

HUMAN



Resource Management

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ABSTRACT

The purpose of this paper is to show whether the monetisation of employee's remuneration has any effect on productivity. It should be appreciated that productivity is influenced by an infinite number of factors, one of which could be the monetisation of the remuneration of workers by their employers. In order to establish the "pure effects" of one variable, all the others have to be controlled. However, neither the data nor the information used, in this paper, will justify the level of statistical analysis needed to establish causality. Consequently, "implication", as used in this paper, should be interpreted more in terms of 'associational' than "causal" relationships. This paper examines the effect of remuneration on the employee's productivity. It reviews the purpose of the policy and the mechanism for achieving it in the economy, in a way capable of resolving disputes in industrial relations and ensuring proper evaluation of employee's remuneration without ignoring the cost benefits implication of monetisation, on the employer of labour. The paper examines, the courses of productivity growth, vis-à-vis, the relationship between productivity and other variables, such as employment wages, prices and monetisation of workers' benefits. The paper, further examines the various inadequacies and the benefits of monetisation of employee's remuneration. The study concludes, that, adequate measures should be taken in order to ensure, that, the policy does not lead to massive fraud, corruption, capital flight and the exploitation of the weak by the strong, among other things.



MONETISATION OF EMPLOYEES' REMUNERATION: ITS IMPLICATION ON WORKERS' PRODUCTIVITY

By **Dr. Adeyeye, Olufemi**

Lagos State University, Ojo, Lagos.
B.Sc Sociology (Ibadan), M.Sc Industrial
Relations and Personnel Management Ph.D (Ibadan),
Affiliate Member CIPM
Tel: 08023177595, E-mail: banuso57@yahoo.com

Introduction

Recently, the Federal Government of Nigeria revisited the monetisation policy. Conceptually, monetisation as a policy has been very difficult to define in concrete terms. However, economists and experts in human capital management have defined monetisation as a given measure of monetary value to perquisites in kind enjoyed by all or restricted to certain categories of workers.

If this definition is admissible, we are left with identifying what these perquisites of office and or fringe benefits that are provided in kind are. Of course, we should be interested in the categories of workers who are entitled to them and at what cost, its impact on workers' productivity and what the stakeholders stand to gain by the policy. Obviously, rewards for labour in the public sector of the Nigerian economy, will not only be in cash but also

in kind. Various forms of allowances/fringe benefits could be received in cash and or in kind. Thus a typical employment compensation package today consists of three broad elements, viz:

- a. direct wage/salary in the form of basic salary;
- B. Tied benefits paid in cash, such as housing or rent-subsidy allowance, children education allowance, etc; and
- c. Benefits provided by employers in kind rather than in cash such as housing, car, free lunch and medical care, etc.

Historical Perspective

The history of workers' compensation package in Nigeria is one with skewed salary and wages structure, with endless fringe benefits. Pre-independence expatriates were provided with measures to cushion the effect of the structural deficiencies of the Colonial Administration. When the colonialists were in Nigeria, they provided their expatriate staff, that is, the "white" civil servants (administrators) who were ruling the natives with:

- free housing;
- free slaves (who we now refer to as domestic servants);
- free transportation (chauffeur-driven cars);
- free furnishing; and
- free utilities like water, electricity and telephone bills.

Of course, when Nigeria gained her independence in 1960 and the colonialists left, the indigenous civil servants that took over from them also took over those benefits. What followed thereafter was that many of them started living in what is now referred to as government reservation areas (GRA), in most cases, with distinguishing features that differentiated them from where other "ordinary" Nigerians were living and are still living. What followed is well known to all of us – abuse of the benefits by indigenous civil servants. With the coming to power of Chief Olusegun Obasanjo, the policy was revisited, to among other things, effectively alter and restructure the consumption patterns of the economy; to reduce the heavy dependent on the revenues from one principal commodity, that is, oil; and to progressively eliminate price distortions in the economy. In addition, the policy was put in place to reduce expenditure; engender a new orientation and attitude towards public resources; bring down the cost of renting houses; and to promote the observance of maintenance culture among the stakeholders in industrial relations.

Hitherto, the bane of the monetisation policy had been those of distortions. Some of this principal distortions which have been identified are those relating to the pricing of labour, and its domestic and international competitiveness over time. Some of these distortions, which have been with us almost from colonial times, have been rendered even more vivid by the effect of deregulation and devaluation which reduced the value of

the local currency considerably with its attendant hyper-inflationary effect on all goods and services in Nigeria. Other distortions which have been noticed are that the basic salary of most public officials represents, only a small fraction of the total cost to the treasury of maintaining the official. And finally, that on retirement, the benefits of workers are computed as a proportion of only his basic pay rather than the total cost of keeping him in service. With the computation of pension based on the basic pay, most retired officials could not survive economically and socially on such pensions.

The National Economic Empowerment Development Strategy (NEEDS) deals with the substantial aspects of these perquisites and they include:

- Official quarters: for which the occupants pay a non-economic rent of 10% or less of the basic salary and in turn forfeit their rent subsidies paid to other non-quartered workers
- Furnishing: the quality of such furnishing depends on the level of each entitled officer. To some, the parlance is "tastefully" furnished.
- Chauffeur-driven car: some categories of senior officers are entitled to one (1) official car each, while the top echelon are entitled to two (2) cars each. These cars are fuelled and maintained at the organisation's expense including the drivers.
- Free utilities such as water, electricity and telephone bills: payment of electricity bills is restricted to certain categories of top-level officers.
- Domestic servants including security men, cooks and gardeners. The number of such domestic servants is determined by the grade level of each entitled officer.
- Clothing allowances, particularly for those in the private sector.
- Meal subsidy for almost all workers. The rate however depends on the grade level.
- Entertainment allowance. Restricted to certain categories of workers and amount paid is equally premised on grade level.
- Free medical services locally and overseas.

The percentage of officers, particularly in the public service including the universities, polytechnics, colleges of education, extra-ministerial departments (that is government owned parastatals) who enjoy all these non-cash benefits is minimal compared to the entire workforce. In the university system where I belong, apart from the four principal officers, that is, the Vice Chancellor, the Registrar, the Bursar and the Librarian, only a negligible number enjoy all these non-cash benefits.

| BENEFIT | PAY GRADE LEVEL | AMOUNT |
|-----------------------|-------------------------------|---|
| Accommodation Subsidy | 01-06 | 50 percent |
| | 07-14 | 60 percent |
| | 15 and above | 75 percent |
| Transport Subsidy | 01-17 | 25 percent |
| Meal Subsidy | 01-06 | N6,000 |
| | 07-10 | N8,400 |
| | 12-14 | N9,600 |
| | 15-17 | N10,800 |
| | Permanent Secretary and above | N16,200 |
| Utility Subsidy | 01-16 | 15 percent |
| | 17 and above | 20 percent |
| Domestic Servant | 15 | 1 GL 3 step 8 |
| | 16-17 | 2 GL 3 step 8 |
| | Permanent Secretary and above | 3 GL 3 step 8 |
| Leave Grant | 01 and above | 10 percent |
| Medical Care | 01 and above | 10 percent (to be paid to National Health Insurance Scheme) |
| Furniture Allowance | 01-06 | 0 |
| | 07 and above | 40 percent for 5 years |
| Vehicle Loan | 01-05 | 100 percent |
| | 06-07 | 150 percent |
| | 08 and above | 200 percent |
| Driver | 17 and above | 1 GL 3 step 8 |

Purpose of Monetisation of Fringe Benefits

It has been argued in some quarters that the mechanics for achieving the monetisation of fringe benefits must have relevance to the purpose for which the exercise is being carried out. Hammond (1992) in his paper, "Monetisation: Economics and Mechanics" listed the various suggestions put forward for the real purpose of monetisation. Viz:

- a. simplification of wages and salaries administration in the country;
- b. subtle review of salaries and wages structure in the country with a view to enhancing the take-home-pay of the worker;
- c. enhancement of retirement benefits;
- d. easier and workable transferability of retirement benefits for enhanced mobility of labour;
- e. easier income tax administration;
- f. promotion of a healthier saving and investment culture;
- g. achieving a clean wage structure devoid of tax avoidance and evasion tactics;
- h. further deregulation of the economy by providing employees with choices in the allocation and utilization of their resources; and services of man i.e, labour or as it is

generally the case, a combination of all.

In the federal government's Economic Reform Agenda (NEEDS) earlier mentioned, it is clearly stated that: "To check the spiraling cost of providing these benefits, the federal government monetised fringe benefits of all categories of public servants. The new policy is designed to stem the tide of ever-rising annual outlay of benefits".

According to the government's pronouncement in the document, the listed benefits did help public servants prepare adequately for life after retirement. In government thinking, monetisation of benefits will help prepare public servants for life after retirement and prevent them from suffering a sharp drop in their standard of living. On the contrary, for many public servants it created a dependency syndrome that was ill-suited to post-retirement life (Oshiomhole, 2003).

Mechanics of Monetisation

One of the major economic activities and reforms of this present administration is the on-going deregulation of the Nigerian economy, which has produced dramatic changes in the nation's economic terrain. Gone are the days of tight controls and rigidity on the part of the state, as every resultant

development is marked by the elemental forces of the market. The mechanics of monetisation leads us to the process of putting money values on all fringe benefits and consolidating them with the basic salary into one figure which becomes the workers' little salary. In monetisation, the emphasis is on consolidation, that is, adding together those different parts, to arrive at one figure for the workers' new salary. The worker is then free to make his decisions as to how much of the new salary he spends on housing, transport, clothing, education, savings, etc. (Ngozi Iweala, 2003).

Proponents of this policy have argued on the desirability of monetisation in our current situation. They believe that it will be most helpful to our economy, to government and private employers for employee emoluments to be reduced to just one sum called salary, from which he takes care of his housing, transportation etc. Obviously, the monetary value of fringe benefits has risen rapidly in response to inflationary pressures. Most employers being unable to cope with these costs have had to cut down on employment levels. The non-monetisation of these benefits has also contributed to the perennial source of dispute between employers of labour and employees. Employers usually contend that employees' emoluments are relatively high and comparable to that in other countries if proper account is taken of non-monetary benefits being enjoyed. However, in the absence of any effective mechanism for valuing these benefits, the employer's contention remains weak.

Monetisation will assist in resolving such disputes in industrial relations and ensure the proper valuation of employee's remuneration, particularly if the benefits as packaged fall within the worker's consumption preferences. In some cases, the inappropriate nature of these benefits creates further problems. For example, a middle-level civil servant housed in Garki or Area II, in Abuja, the Federal Capital Territory of Nigeria, would necessarily require matching compensation to maintain the 'accepted' life style in Gwagwalada

or Suleja the suburb of Abuja though he derives no long-term satisfaction from that status. Such an outward appearance of affluence also increases societal pressures on him, e.g through the extended family system. Clearly, this situation could easily lead to corruption. Monetisation will increase the absolute cash component of the worker's disposable income, while allowing him greater discretion in the allocation of his income to reflect personal preferences and priorities. In fact, the employee's major expenditure areas especially the low and middle income earners are accommodation, transportation, and feeding. Their major concern areas thereafter are pension, children's school fees and health of the family. Other areas, which are less important to Nigerian low and middle income earners are recreation and holiday.

For the employer, the process will be more cost effective since it will lead to removal of abuses and wastages associated with the administration of such fringe benefits. However, it should be possible for those employers who elect to do so, to pay a productivity bonus or incentive, at the end of its operational year, where such bonus or incentive is strictly related to the organizations performance in the year. On the other hand, employees should have little problem in coping with their major expenditures listed above, and their concern for the future would have been taken care of in the form of enhanced pensions.

Productivity and its Effects on Labour and other Stakeholder

In this paper, a simple definition of productivity will be given as "the output per worker or per man-hour". For a country, particularly a developing one that lacks adequate resources, the growth of labour productivity is essential for a steady improvement in the standard of living of the population. The formulation of appropriate policy measures to raise labour productivity requires an understanding of the basic causes of increased productivity. Such an understanding will help to shed light on the complex relationship between productivity and variables such as employment, wages and fringe benefits.

The growth of labour productivity in any given industry may be due to one or more or several factors. Among the possible determinants of labour productivity are improvements in the personal efficiency of labour, the substitution of capital for labour, technical progress and economies of scale. The relationship between productivity growth on the one hand and wages, fringe benefits, costs, prices and employment on the other depends to some extent on the nature of the factor of productivity growth. An increase in the personal efficiency of labour may be the result of increased education or skill building, greater stability and experience, and improved nutrition and health of the labour force. The essential point in respect of this factor is that growth of productivity can be ascribed directly to a change in the characteristics of labour itself (Damachi, 1978).

The substitution of capital for labour can also account for a rise in the productivity of labour. Each substitution may arise from the tendency for the price of capital goods to fall relative to this price of labour as a result of productivity growth in the production of capital goods or from fiscal, commercial and wages policies which distort relative capital-labour prices. In this case a higher productivity is attained even though labour itself remains passive (Kennedy, 1971).

Another important cause of labour productivity growth, which is closely linked with factor substitution, is technical progress. Technical progress is said to take place in an establishment when it makes use of a new technology which involves employing new inputs or methods that incorporate new knowledge. Technical progress is often the by-product of applied scientific research. But since the bulk of such research is carried on in advanced, industrial economies, technical progress tends to be labour-saving, hence the growth of labour productivity.

The productivity of labour as well as those of other factors may increase as a result of the realization of economies of scale. The scope for these economies and the possibility of increasing productivity depends largely on the size and growth of the product market. A rapid expansion of the market is particularly conducive to the reaping of potential economies of scale.

From the foregoing analysis, it is clearly evident that the possible causes of

productivity growth are varied and that the relationships between productivity and other variables such as employment, wages, prices and monetization of workers' benefits are quite complex. However, a generalized monetization of fringe benefits would be expected to enhance productivity in two ways. In the first place, the increased employees' welfare could be expected to lead to increased productivity if workers' welfare and morale are positively correlated with workers' productivity as some studies have indicated.

The second source of probable productivity enhancement has to do with the fact that remuneration management can become more specialized and therefore more efficient. Under the present framework, every organization has to manage a stock of houses or a pool of rented houses, manage a pool of vehicles, and manage a health delivery system for its employees, among other things.

Management involvement in these diverse activities, which may be unrelated to the sectoral base of the establishment tends to erode efficiency. Monetising these benefits will allow employing organizations to become more specialized, efficient and hence more productive. The other likely impact of a generalized monetisation of fringe benefits has to do with the impact on the price level. Given the high ratio of benefits in the current total package in various sectors of the economy, monetisation is likely to elicit, through inflationary expectations, a major upward jump in the prices of goods and services (Banjoko, 1996).

Criticism of the Monetization Policy
According to the NEEDS document, government has good intention but the way it is being implemented the government did not seem to have weighed the financial, social and political implications of the policy before embarking on it (Oshiomhole, 2003).

The Guardian of February 26, 2004 put the situation more vividly when it wrote that. "Contrary to expectations, federal employees who are not in the mainstream ministries would not immediately

benefit from the monetisation of fringe benefits, at least for now". The government circular of February 12, 2004, issued from the National Salaries, Income and Wages Commission, Abuja stated that the new rates for the monetisation of fringe benefits approved by the President took effect from October 1, 2003. According to the circular, "they are applicable to federal ministries, parastatals, commissions, extra-ministerial departments and agencies that are funded from the annual federal budget".

However, clarifying the content of the circular, the Director-General, Budget Office in the Federal Ministry of Finance, said that, employees who are not in the ministries would have to wait for one year before enjoying the new rates. The reason why they would not benefit is that government wanted to use a year to look at the core civil service, learn some lessons and then move on to the other areas of government.

Perhaps one should state that, in the government circle, there is a difference between core civil servants and public servants. Workers regarded as public servants are employees working in parastatals, commissions, extra-ministerial departments and agencies.

The implications of this type of scenario are many. • there is salary differential between the civil servants and public servants; and • at retirement from October 1, 2003, civil servants would have enhanced gratuity and pension since such would be calculated on basic salary and the newly approved fringe benefits which have been monetised. To address the situation, government reacted by putting in place a reform aimed at reducing the workforce in the two services and all sorts of criteria have been given to ease out some civil and public servants. No matter the way we look at it, the officers who are likely to be affected in the civil service would go away richer and happier than their colleagues who are public servants who will have to join the legion of those in the unemployment market. The case of the Nigeria Ports Authority (NPA) is a clear example of the discrimination in the treatment

of the civil and public servants.

Another problem associated with the implementation of the policy is the interpretations given to it by the National Assembly, that the policy is targeted at the lawmakers. Senator Idris Kuta has opined that in the implementation of the monetisation policy the National Assembly is being unnecessarily punished. According to him, while government is mouthing the monetisation policy, ministries and presidential aids are living profligate lifestyles while the lawmakers are expected to make sacrifices (This Day, November 12, 2003). In the same publication, Senator Farouk Bello was quoted as maintaining that the present policy is not directed at saving cost, but a ploy to weaken the constitutional responsibilities of the National Assembly (This Day, November 12, 2003).

Another problem is that there had been so many circulars on the policy. At each point that people want to say "at last", government comes out with fresh circulars on implementation thus compounding the situation. As earlier said, monetisation policy is a laudable one, but the problem is that such a policy that bothers on conditions of service of workers did not involve the workers and/or their representatives right from conception. So, what government had intended to achieve – to reduce cost – has been eroded by clumsy implementation (Oshiomhole, 2003).

Achieving the Mix

In order to achieve the desired results, adequate and complementary measures should be taken to rid the process of undesirable side effects which could negate the basic objectives of the exercise. Specific initiatives that should be taken by government should include the following;

- a. adequate measures should be taken to ensure that the real take home pay of workers is not eroded by the process of monetisation;
- b. necessary amendments should be made to the existing personal income tax laws to ensure that the tax burden is not increased by the process;
- c. adequate fiscal policy measures should be introduced to reduce the inflationary impact of the exercise;
- d. rationally pricing compensatory facilities ought to be provided to replace those fringe benefits that could create low productivity

problems when monetised. For example, the withdrawal of staff buses could cause lateness and irregular working hours if alternative fee paying transport services are not available;

e. the ultimate goal should be to encourage the private sector, through appropriate incentives and competitive pricing structure to take over the provision of basic services required by workers such as transportation, health care insurance facilities and owner-occupier housing programme;

f. appropriate steps must be taken to ensure that the real earning power of the worker is preserved through adequate tax protection and effective anti-inflationary programme; and

g. to ensure that the on-going contributory pension system is sustained at all cost.

Conclusion

The monetisation scheme like the structural adjustment, and deregulation policies is the fallouts of NEEDS (and others in its shoes) initiated by this government. It is an accepted fact that all these policies have not been popular with Nigerians. They have in fact, led to massive fraud, corruption, capital flight, exploitation of the weak by the strong and so on and so forth. However, since this paper does not set out to appraise the impact of deregulation and NEEDS on the economy, it is pertinent to conclude that the monetisation of fringe benefits is not undesirable. It will rather increase the cash components of workers' emoluments and therefore enhance workers' discretion to decide how best to deploy their income and may as a result increase productivity. For the employer, the process will be more cost effective, since, it will lead to removal or abuses and wastages associated with the administration of such fringe benefits if transparently implemented. Since man is the best keeper of himself, it is expected that the exercise of that discretion will result in more rational consumption behaviour. In fact, productivity gains are also likely to be achieved in the interest of all the operators within the environment including the workers.

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