconsistent policies in those sectors.

The company has branches in many parts of the country such as

- i. Lagos: the head office**
- ii. Ile-Oluji: (in Ondo state) the construction base**
- iii. Olowo: (in Ondo state), an operational base**
- iv. Ajagba: (in Ondo state), an operational base.**
- v. Ado Ekiti: (in Ekiti state), an operational base.**
- vi. Ohosu: (in Edo state), an operational base**
- vii. Abuja (the Federal Capital Territory) administrative office.**

It is worthwhile here to describe briefly some activities carried out by the firm in the various branches.

(a) The Management team

The firm is managed by a team of professionals and experts in different fields. The head of management team is Dr. (Engr) Francesco Piccolo-Brunelli, the Managing Director. He is a professional and experienced civil engineer. He is the founder and the major shareholder of the business. He is an Italian national.

Next in the cadre is the Executive Director, Dr. (Engr) Alessandro Mocenni. Dr. (Engr) Alessandro Mocenni

is a civil engineer by profession. He is an experienced engineer and a charismatic leader. He takes the major decisions in the organization because the managing director is always in Europe. He oversees the activities of the company in Nigeria. Other managers are responsible to him. He is an Italian National.

Another high calibre member of management team is Mr. Antonio Rizzi. He is the Financial Director of the company. He is a professional accountant of high esteem. He is the international financial controller of the firm. His high knowledge and experience in financial management is a great asset to the organization.

Another key management staff is the General Manager - Finance and Administration, Chief Ofili Ugwudioha. He is a professional to the core. A professional accountant and a professional manager of high repute. His knowledge and experience in financial management and general administration contributes immensely to the firm's success story. He has 20 years experience in construction management.

Mr. Paolo Pistolesi is the General Manager in charge of projects. He is an experienced engineer with vast experience on road and bridge construction. He has 21 years experience in construction work and has worked in many parts of the world on managerial

capacity. He oversees all the projects of the firm in various parts of the country and controls all the site managers.

Mr. Mario Morittu is the manager in charge of Ondo area of the firm. He oversees the Ondo state, Edo state and Ekiti state branch of the organization. He is in charge of all the sites requirements in terms of workshops and office needs. He has 30 years experience in construction management. He is an Italian national.

There are so many other managers of the firm manning various departments such as the quantity surveying manager, workshop manager, asphalt production manager, patching plant manager, crushing plant manager, laboratory manager and so on.

In order to have effective and efficient administration, the firm is divided into branches and departments based on areas of operation. Some of the operational bases of the company include the following: -

(1) [HEAD OFFICE](#)

The controller of Lagos head office is Dr. (Engr) A. Mocenni. He is a civil engineer by profession and a distinguished manager. The head office is the heart of the organization. The firm runs a combined system of administration. In sensitive areas like finance, project and

purchasing , the administration is centralized but in some areas that are not very sensitive, the management allows a decentralized system of administration.

Managers at branch level take day-to-day decisions in their departments but if the issue involved is a sensitive one, it is passed to the head office for approval. The head office is mostly involved in finance decision, project decision, machinery acquisition decision and the overall management decision. The head office employs 50 administrative staff.

(2) ABUJA OFFICE

Abuja office is a subsidiary of Lagos office. It is established to render support services because of the movement of Federal Ministry of works to Abuja. The pursuit of contracts and payment are done in Federal Ministry of works, Abuja. The office is controlled by the Executive Director (Dr. (Engr) Alessandro Mocenni) who shuttles between Lagos and Abuja offices. This office has 10 administrative staff.

(3) ILE-OLUJI BRANCH

Ileoluji branch is the construction base of the firm. The branch is the main operational base of the firm. The branch employs up to 400 workers. It also quarters 70% of the expatriate staff of the firm. The

main workshop of the firm is in Ileoluji. This branch is controlled by the General Manager in charge of project (Mr. Paolo Pistolesi). Next to Mr. Pistolesi is Mr. Mario Morittu who controls other managers in the branch. Ileoluji is the company's machinery and equipment base.

(4) OLOWO BRANCH

Olowo branch is the second largest operational base of the firm. It employs up to 390 workers. This is where the company produces asphalt for tarring of roads. The company has one of the best and most modern asphalt plants in the country. The plant produces about 2,000 tones of asphalt daily.

This branch also produces granites and gravels for road and concrete works. A lot of construction activities take place in this site. It is mostly a feeder site for other construction sites of the company.

(5) AJAGBA BRANCH

This is the site where different categories of precast concrete is being fabricated. The branch has 80 staff.

**The branch's main focus is on bridges and drainages.
The branch produces such products as:**

- (i) Concrete piles for bridges**
- (ii) Form work for bridges**
- (iii) Pipe culverts (for large culvert drains)**
- (iv) Box culverts (for large culvert drains)**
- (v) Precast concretes (for small culverts drains)**

A lot of bridges and piling equipment are also found here. The head of this section is Mr. Pettinari (a piling engineer).

(6) [ADO-EKITI BRANCH:](#)

This branch is in charge of the company's projects in Ekiti state. This firm has a good number of qualified personnel and equipment to handle any project from Ado-Ekiti zone. There are some equipment as batching plant, asphalt plant, crushing plant etc in the zone to take care of jobs arising from there. The branch employs about 170 workers.

(7) [OHOSU BRANCH](#)

Ohosu branch is established mainly to take care of any job arising from Benin-Shaganmu express Road as well as any job arising from Edo State zone. Like

other branches of the firm, the branch also has sophisticated equipment like asphalt, crushing and batching plants to produce materials requirement for the jobs. This branch has 100 employees in its payroll.

This success story of the organization comes from the fact that the organization is blessed with talented and faithful personnel. These personnel are able to manage material and other resources for attainment of organizational goal. The company's management team is one of the best in the industry. They make use of seasoned professionals in core management concerns.

The financial team is one of the best in the industry. They are so sound that they are always able to scale through the financial hurdles facing the construction industry since over two years. One of the company's policies is not to borrow form the bank or from any other source.

In case of serious financial problem, the parent company usually comes to her aid.

(8) SOME JOBS EXECUTED BY THE COMPANY

The company has executed a lot road projects successfully across the country. Researches show that the firm has not abandoned any project since its inception. Some of the projects successfully completed include the following: -

- 1. 1994 –1997 Ogbomosho-Igbeti Road in Oyo State. This job is sponsored by the World Banks**
- 2. 1996 – 1997 Benin- Shagamu expressway (Ajebandele Section) in Ondo State. The project is financed by the World Bank.**
- 3. 1996 – 1998 Ibadan –Akanra Road in Oyo State. The job is sponsored by the World Bank.**
- 4. 1999 – 2002 Ado-Ekiti – Akure Road in Ekiti State. This job is financed by Federal Ministry of Works**

and Housing.

5. 1999 – 2002 Ado-Ekiti – Iyin Itawure Road

in Ekiti State. This job is

financed by Federal Ministry of

Works.

**6. 2002 Olowo -Irele – Ajagba –
Agadagba Road in Ondo
State.**

**7. 2004 Ohosu – Benin Road in Edo
State This job is still on going
and it is financed by Federal
Ministry of Works.**

8. 2004 Ore- Shaganmu Road. This

section of the express links

Ondo and Ogun States. It is

also sponsored by Federal

Ministry of Works.

PICCOLO-BRUNELLI ENGINEERING POSITION IN THE INDUSTRY

Piccolo-Brunelli Engineering Limited is one of the private construction firms in Nigeria. Based on classification of Industries in Nigeria, the company can be regarded as one of the large-scale enterprises in the country. It is also one of the leaders in construction industry. The firm's capital base is about ₦500 million and its turnover is around ₦1.1 billion per annum. The Nigerian arm of the firm has 1,200 employees in its payroll. The firm is ranked number seven in the industry, which is made up of one hundred and fifty member companies.

PICCOLO-BRUNELLI'S COMPENSATION POLICY.

The company's overseas technical partner does not influence the Nigerian firm in administrative and personnel issues, particularly in compensation policy. This is principally because most of the international organizations that operate in Nigeria do not like to use international wages structures to pay Nigerian employees. They prefer to use the Nigerian wages (compensation) structure for Nigerian branches of their companies in order to maximize profit. Piccolo-Brunelli Engineering toes the line of other expatriate firms in

Nigeria that maintain different wages structure for local and expatriate staff.

The compensation system in Nigerian construction industry is regulated by National Joint Industrial Council, which is made up of the Federation of Construction Industry (the employers' representatives) and the construction workers' union (the employees' representatives). The National Joint Industrial Council gives the guideline on the minimum wage structure in the Industry. No construction firm can pay less than the prescribed minimum benefits, but a company that is buoyant can pay higher than the prescribed minimum benefits.

Piccolo-Brunelli Engineering is one of such companies that pays above the Industrial minimum compensation. The comparison of the minimum pay structures of Piccolo-Brunelli and the industrial minimum wage is given below: -

**COMPARISON OF PICCOLO-BRUNELLI MINIMUM WAGE WITH
THE INDUSTRIAL MINIMUM WAGE FOR JUNIOR WORKERS:**

COMPENSATION PER ANNUM	INDUSTRIAL MINIMUM (₺)	PICCOLO-BRUNELLI ENGINEERING MINIMUM (₺)
BASIC SALARY	61,800.00	124,764.00
TRANSPORT SUBSIDY	28,800.00	28,800.00
HOUSING SUBSIDY	24,000.00	49,332.00
MEAL SUBSIDY	10,560.00	10,560.00
FAMILY MEDICAL	9,000.00	9,000.00
UTILITY ALLOWANCE	3,600.00	24,000.00
LEAVE ALLOWANCE	6,180.00	12,476.40
TOTAL	143,940.00	258,932.40

NOTE: The bonuses vary from one person to another, depending on the type of job and the importance of the employees to the organization.

The overtime varies according to the number of hours performed after the normal working hours. The overtime rate also varies according to the category of the employee.

**COMPARISON OF PICCOLO-BRUNELLI MINIMUM WAGE WITH
THE INDUSTRIAL MINIMUM WAGE FOR SENIOR WORKERS:**

COMPENSATION PER ANNUM	INDUSTRIAL MINIMUM (₹)	PICCOLO-BRUNELLI ENGINEERING MINIMUM (₹)
BASIC SALARY	156,000.00	216,000.00
TRANSPORT SUBSIDY	138,000.00	138,000.00
HOUSING SUBSIDY	145,200.00	145,200.00
MEAL SUBSIDY	52,008.00	52,008.00
FAMILY MEDICAL	75,000.00	75,000.00
UTILITY ALLOWANCE	24,000.00	34,000.00
LEAVE ALLOWANCE	15,600.00	21,600.00
TOTAL	615,808.00	671,808.00

NOTE: The bonuses vary from one person to another, depending on the type of job and the importance of the employees to the organization.

The overtime varies according to the number of hours performed after the normal working hours. The overtime rate also varies according to the category of the employee.

WHY PICCOLO-BRUNELLI IS CHOSEN FOR INVESTIGATION

The author chose one of the key players in the industry for investigation because using a smaller firm will not give room for wider investigation, hence the use of Piccolo-Brunelli Engineering Limited.

This research is a comprehensive study of the degree of implementation of compensation system in Nigerian construction firm, using the compensation system in Piccolo-Brunelli Engineering Limited as a case study. The study covered all component of compensation that make up a total compensation system, with a view to finding out what is actually obtainable in the firm under study.

The author decided to use Piccolo-Brunelli Engineering Limited because it is one of the leaders in the industry. The study was done on Piccolo-Brunelli Engineering limited and not on the entire industry since it is difficult for a single researcher to cover the entire industry.

The use of a major player in the industry is based on the following facts:

- (a) That using a small scale firm in the industry cannot reveal the actual degree of implementation, since most of the smaller firms in the industry do not implement the employees' benefits above the minimum requirement as prescribed by the regulatory authority.
- (b) That the use of a bigger player in the industry will afford the researcher a wider scope of investigation.
- © That, since the study is on compensation system, smaller firm may not have all the facilities and all the departments required to be investigated into.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

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CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION:

This chapter contains the result of statistical analysis conducted on the relevant data adopted for the study. To ensure the reliability of this research work, all relevant data have been obtained for proper presentation and objective analysis. Effort is also made to ensure that all questions asked in the questionnaires have direct bearing on the formulated hypotheses.

Data presentation is done with extensive use of tabulation, percentages and ratios. For the purpose of clarity and simplification, this chapter is arranged into three main sections such as: -

- (ii) Presentation and analysis
- (iii) Proofs/text of hypotheses
- (iv) Discussions on the findings.

4.2 PRESENTATION AND ANALYSIS:

The data presented below is based on the returned questionnaires. The researcher visited all the branches of the firm for interviews and questioning in order to have sufficient data presented and analyzed in all the branches of the firm as well as other stakeholders involved. About 68 questionnaires were administered but 44 were successfully returned.

The data presentation analysis and questionnaire responses are recorded and presented in this chapter.

The hypotheses formulated include the following: -

- (i) Total compensation motivates the employees more than other compensation packages.
- (ii) Organisations that do not engage in total compensation experience more labour turnover.
- (iii) More construction firms do not engage in total compensation.

Interviews were also carried out on the staff and management of the organization to ascertain the type of pay and incentive structures administered by the firm.

The interviews were carried out to know whether the firm engages in some form of indirect compensation, which is a part of total compensation. Some of these are bonus, stock option, paid leave, pension scheme, paid absences, childcare, golden parachute, retirement benefits, life insurance, overtime etc.

The above interview indicate that the company does not engage in any other form of compensation than paying workers based on their performance.

Table 4.1 Showing the number of employees in Piccolo Brunelli Eng. Ltd.

Branches	Management Employees	Junior Employees	Total Employees
Head Office	6	44	50
Abuja Office	1	9	10
Ileoluji branch	4	397	400
Olowo branch	2	388	390
Ado-Ekiti branch	1	169	170
Ajagba branch	-	80	80
Ohosu branch	1	99	100
GRAND TOTAL			1,200

Source: *Piccolo Brunelli Engineering company profile,*

The above data represents the distribution of employees throughout different branches of the firm. The illustration shows the breakdown of the management staff and the employees of the firm in different branches. The breakdown shows that the company has 11 management staff while ordinary employees of the firm is 1,189.

Table 4.2: Displays the stakeholders in the study

S/No.	Stakeholder	Representation	No interviewed
i	Federation of Construction Industry	Workers representatives	8
ii	National Union Construction Workers	Workers representatives	8
iii	Management staff	Management representatives	6
iv	Ordinary employees	Represents workers population sample	18
v	Construction House staff	Representing a joint management of workers union and employers association.	4
	Total Number of stakeholders interviewed		44

Source: Field Survey

This illustration is focused on the extent of compensation system in the firm. In order to do this, some management staff as well as some employees were selected and their individual opinions are discussed below. This interview was administration on the Managing Director and other staff of the company.

Q1: Engr. Brunelli, are you engaged in total compensation system for your employees?

Ans1: I do not know what you mean by total compensation system but I compensate my employees adequately.

Q2: In order to make the issue clearer and simpler, can you and your staff answer these questionnaires for me?

Ans2: Yes, we shall do so.

Table 4.3: showing years of experience of those interviewed.

Years of Experience	Number	Percentage
1-5 Years	8	18.1
6-10 Years	9	20.5
11-15 Years	12	27.3
16-20 Years	8	18.2
21-25 Years	4	9.1
26-30 Years	2	4.5
31-35 Years	1	2.3
TOTAL	44	100

Source: Field Survey

The analysis shows that the numbers of people interviewed are those who have served the company for a number of years. Most of them are experienced employees who have considerable experience in the firm. Their responses are based on personal experiences.

Table 4.4: Showing Educational background of the stakeholder

Educational Qualification	Number	Percentage
WASC / GCE	24	54.6
OND, A Level	10	22.7
BSC, BA	6	13.6
Professionals	4	9.1
TOTAL	44	100

Source: Field Survey

The above table shows the educational background of all the stakeholders interviewed during the research. This indicates that no illiterate person is involved. All the people answered the questionnaires by themselves with no interpretation.

Table 4.5 Showing the ratio of management staff to ordinary employees interviewed: -

Staff interviewed	No	Ratio	Percentage
Management Staff	11	1	25
Ordinary Employees	33	3	75
	1.3		100

Source: Field Survey

$$\frac{11}{33} = \frac{1}{3} = 1.3$$

Management =1

Ordinary employees =3

Ratio 1.3

The above illustration shows that there are 11 management staff and 33 ordinary staff interviewed during the period. This represents a ratio of 1 management staff to 3 ordinary employees of the firm

Table 4.6: Showing the age of respondents interviewed

Age	Number	Percentage
Between 20-40yrs	28	63.6
Between 41-50yrs	10	22.7
Between 51-60yrs	4	9.1
Between 61-70yrs	2	4.5
TOTAL		100

Source: Field Survey

The table illustrates the age group and age segments of all the people interviewed. From this table it is seen that all the people interviewed are adult, therefore the question of invalid answers does not arise

Table 4.7 showing the job performance card of Piccolo-Brunelli Eng. Ltd.

(FRONT PAGE)

SAMPLE OF THE COMPANY'S JOB PERFORMANCE CARD

ADVANCE PAID DATEN..... DATEN..... REMARKS SECTION RATE.....AS FROM..... RATE.....AS FROM.....	BRANCHSITE..... PICCOLO BRUNELLI ENG. LTD. <p style="text-align: center;"><u>WORKMAN'S TIME CARD</u></p> No. <input style="width: 50px; height: 15px;" type="text"/> Month.....2004 Name..... Address..... Trade..... <p style="text-align: center;"><u>IMPORTANT</u></p> In case of accident occurring while on duty, you should immediately report to the Engineer in charge of the site.
--	--

Source: Field survey

The above performance job card is the card used in assessing the output of every employee in the organization. This front page contains the monthly or daily rate of the employee, the month, the name, the address and some other information about the employee concerned.

Table 4.8 showing the inside page of job performance card.

(INSIDE PAGE)

SAMPLE OF THE COMPANY’S JOB PERFOEMNCE CARD

DATE	NO. HOURS			SIGNATURE OF FORMAN	DATE	NO. HOURS			SIGNATURE OF FORMAN
	Actual	Over Time	Total			Actual	Over Time	Total	
21					6				
22					7				
23					8				
24					9				
25					10				
26					11				
27					12				
28					13				
29					14				
30					15				
31					16				
1					17				
2					18				
3					19				
4					20				
5									

Source: Field survey

The inside page of the performance card is used in determining the actual hour performed by the employee, the overtime performed and the signature of the head of department.

The actual hours worked plus the overtime shows the actual performance of the employee for the month.

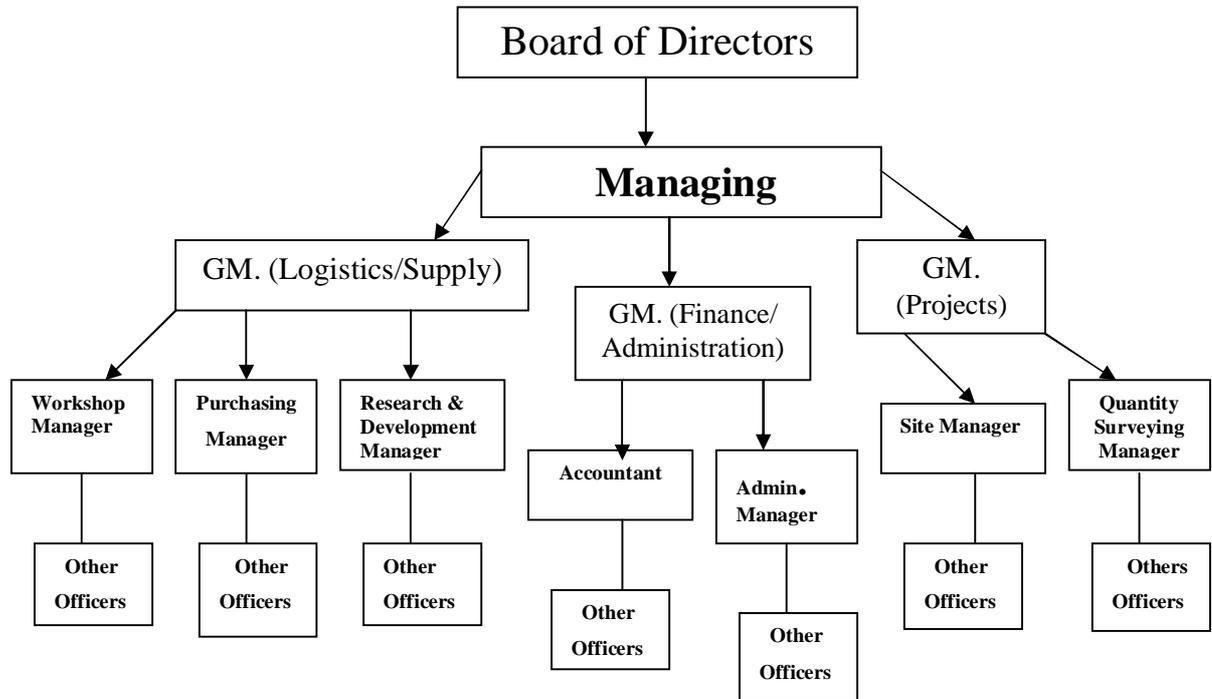
Pages 186 and 187 are the front and back pages of job performance card used by Piccolo-Brunelli Engineering to assess employees performance on daily/monthly basis. Page 186 contains employee's name, the address, the month, the section or department, the daily rate or monthly rate and the branch in which the employee is working. Page 187 contains the days the employee has worked for the month, the actual hour worked, the overtime worked, the total hour worked and the foreman's or the departmental head's signature.

At the end of 30 days, the company will assess the total input of every employee and then compute the wages and salaries according to the employee's performance.

This method makes the employees work harder so as to earn more at the end of the month. It encourages the workers to put in their best and consequently helps to improve the overall performance of the company. The lazy workers are paid very poorly while those who work harder receive better payment.

Table 4.9 showing the Organizational chart of Piccolo-Brunelli Eng. Ltd.

ORGANIZATIONAL CHART



Source: Management profile.

The above Orgaongram is the management profile of Piccolo-Brunelli Eng. Ltd

***Table 4.10: showing the sexes of the respondent
Interviewed.***

Sex	Number	Percentage
Male	43	98
Female	1	2
TOTAL		100

Source: Field Survey

The above analysis shows that 98% of those interviewed are men while 2% belongs to the female sex.

This interview was carried out on the staff of the organization in Ohosu branch of the firm. Those interviewed include the branch manager and other employees.

RQ: Please can you tell me the different pay structures that make up your total compensation in Piccolo Brunelli Eng. Ltd?

Response

TABLE 4.11 showing the type of compensation engaged by Piccolo-Brunelli Eng. Ltd.

REMUNERATION	BRANCH MANAGER	EMPLOYEE 1	EMPLOYEE 2	EMPLOYEE 3	%
Base Pay	Yes	Yes	Yes	Yes	100
Overtime	Yes	Yes	Yes	Yes	100
Housing & Transport	Yes	Yes	Yes	Yes	100
Bonus	Yes	Yes	No	No	50
Insurance	No	No	No	No	0

Paid absence	No	No	No	No	0
--------------	----	----	----	----	---

Source: Field Survey

Responses from the above question shows that the organization implements mostly what is in the conditions of service (which is the actual contract between the employee and the employer) but does not give additional benefits to the employees. Paid absences and insurance scheme, which are additional benefits to the employees, recorded zero percentage respectively.

RQ This interview was carried out on the staff of the organization in Ohosu branch of the firm. Those interviewed include the branch manager and the employees.

Please can you tell me the different pay structures that make up your total remuneration in this organization?.

RQ This question is directed to the Managing Director and Chief executive of the firm to ascertain how the firm compensates their diligent employees with profit sharing and share allotment.

Do you have profit sharing and share participation plans for your deserving employees? If yes, can you explain the degree of implementation?

Response

TABLE 4.12 showing the degree of implementation of indirect compensation system

Type of Plan	MD's Response	Percentage
Profit sharing	Nil	0
Share Participation	Nil	0
Improshare	Nil	0
TOTAL		0

Source: Field Survey

This table tested the degree of implementation of employees welfare packages. The response of the Managing director shows that the firm does not implement any of the packages.

RQ : Do your employees enjoy bonus and commission as an incentive for hard work, honesty and dedication?

Response

TABLE 4.13 showing the type of incentive system mostly implemented by the firm in focus.

TYPES OF COMPENSATION	MANAGING DIRECTOR	EXECUTIVE DIRECTOR	EMPLOYEE	REMARKS
Bonus	Yes	Yes	Yes	100% acceptance
Overtime	Yes	Yes	Yes	100% acceptance
Social Security	No	No	No	Zero acceptance
Golden parachute	Yes	No	No	33.3% acceptance

Source: Field Survey

The above responses show that the company implements both the bonus and

overtime systems at 100%. It also shows that golden parachute system is implemented at 33.3% while implementation of social security is at zero percent.

QUESTIONNAIRE: - TYPES OF COMPENSATION

The above Questionnaire was to test the degree of implementation of various compensation systems in the data. From the data it is seen that the firm implements bonus system and overtime pay system fully while it recorded a zero level in social security and 33.3% in Golden parachute incentive system.

RQ From table 4.10 it is understood that your organization records a zero percentage in implementation of social security system of incentive. Why is your firm not implementing the system?

Response: Nigerian environment in which we operate has no provision for social security system, particularly in the private sector. We shall implement it when the system is put in place either by Legislation or by collective bargaining process. We are good corporate citizens and we must do all our things within the framework of legal system and on ethical ground?

RQ Do you appoint some Nigerians as Directors in your organization?

Response

TABLE 4.14 showing the involvement of Nigerians in the board of the organization.

Respondents	Yes	No	Percentage
MD	Yes	-	50
E.D	Yes	-	50
TOTAL			100

Source: Field Survey

The above analysis shows that the firm appoints some Nigerians as Directors. Both the Managing Director and the Executive Director's responses indicate positive trends.

RQ This question is also administered to the managing Director and the employees to ascertain whether the firm appoints any of the deserving employees into the board of the firm.

How many Nigerian employees who have worked meritoriously for the firm are in the board of the firm?

Response

TABLE 4.15 showing how many Nigerians in the board of the company.

Respondent	Yes	No	Percentage
MD	-	None	0
Employee 1	-	None	0
Employee 2	-	None	0
Employee 3	-	None	0
TOTAL			0

Source: Field Survey

- RQ This question is directed to the managing Director. Can you clarify why you appoint some Nigerians into the directorship but you do not appoint any of your deserving employees into directorship. Does it mean that none of them is qualified or does it mean that the company does not imbibe the policy of compensating the diligent and hard working employees?
- Response We are planning to bring in some of the employees who are qualified for such positions. The plan has been delayed for one reason or the other but now we have to do it. Certainly there are some Nigerians that are even better than some expatriate workers. These people ought to be compensated and the management is discussing on the issue.

RQ. Does your firm use such indirect compensation packages as childcare program, wellness programme and disability programme to motivate your employees to put in their best performance?

Response

Table 4.16 showing whether the company implements some indirect compensation packages.

Compansation Programme	employee Lagos	employee Ondo	employee Ekiti	employee Abuja	employee Ohosu	%
Child care Programme	None	None	None	None	None	0
Wellnes Programme	None	None	None	None	None	0
Disability Programme	None	None	None	None	None	0
TOTAL						0

Source: Field Survey

From the table above, it is quite easy to understand the company does not engage in any of the above compensation packages. The firm

score zero percent in the entire indirect compensation programme listed above.

RQ This interview is conducted on the area Manager and the employees in various sites, mainly to ascertain the type of remuneration that make up their total emolument in the organization.

From the previous interviews held in various branches, it seems that your organization embraces some compensation packages and does not embrace some. In computing your compensation packages, what are the main components?

Response

Table 4.17 showing the type of compensation packages mostly implemented by the firm.

Compensation Package	Area Manager	Employee 1	Employee 2	Employee 3	Percentage
Base pay	yes	yes	yes	yes	100
Housing allowance	yes	yes	yes	yes	100
Transport allowance	Yes	Yes	Yes	Yes	100
Overtime	Yes	Yes	Yes	Yes	100

Insurance					
Scheme	Yes	No	No	No	25
Paid					
absences	No	No	No	No	0
Bonus					
	Yes	No	No	Yes	50

Source: Field Survey

The above table shows that the major components of reward system in the company are the base pay, the housing allowance, the transport allowance, the overtime allowance and the bonus. Insurance scheme is very poor and paid absences show a zero percent.

RQ: Your organization seems to be surviving the turbulent business world, particularly the unpredictable business environment in Nigerian economy. It seems you are using the most acceptable compensation system such as profit sharing, golden handcuff, pension scheme and stock option to attract and retain your staff?.

Response

TABLE 4.18 showing the structure of the compensation system in Piccolo-Brunelli Eng.Ltd

BENEFICIARY	MANAGING DIRECTOR	EXECUTIVE DIRECTOR	EMPLOYEE	%
Ordinary employee	No	No.	No	Zero %
Expatriate employees	No	No	Yes	33.3%
Expatriate employees on management level	Yes	Yes	No	66.7%
Employees on professional assignments	No	No.	No	Zero %

Source: Field Survey

The above responses on the question clearly shows that the organization implements a golden handcuff system of compensation only on some key

members of expatriate staff. Professionals and ordinary employees do not benefit from this scheme.

This questionnaire is directed on the employees of the firm in Ekiti state.

RQ: Does your organization implement such indirect pay systems as profit sharing, golden parachute, stock option and pension scheme?

Response

TABLE 4.19 showing the degree of implementation of indirect compensation system.

COMPENSATION	GENERAL MANAGER	AREA MANAGER	EMPLOYEES	PERCENTAGE
Profit sharing	No	No	No	0
Golden handcuff	No	No	No	0
Stock option	No	No	No	0
Pension scheme	No	No	No	0
None of the above	Yes	Yes	Yes	100
TOTAL				100

Source: Field Survey

The above question deals with indirect compensation, which is also a part of total compensation system. All the stakeholders confirmed

through the questionnaire that the company does not implement any of the schemes mentioned. It indicates that the company does not plan for the employee's future. All the stakeholders responded that the firm does not implement any of the above indirect compensation systems.

This questionnaire is administered on Executive Director.

RQ: As a firm that is futuristic and proactive in planning, do you plan for your employees future after retirement?.

Response: Yes, we do.

RQ: Can you explain such plans and benefits?

Response: The employees are paid retirement benefits as contained in article 23 of National joint industrial council handbook (agreement on terms and conditions of service for all employees in construction industry in Nigeria).

The benefits are as follows:

Employees who have served up to 10 years and above receive $1\frac{1}{2}$ months pay for each year of service while those up to 21 years of service shall be paid $1\frac{3}{4}$ months for each year of service as retirement benefits.

RQ- This questionnaire is administered on the Executive Director and other managers as well as ordinary employees.

Apart from what is contained in article 23, do you implement such schemes as life insurance, pension and stock option that will take care of your employees after retirement.

Response

TABLE 4.20 showing how the company pays retirement benefits for its employees.

COMPENSATION	EXECUTIVE DIRECTOR	CHIEF QUANTITY SURVEYOR	ORDINARY EMPLOYEES	PERCENTAGE
Life Insurance	No	No	No	0
Pension scheme	No	No	No	0
Stock option	No	No	No	0
None of the above	Yes	Yes	Yes	100
TOTAL				100

Source: Field Survey

The above table explained clearly that the firm does not engage in other forms of retirement benefits except payment of lump sum to the employee on retirement. All the respondents answered that the employer does not implement any of the above benefits.

This interview is administered on the member of construction workers union, Piccolo Brunelli Eng. Ltd branch.

RQ: What type of compensation system does Piccolo Brunelli Eng. Ltd implement?

Response

Table 4.21 showing the type of compensation system in Piccolo

Brunelli

Type of Compensation	Union Chairman	Member 1	Member 2	Member 3
Performance Base Pay	Yes	Yes	No	
Indirect Compensation	No	No	Yes	
No Compensation	No	No	No	

Source: Field Survey

The above illustration shows that the firm engages in performance based pay system. In the table above, performance based pay recorded 75% while indirect compensation recorded 25%

This interview is administered on the members of construction workers union Ondo state branch.

RQ is administered on the secretary of the union in Akure.

RQ: We were told that you are the Ondo State branch of the construction workers union?

Response: Yes, we are.

RQ: Do you know a company called Piccolo-Brunelli Eng. Ltd?

Response: Yes, the company is one of the best construction companies in the State.

RQ: What is the level of the company’s relationship with the workers union?

Response

Table 4.22 showing the level of relationship between the workers union and the firm in focus.

Level of Relationship	Union Secretary	Union Member 1	Union Member 2	Union Member 3
Good	Yes	No	Yes	Yes
Very Good	No	Yes	No	No
Bad	No	No	No	No
Very Bad	No	No	No	No
No Relationship	No	No	No	No

Source: Field Survey

The table shows that the firm is in good relationship with the construction workers' union. It recorded 75% good relationship

RQ: How do you assess the compensation system adopted by Piccolo – Brunelli Eng. Ltd?

Response

Table 4.23 showing the degree of employee compensation in Piccolo-

Brunelli Eng. Ltd.

Level of Compensation	Union Treated asurer	Member 1	Member 2	Member 3	Percentage
Average	Yes	Yes	Yes	No	75

Ab ove Ave rag e	N o	Yes	Yes	No	25
Bel ow Ave rag e	N o	No	No	No	0
Not hin g at all	N o	No	No	No	0
TOT AL					100

Source: Field Survey

The response from the above questionnaire shows that the company's compensation system is good. 25% of the people interviewed said that the compensation policy is above average while 75% said that it is average. Both show that the compensation policy is not bad.

This interview is administered on members of Federation of construction workers union, 68 Ipaja Road, Lagos.

RQ is administered on the president of the union.

RQ: Is Piccolo-Brunelli Eng. Ltd a member of your union?

Response: Yes, it is

RQ: As the umbrella body of the construction workers union, how do you rate the compensation system in Piccolo-Brunelli Eng. Ltd?

Response: Average.

RQ: How is the compensation system in the industry?

Response: Fair.

This interview is administered on the members of the federation of construction industry in construction house, Victoria Island, Lagos

RQ: How do you rate the cooperation system in construction industry?

Response

Table 4.24 shows the type of compensation system most common in construction industry.

Type of compensation	National President	Member 1	Member 2	Member 3	Percentage
Direct Compensation	Yes	No	Yes	Yes	75

Ind irec t Co mp ens atio n	No	No	No	Yes	25
Tot al Co mp ens atio n	No	No	No	No	0
No Co mp ens atio n	No	No	No	No	0
TO TA L					100

Source: Field Survey

The response above shows that direct compensation is more common in the industry than other forms of compensation system.

This questionnaire is administered on the staff of construction house, Victoria Island, Lagos (members of construction industry in Nigeria. – employers representative)

RQ This is administered on the administrative secretary of construction industry.

RQ: Is Piccolo Brunelli Eng. Ltd one of your members?

Response: Yes, it is.

RQ: How do you rate them in the industry in terms of employee's compensation?

Response: Average.

This questionnaire is administered on selected members of construction workers union Lagos (employees representatives).

RQ: How do you rate the compensation system in the industry?

Response

Table 4.25 shows response from members of federation of construction industry, showing the level of compensation in the industry.

Compensation System	Member 1	Member 2	Member 3	Member 4	Percentage
Very Good	No	No	No	Yes	20
Good	Yes	Yes	Yes	No	80
Very Poor	No	No	No	No	0
Poor	No	No	No	No	0
TOTAL					100

Source: Field Survey

The table shows that the construction employees' Union rated the company above average in implementation of compensation system.

This questionnaire is administered on the president of construction workers union.

RQ: Do Construction firms within the industry embrace total compensation package?

Response: Most of them do not embrace total compensation package.

RQ: What type of compensation system is more prevalent in construction industry?

Response: Most construction firms use performance based pay system, but there are still some of them that complement indirect compensation system with other forms of reward.

RQ: Can you kindly explain such reward systems that are mostly found in the construction industry?

Response

Table 4.26 showing the type of compensation system in the industry.

Compensation system	Member 1	Member 2	Member 3	Member 4
Total Compensation	No	No	No	No
Direct Compensation	Yes	Yes	Yes	No
Indirect Compensation	No	No	No	Yes
				TOTAL

Source: Field Survey

The table above shows that most firms in the industry implement direct compensation system. Indirect compensation is low, while there is no indication of total compensation system in the industry.

RQ: Compared with other industries in the country, how do you rate the compensation and reward systems in construction industry?

Response

Table 4.27 showing the rating of compensation system in construction industry.

Rate of implementation	Admin Staff	Staff 1	Staff 2	Staff 3	Percentage
Average	No	Yes	yes	Yes	75
Above Average	No	No	No	No	0
Below Average	No	No	No	No	25
Poor	No	No	No	No	0
TOTAL					100

Source: Field Survey

From the above illustration, it is seen that compensation system in construction industry is on the average side, when compared with other industries in the country.

This questionnaire was administered on the members of construction workers union.

RQ: What type of compensation system mostly motivates the employees?

Response

Table 4.28 showing the compensation system that mostly motivates the employees.

Type of compensation	Member 1	Member 2	Member 3	Member 4
Direct Compensation	No	No	No	No
Indirect Compensation	No	No	No	No
Total compensation	Yes	Yes	Yes	Yes
None of the above	No	No	No	No

Source: Field Survey

The above responses show that total compensation package motivates employees more than other compensation packages. All the stakeholders interviewed responded that if workers are given total compensation package, they would put in their best performance.

This question is administered on the president of construction workers union, Lagos branch.

RQ: Management scientists describe total compensation as the form of reward system in any organization, but we understand that your industry is not embracing a total compensation package. What are the consequences of not engaging in such a package?

The organizations that do not embrace a total compensation package usually experience high labour turnover, because as soon as the workers concerned get a better pay in another organization they will leave. Every employee wants adequate and equitable compensation for his contributions.

RQ: Can you explain the degree of labour turnover in construction industry?

Response

Table 4.29 showing the degree of Labour turnover in construction industry

Degree of Labour turnover	Member 1	Member 2	Member 3	Percentage
High	1	No	No	33.3
Very High	No	Yes	Yes	66.7
Low	No	No	No	0
Very Low	No	No	No	0
TOTAL				100

Source: Field Survey

Responses from the above questionnaire show that labour turnover is very high in construction industry.

This question is administered on various stakeholders to ascertain the degree of labour turnover in construction industry

RQ: Labour turnover is believed to be high in construction industry. Can you explain the degree of labour turnover in the industry?

Response

Table 4.30 showing the responses on the degree of labour turnover in construction industry.

Chief Quantity Surveyor, PBE.	Workers Union Member	Employers Union Member	Office Clerk	Percentage Range	Percentage Score
No	No	No	No	10 - 20	0
No	No	No	No	30 - 40	0
No	No	No	No	50 - 60	0

No	No	No	Yes	70 – 80	25
Yes	Yes	Yes	No	90 - 100	75
Total					100

Source: Field Survey

The above table shows that labour turnover in the industry is high.

Most respondents said that labour turnover is between 70 - 80%.

RQ: Why is the labour turnover very high in the industry?

Response

Table 4.31 is the responses from the various stakeholders showing the degree of labour turnover in the industry

Responses	Chief Quantity Surveyor	Office Clark	Union's Rep.	Employ er's Rep.	
Lack of total Compensation	Yes	Y e s	Y e s	Y e s	100
Lack of direct Compensation	No	N o	N o	N o	0
Lack of indirect Compensation	No	N o	N o	N o	0
None of the above	No	N o	N o	N o	0
TOTAL					100

Source: Field Survey

This total shows that labour turnover is high in the industry because the firms within the industry do not implement total compensation system.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

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CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY OF FINDINGS

The basic aim of this study was to investigate into the compensation system in Nigerian construction firm with a special reference to Piccolo Brunelli Eng. Ltd.

The study covered all the branches of the company, the employers association and the workers' union. In all the branches investigated, population and the samples were identified and questionnaires were used for collections.

About 68 questionnaires were administered but 44 were successfully returned, showing that 65% of the questionnaires administered were successfully returned.

Data derived from the exercise were analyzed based on the frequency distribution of respondents' opinions. This is shown in the tables, which were also analyzed in percentages as shown in chapter five of this study.

As a supplement to questionnaires, personal interviews were conducted to elicit some additional interviews not covered in the questionnaires.

Related literatures were extensively reviewed, covering such areas as personnel administration with special emphasis on compensation system. The literature reviews covered such key areas as motivation and job satisfaction, wages theories, national minimum wage, wages and salary administration, metagoals of rewards systems, importance of compensation, factors affecting total compensation, determining the relative worth of a job, direct compensation, performance based pay, group compensation, indirect compensation, importance of indirect compensation, factors affecting indirect compensation, employees wants, fringe benefits in Nigerian organizations, factors determining compensation policy, collective bargaining in Nigerian Private sector, contemporary issues on compensation system in Nigeria, monetization of fringe benefits in Nigeria etc.

Below is the summary of findings during the field interviews and data analysis:

- (a)** *Total compensation motivates the employees more than other forms of compensation packages.*

Table 4.20 is the table of responses from members of federation of construction industry. The response shows that most construction firms implement direct compensation system. In the table direct compensation system in the industry is 75% while total compensation

system got zero percent. In that table the respondents allocated 25% to indirect compensation. This clearly indicated that most firms in the industry do not implement total compensation.

Table 4.22 shows the responses from members of construction workers' union. On this table, direct compensation is allocated 100%. Total compensation and indirect compensation got zero percent respectively.

Table 4.9 shows the response of the managing Director of Piccolo-Brunelli Eng. Ltd. The managing Director responded on the table that he does not implement any of the indirect compensation packages on the table.

Table 4.10 also shows that the firm implements only bonus and overtime (which falls under performance based pay – a direct compensation package.)

(b) *More construction firms do not implement total compensation package.*

From tables, 4.20, 4.22, 4.9 and 4.10, it is easy to draw a conclusion that more construction firms do not implement total compensation package. This is because the interview covered all the stakeholders in the industry, which include the employers association, the employees' union, the managing Director of Piccolo-Brunelli Eng. Ltd. and some employees of Piccolo-Brunelli Eng. Ltd.

© *Organization that do not embrace total compensation package usually experience high labour turnover.*

The response from the questionnaire administered on the president of construction workers' union indicated that

organizations that do not embrace total compensation package usually experience high labour turnover. Table 4.27 also shows the degree of labour turnover in construction industry because the industry does not embrace total compensation system.

Piccolo Brunelli Engineering limited is a multinational organization and one of the construction giants in Nigeria. The company was incorporated in March 1990 but commenced major business in Nigeria in 1994. The firm's major line of business is construction and civil Engineering works, with major emphasis on road construction.

Compensation system is one of the major issues of personnel administration. It plays key roles in both the organizational life and the personal lives of individuals working in the organization. Any organization that fails to recognize the importance of compensation to its employees usually face severe consequences of such neglect.

Compensation plays the prominent roles of motivating the employees and making them to contribute positively and immensely for the organizational growth and wealth creation. In creating wealth and

growth for organization, the employees would also like to create wealth and growth for themselves.

Some organizations in a bid to maximize profit exploit employees and refuse to compensate them equitably. Equitable compensation is the one in which the employee's contributions to the organization is objectively assessed and then the employee is adequately compensated according to his contributions.

In Nigerian construction industry, the compensation system is on the average. The compensation system in Nigeria is generally very low and this also accounted for general poverty level in the country. Compensation system needs to be reviewed, not only in construction industry but in all other industries in Nigeria generally.

5.2 CONCLUSION

The focal issue in personnel administration is the effective management of human resources in order to attain organizational goal. It is a known fact to every professional manager that human beings in the organization control materials and other resources to achieve organizational goals.

Any organization that neglects the vital roles of compensation on the lives of its employees is doing so on its peril. Human beings within an organization can make or mar the progress of any organization. Hence, it is imperative that organizations should pay adequate

attention to the human elements within organizations so as to maintain smooth operations and growth.

Organizations that are proactive incorporate employees' growth objective into the overall objective of the organization. The organizations reap the benefits of this long-term measure in a long run.

Adequate compensation and reward system benefits both the employees and the employers in the following ways:

- (1) The organization that engages in total compensation attracts potential applicants.
- (2) Good compensation system helps to retain good employees.
- (3) It motivates the employees.
- (4) It helps the firm to gain competitive edge over others.
- (5) High motivation helps to give the employees sense of belonging.
- (6) Some organizations engage in total compensation in order to define organizational structure.
- (7) Total compensation helps the organization to get the best employees which consequently helps the organization to dominate market share.

(8) It also helps to facilitate organizational strategy.

Any organization that fails to recognize the essence of adequate compensation and its impact on both employers and employee is doing a lot of disservice to itself. For a business to progress, all the stakeholders in the business must be happy in order to contribute their respective quotas.

5.3 RECOMMENDATIONS

The field survey was thorough and tasking. Based on the major research work, the following recommendations and suggestions are made in order to improve the compensation system in Nigerian construction firms. The recommendations, if, adopted will help to improve the compensation system in construction industry and other industries in Nigeria and other developing countries of the world. Some of the recommendations include the following:

- (1) Construction firms should encourage indirect compensation system. This is a long-term plan, which benefits both the employees and the employers. Organizations that implement this in other parts of the world gain in the long run and our country should not be an exception.
- (2) Performance based pay system should be continued but should be complemented with indirect compensation system. Researches have shown that one type of pay system can hardly satisfy employees in this dynamic business-world.

- (3) Social security and golden handcuff should be encouraged as this helps to retain good and experience employees. This is a long-term plan that both the employees and the employers benefit from in the long-run.
- (4) Employers should engage in wages and reward system that is not just salvation wages for the employees. This helps in motivating the employees and gives them some sense of belonging.
- (5) To avoid high labour turnover, employees pay and welfare packages should be improved. A motivated worker is a happy worker and a happy worker puts in his best for the organization.
- (6) Total compensation has mutual benefits to both the employees and the employers. Both are happy with the organization because both are beneficiaries of the system.
- (7) Adequate compensation and attention should be given to human beings who manage materials and other resources in the organization. Failure to do this will cause some problems for the organization.

5.4 AREAS OF FURTHER RESEARCH

The research work was very interesting but very tasking. Since total compensation system is a new dimension in developing countries, particularly in Nigeria, there is a need for further researches on the topic to explore more about this system

Management scientists and researchers who are interested in discovering more about the compensation system in Nigerian construction industry should investigate further into the following areas:

- (a) Causes of non-implementation of total compensation system in Nigerian construction industry.
- (b) Collective bargaining structures in Nigerian private sector.
- (c) Why direct compensation is more prevalent in construction industry.
- (d) Ways of strengthening indirect compensation system in Nigerian construction industry.
- (e) Social security system in Nigeria.
- (f) Monetization of fringe benefits in public service in Nigeria.

5.5

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APPENDIX RESEARCH QUESTIONNAIRE.

COMPENSATION SYSTEM IN NIGERIAN CONSTRUCTION FIRM. A CASE STUDY OF PICCOLO BRUNELLI ENGINEERING LIMITED.

INSTRUCTION: TICK ONLY ONE OPTION OUT OF THE SEVERAL
OPTIONS GIVEN BELOW.

1. Personal Data:

- (a) Name -----
- (b) Occupation -----
- (c) Profession -----
- (d) Branch -----

2. What is your educational qualification?

- (a) B.Sc
- (b) MBA/MSC/MA
- (c) Ph.D
- (d) Professional certificates

3. How long have you served the company?
 - (a) Less than two years
 - (b) Two years to five years
 - (c) Six years to ten years
 - (d) Eleven years and above

4. Do your organization send employees for management training?
 - (a) Yes
 - (b) No
 - (c) I don't know
 - (d) None of the above.

5. How is the relationship between the management and the workers?
 - (a) Good
 - (b) Very good
 - (c) Bad
 - (d) Very bad

6. How do you rate the motivation system in this organization?
 - (a) Good
 - (b) Bad
 - (c) Very good
 - (d) Very bad

7. What type of compensation system is used in Piccolo-Brunelli Engineering Limited?
- (a) Total compensation
 - (b) Performance based pay
 - (c) Direct compensation
 - (d) Indirect compensation
8. What type of compensation system do employees prefer?
- (a) Direct Compensation
 - (b) Total compensation
 - (c) Indirect compensation
 - (d) None of the above.
9. How is the compensation system in the construction industry?
- (a) Average
 - (b) Above average
 - (c) Below average
 - (d) None of the above.
10. What type of compensation system is more common in the industry?
- (a) Total compensation
 - (b) Indirect compensation
 - (c) Direct compensation

- (d) No compensation
11. What type of compensation system do employees in the industry prefer?
- (a) Direct compensation
 - (b) Indirect compensation
 - (c) Total compensation
 - (d) None of the above.
12. What is the level of labour turnover in the industry?
- (a) High
 - (b) Very high
 - (c) Low
 - (d) Very low
13. What are the causes of labour turnover in the industry?
- (a) Lack of total compensation
 - (b) Lack of indirect compensation
 - (c) Lack of direct compensation
 - (d) No compensation
14. Do construction workers employees lack motivation?
- (a) Yes
 - (b) No

- (c) None of the above
 - (d) Not applicable
15. What are the most common components of employee's salary structure?
- (a) Base pay, housing allowance, transport allowance, bonus and overtime.
 - (b) Social security, golden handcuff, and golden parachute.
 - © Shares, debentures, medicare.
 - (d) Wellness programme and insurance.
16. What are the compensation packages mostly implemented by the firm?
- (a) Overtime and bonus
 - (b) Pension scheme
 - (c) Life insurance
 - (d) None of the above.