Comparative Analysis of Wage Determination in Unionized and Non-Unionized Organizations in Nigeria

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Compensation is a major source of conflict and disagreement which sometimes results in dispute in organization. The study examined wage determination in unionized and non-unionized organizations. A survey of 155 workers both in unionized and non-unionized organizations was carried out. Four hypotheses were tested. The results indicate that a significant relationship between the wage levels and unionization. Also workers in workers in non-unionized organizations do not necessarily earn less than those in unionized organizations. The level of wages was found to be related to the ability of union leaders to negotiate skillfully. However unionization was found not to have a significant impact on general conditions of service. Companies now exploit the freedom of association and non-unionization options to engage more in decentralized and individualized employment relations rather than the collectivism associated with trade unionism. It has also become clear that management as well as workers support this and that a new form of negotiation between them is developing in the workplace. The study recommends that decentralized and individualized employment relations must remain linked to the national and collective levels of bargaining and a new balance must be developed between the collectivism and individualism that is emerging.

Keywords: Comparative analysis, wage determination, unionization, non-unionization.

INTRODUCTION

Wage determination 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, pay and legal regulations. Wages and salaries administration otherwise known as compensation management involves a double exchange relationship between an employee and an employer of labour. It is a contractual agreement for the payment of wages and salaries in exchange for effort. It is also an input-output situation where a worker inputs his or her labour and the resultant output is in form of compensation which may be monetary or non-monetary.

Compensation is one of the key aspects of human resources management and it is singularly-significant both to employers and employees. To the employer, it represents the single largest cost item in any organization, while to the employee it represents a means of meeting his or her needs which may be social, psychological, political or economical. In addition to the foregoing, compensation constitutes a major source of conflict and disagreement which sometimes results in dispute in organization. Wage determination has changed out of all recognition over the last twenty years. Omole (2001) observes that in the 70s, when unions were at their zenith, wage itself was regarded as an outcome of the industrial relations process where a compromise was reached between the conflicting demands of the two opposing parties. Today, with varying degrees of success, organizations attempt to harness the powerful forces of pay as a motivator to encourage employees to work in ways that lead to the achievement of organizational objectives. People go to organization as individuals and become collective by forming trade-unions. The concept of individualism is at variance with the collective nature of much of industrial relations.

The Objective

Wage determination in any organization either unionized or non-unionized has always raised tension simply be-
cause it is a substantive issue. This study seeks to find out the extent to which unionization impacts on wages and salaries determination in organizations. The study examines workers perception of wages and conditions of service in unionized and non-unionized organizations. It also examines whether wages and conditions of service are considerably better in unionized organizations. The implications of the new trend of individualism as against the collective nature of much of industrial relations are also considered.

Literature

A. Trade Unionism in Nigeria

Two schools of thoughts abound on the development of trade unions in Nigeria. One opined that trade unionism in Nigeria was fostered by the colonial government while the other says trade unions grew out of protest and confrontation with the British government. While evidence as to the origin of the trade unions in Nigeria is inconclusive records indicate that the first attempt along trade union lines was made in Lagos in 1897 with the artisan workmen of the then Public Works Department (PWD) and their strike. The growth of trade unions in the country was however encouraged by the rapid expansion of paid employment. Among the major objectives of trade unions are: improved terms of employment, improved physical environment at work, full employment and national prosperity, security of employment and income, improved social security- economy security housing, full employment. Others include fair shares in national and wealth income, industrial democracy, a voice in government, improved public and social services as well as public control and planning of industry.

The resulting influence of trade unions in an economy could be substantial. Trade unions serve positive outcomes to members, and workers in non-unionized firms seeking comparability often look for gains of trade unions as a basis for negotiation. Generally however the roles of trade unions to members include economic, social welfare, political, psychological benefits and opportunity to participate in managerial functions in the industry. The objectives, policies and actions displayed by trade unions derive from the leadership's perception of its functions and may be at variance with the perception of individual members or distinct classes of membership. Six distinct aspects of trade union roles and functions can be identified. First is power to protect and support individuals by providing collective strength to act as a countervailing force to the employer and a pressure group within the society. Next is economic regulation which involves maximizing the wages and employment of members within the framework of the wage/work and contract of employment. The union has a role to regulate the economy within which they operate. The labour union aims to regulate the terms and conditions of employment. Third is job regulation which has to do with establishing a joint rule making system which both protects members from arbitrary management actions and allows them to participate in decision making within the organization. Fourth is societal change which includes expressing in the society cohesion, aspirations or political ideology of members. Trade unions can better pursue as well as protect the interests of their membership. Fifth is membership service which involves a range of benefits or services to individual members. Last is self-fulfillment which assists in self-actualization of members. This makes it possible for worker to be self-actualized in decision making in order for workers to have a self of belonging in union membership.

According to Basic and Price (2003) unions seek to exercise power in three directions. First is within the labour movement where a union’s power relates to its size relative to other unions, the leadership quality and alliances between unions. Second is towards government. Union power here is not so much dependent on the level of aggregate union membership as government’s perceived desire for or dependence on trade union support for achieving its policies. Third is towards employees where it is not the absolute level of membership but union density enhanced or weakened by economic, technology, and political factors, which provide the basis of union power. Roberts (2009) sees labour unions as an expression of the fundamental right of member to organize themselves to protect and promote their interests by collection action. According to Roberts the primary essence of a labour union is protection(ism) i.e. efforts aimed at organizing people against managerial oppression or organizational oppression. The perspective of Roberts is similar to what the foremost political economists such as Karl Marx had said that focus of labour unions is to protect their membership against possible injustices in a work place. Oluwatade (2006) says labour unions are much more than engineers for inventing bargaining power into improved pay and conditions, for their members rather they are an integral and important part of the system of checks and balances which compose the capitalist liberal democracy.

Factors Determining the Level of Unionization

Several determinants of the level of unionization have been identified. Some of these factors include: (i) The macro economic climate such as the effects of inflation, rate of unemployment etc. In periods of high inflation worker tend to unionize more. (ii) Structure of the labour force which has to do with a variety of occupational, industrial and socio-demographic characteristics. Trade Unions activities tend to be high among full time male workers and low among female or part time workers. Any shift in employment patterns between or within these
areas will likely affect the level of overall unionization. (iii) Social Values in form of government policies and legislations. Government policies as far as union are concerned in terms of policies, laws; legislations can suppress, tolerate or encourage unionization and collective bargaining. Where government policies and laws are hostile unionization will not be so high rather there will be a discouraging effect where people will be afraid of punitive actions.

B. Individualism and Non-Unionization

Individualism has to do with the belief that people should not be lumped as units of a factor of production or treated impersonally as a number or a clock card, but as individuals each with aspirations attributes and attitudes able to make unique and significant contributions to organization success. Individualism and collectivism are very important in industrial relations. People go to organization as individuals and become collective by forming trade-unions. The concept of individualism is at variance with the collective nature of much of industrial relations. It suggests (i) that management is free to deal with its employees as it see best without any constraints of trade unions. (ii) That employees receive differential treatment depending on individual attributes, abilities or performances i.e. individual contract not common collective contract. Management strategy up till the 60s was characterized by a reliance on employers' association and national agreements. Since the 1980s management strategy has shifted away from the constraints of formalized joint regulations codified in collective agreements towards greater organization flexibility, individualism and a reassertion of managerial prerogative. The shift was occasioned by certain factors among which are: (i) The rapid economic recession (ii) Rising unemployment (iii) Increased international competition (iv) Government commitment to reducing trade union power through legislative controls and enhancing market individualism. Issues of strategic and market considerations are combined within the management of people. It does not encourage unionism. Its distinction is in labour being seen not so much as a cost but as an asset or resource which needs to be developed to its maximum ability, so that emphasis is on individual employee and his/her motivation, training and development. The development was due to a significant change in the overall business environment, increased competitive workplace and the consequent need for organizations not only to compete and be more productive but to become more conscious of techniques, quality, design and customer satisfaction. There were also internal changes such as mergers, changes in top management, major redundancies, decentralization of ‘people management’ and attempts to establish a cleaner performance related organization. Its strategic characteristics include the development of high mutual commitment which is associated with recruitment practices which aim to attract and select highly committed and flexible people, internal labour markets which reward commitment and training with promotion and job security and methods of direct communication and involvement which when used together in an integrated fashion, can be assumed to reflect an underlying commitment on the part of employers to their employees which is rooted in the conception of them as assets or resources and not simply as disposable factors of production. This approach of mutuality or reciprocal dependence is based on accepting the principle that ‘only by satisfying the needs of the individual employee will the business obtain the commitment to organization objective that is needed for organization success and only by contributing to organization success will individuals be able to satisfy their personal employment needs’. The central objective is to secure the commitment of employees to innovation and continual improvement of product quality. Beaumont (2005) identifies five main elements of the HRM package: (i) A strong internal labour market providing training, development and promotion. (ii) Flexible organization and work systems (iii) Pay related to organization performance or individual acquisition of skills and competencies. (iv) Developed mechanisms of employee and group involvement in task decision. (v) Extensive communication from management. Interest in human resources management stemmed from a perceived need to meet competitive challenges in both management and internal markets and at its heart is the belief that HRM strategy should be driven by business and market considerations with the object of securing a committed and capital market force. It is about exploiting the labour resource more fully. The approach asserts management’s right to manipulate and ability to generate and develop resources. Some have questioned whether the approach is concerned about creating a new equal partnership between employers and employees or offering a covert form of employee manipulation dressed with mutuality.

Lucie and Weston (2006) identify three types of response of trade unions to the human resources management approach namely: (a) progressive social partnership which complements management initiatives so that union is no longer the single channel of workers interests. (b) Making Donovan Work which seeks to extend collective involvement into the new HRM areas. (c) Holding on to Independence which is a shift from the initial outright opposition to a qualified accommodation subject to a guarantee of union’s independence.

C. The Concept of Wage

Wage is often used interchangeably with compensation management. In the narrow sense, wage is the price
given to a worker for services rendered. However, in the broader sense, wages are compensation or remuneration given for overall services rendered apart from the basic wage. It includes allowances, benefits and other financial support like bonuses, workmen compensation, holiday pay, leave allowances, overtime, etc.

The International Labour Organization ILO (2001) describes compensation as payment system based on effort, performance and productivity. It refers to a salary or wage and all allowances and financial benefits payble to an employee either in cash or kind in return for services rendered. Henderson (2000) defines compensation as any form of payment given to employees in exchange for work provided for their employers. Compensation can be direct or indirect. Ojo (2000) indicates that financial payment made at or near the time work is performed is called direct compensation. This includes wages, salaries, overtime, commissions and bonuses, etc. French (1998) asserts that indirect compensation is in form of benefits such as healthcare, insurance, pension, etc.

The Theories of Wage

The Marginal Productivity Theory

The marginal productivity wage theory was propounded by J.B. Clark. The theory involves a worker being paid only for what he or she produces. Henderson (2000) opines that if a worker produces a little more than what it takes to hire him or her, the worker should continue to work but if a worker’s productivity is equal to what it takes to hire him or her, the worker should be replaced. An employer continues to employ up to a point where the marginal revenue product is equal to or greater than cost. This therefore means that when supply of labour is higher than the demand for it, wages will be on the low side.

The Wage Fund Theory

This theory states that organizations set aside funds from where workers wages are taken from and paid to them. The wage level is consequently determined by the function of how much money is set aside for wage payment and the number of workers in the economy. According to Ojo (1983) this means that the number of workers available at a particular point in time determines how low or high wages will be.

The Residual Claimant Theory

Jones et al. (2002) states that this theory posits that the left over amount after settling the other factors of production belongs to labour or workers. It believes that what is left over after all other claims have been made, forms the reward of labour which becomes wages. This therefore means that if all expenses incurred on land, capital, raw materials and entrepreneur have been taken away, the residue or remainder becomes the claim for labour.

The Subsistence Wage Theory

Ojo (2000) observes that this theory states that subsistence wage is that wage or remuneration which provides for mere sustenance, means of support or livelihood. Armstrong (2006) affirms that the assumption of this theory is that payment of wages above subsistence level will result in an increase in the supply of labour since it is expected to increase population.

The Behavioural Theory of Wages

Fajana (2001) asserts that the behavioural theory stresses the usefulness of genuine organizational culture, traditions, dos and don'ts and higher level needs. The image of the organization, union power and social relationships which exist in an organization can induce and motivate workers to stay.

The Keynesian Wage Theory

This theory according to Henderson (2000) has similarities to the marginal productivity theory, but the basic difference lies in the fact that unlike the marginal productivity theory, it recognizes the presence of institutional factors that impacts on wage rates and levels.

D. Wage Determination Mechanism

Several factors affect the determination of an organization's pay structure or the general level of wages. The pay structure indicates the relationship of wage rates to each other and the range of rate for all the jobs with an organization; industry or labour market area. Also the wage rate is the amount of money an employer pays for a unit of time or for a unit of output problem. The major factors that affect compensation which is also the criteria for settling or changing the wage levels are many. First is the labour market situation. Ideally, in a relatively competitive labour market, the interplay of supply and demand is the most important determinant of compensation. However, due to certain imperfections in the market caused by institutional, administrative, political and socio-cultural factors, the role of the price mechanism is minimal especially in a developing country.
like Nigeria. Nevertheless the interplay of supply and demand for skills exerts some influence on wage determination. Consequently periods of unemployment do not generally favour high pays, as employers have the opportunity to attract high caliber employees without necessarily offering the legal minimum wage which may be considered excessive. Again periods of shortage of skills in the labor market will expectedly witness high movements of wages, provided market forces are allowed to sufficiently allocate wages and employment.

Next is the ability to pay. Affordability is a very well recognized factor in the wage determination process in Nigeria. Differences in the capacity of organizations affect negotiations in appropriate categorization of some sorts. A union may advocate an increase in pay based on huge profits recorded by the establishment and ability to pay. The financial condition of an establishment determines whether it can pay above the going rate, keep in line with comparable establishments or pay lower wages.

Another factor is the cost of living index. This has been a singular factor upon which labour often asks and is granted increase in wages; the world over. Long (1984) observes that in many countries, organizations have adopted a systematic procedure for adjusting wage rates. Some agreement clauses specify pre-set adjustment if the consumer price index exceeds a certain level while others simply allow the re-opening of negotiation. This is aimed at maintaining for the workers the purchasing power of money wages when agreements are operative. In Nigeria this factor has played a more prominent role in wage determination than any other factor especially in the public sector.

In addition there is the going rate factor. This refers to the wages and salaries paid for comparable work by other institutions in the area or industry. French (1998) asserts that competitive wages in an area constitutes an important factor in determining general wage levels. The wage level of an enterprise is affected by wages paid in comparable establishments. For instance in the banking industry the National Union of Banks Insurance and Financial Institutions Employees (NUBIFIE) negotiates industry wide wage packages for bank employees. Regardless of this however, a trend emerges in which employers cluster around the industry average as the wage levels. This is aimed at maintaining for the workers the purchasing power of money wages when agreements are operative. In Nigeria this factor has played a more prominent role in wage determination than any other factor especially in the public sector.

Another factor is the productivity factor. Higher levels of productivity encourage employers to extend more wages. Wage increase should be supported with evidence of productivity. However, it is often difficult to measure productivity especially in activities involving administration and managerial responsibilities. Even where it is less difficult, improvement could emanate from several other factors. Consequently, increased labor productivity in the national economy or in different enterprises, is used to determine pay increases not individual productivity.

Again there is the government legislation factor. A worker is precluded from accepting and an employer from paying below the minimum wage. Several wages and salaries review commissions have been set up in Nigeria since 1934. Government is empowered to establish wage rates where wages are unreasonably low or where no adequate machinery exists for adjusting wages and conditions of service. Long (1984) affirms that in Canada, government has influenced both public and private sector compensation and in June 1996 the U.S congress increased the minimum wage from 4.25 to 5.15 dollars per hour. Another major factor in wage determination is the Labour Unions. This is the factor that is of major concern to this study. Labour unions influence wages especially. Studies by Fajana (1986), and (2001), as well as Ojo (2000) indicate that trade unions have been able to considerably increase wage levels in Nigeria. Basic wage is affected by the differences in the bargainers' ability. They have been known to negotiate wages on behalf of their members and this is an important determinant of wage levels in an organization or industry. The success however, depends on how skilled or skillful the union representatives are in the act of negotiation. When union representatives possess high skills added to commitment and loyalty, wages will be on the high side and vice versa. Ojo (2001) opines that the earliest aims of trade unions were to protect workers from unscrupulous employers and to secure improvement in wages. The resulting influence of trade unions in an economy could be substantial. Trade unions serve positive outcomes to members and workers in non-unionized firms seeking comparability often look for gains of trade unions as a basis for negotiation. Generally however the roles of trade unions to members include economic, social welfare, political, psychological benefits and opportunity to participate in managerial function in the industry. Their objectives include improved terms of employment, and fair shares in national and wealth income.

Data Collection

The study conducted a survey of 180 respondents; 90 each from unionized and non-unionized organizations in the insurance industry. A five point scale likert type questionnaire was used. Of the 180 questionnaires administered, only 155 were returned in usable conditions. Frequency distribution and percentages were employed in analyzing the data collected. The chi square was used to test the hypotheses.

RESULTS AND DATA ANALYSIS

Test of Hypotheses

The study tested the following null hypotheses. (i) There
Table 1. Relationship between wage levels and unionization

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<th>Response</th>
<th>SA</th>
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<th>Total</th>
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<tr>
<td>Unionized</td>
<td>30(33.03)</td>
<td>26(25.81)</td>
<td>6(6.71)</td>
<td>8(7.23)</td>
<td>10(0.90)</td>
<td>80</td>
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<td>4</td>
<td>0.05</td>
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<td>Non-Unionized</td>
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<td>24(24.19)</td>
<td>7(6.29)</td>
<td>6(6.77)</td>
<td>4(6.77)</td>
<td>75</td>
<td>7.76</td>
<td>9.49</td>
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<tr>
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<td>14</td>
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Table 2. Relationship between wages in unionization and non-unionized organizations

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<td>11(7.26)</td>
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<td>7.76</td>
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<tr>
<td>Non-Unionized</td>
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<td>26(23.71)</td>
<td>7(6.29)</td>
<td>9(8.71)</td>
<td>3(6.77)</td>
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<tr>
<td>Total</td>
<td>61</td>
<td>49</td>
<td>13</td>
<td>18</td>
<td>14</td>
<td>155</td>
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</table>

is no significant relationship between the wage levels and unionization. (ii) Workers in unionized organizations do not earn significantly higher wages than those in non-unionized organizations. (iii) There is no significant relationship between relationship between wages and ability of union leaders to negotiate skillfully. (iii) Unionization has no significant impact on general conditions of service.

Hypothesis 1 There is no significant relationship between the wage levels and unionization Table 1.

Based on the results obtained as presented above, the null hypothesis that there is no significant relationship between the wage levels and unionization was rejected and so it was affirmed that there is significant relationship between general wage levels and unionization. General wage levels tend to be higher where unionization is encouraged. This supports the results of earlier studies by Fajana (1986), and (2001), as well as Ojo (1983) which indicate that trade unions have been able to increase wage levels considerably in Nigeria. The resulting influence of trade unions in an economy could be substantial. Trade unions serve positive outcomes to members, and workers in non-unionized firms seeking comparability often look for the gains of trade unions as a basis for negotiation.

Hypotheses 2 - Workers in unionized organizations do not earn significantly higher wages than those in unionized organizations Table 2.

Based on the results obtained and presented above, we accept the null hypothesis. This implies that workers in unionized organizations do not necessarily earn higher than those in non-unionized organizations. Though workers in non-unionized firms seeking comparability often look for the gains of trade unions as a basis for negotiation, they often times end up receiving wages in the same range or even a little higher than those in unionized organizations. While non-unionized organizations do not encourage unionism, their management approaches often view labour not so much as a cost but as an asset or resource which needs to be developed to its maximum ability, so that emphasis is on individual employee and his/her motivation, training and development. Such approaches are characterized by the development of high mutual commitment associated with internal labour markets which reward commitment and training with promotion and job security and methods of direct communication and involvement. This approach of mutuality or reciprocal dependence is based on accepting the principle that 'only by satisfying the needs of the individual employee will the business obtain the commitment to organization objective that is needed for organization success and only by contributing to organization success will individuals be able to satisfy their personal employment needs'. Compensation here is in relation to organization performance or individual acquisition of skills and competencies. The central objective is to secure the commitment of employees to innovations and continual improvement of product quality.

Hypothesis 3 - There is no significant relationship between ability to negotiate skillfully and wage determination Table 3.

The $X^2$ calculated value of 1.61 is less than the table value of 9.49 at 0.05 level of significance and 4 degree of freedom therefore we did not reject the null hypothesis. This means that the ability of labour leaders to negotiate skillfully affects wage determination. Union leadership in the country has mostly been characterized by low performance, low level of education; lack of required experience, commitment and dedication; poor level of representation all of which reduce the quality of service to members. Labour unions can only influence wages to the extent of their abilities to skillfully bargain. Long (1984) points out that bargaining power is dependent on the economic and union political situation, the negotiation skills of the parties, the quality of preparation employed, the personality and the societal culture of the negotiators.
Table 3. Relationship between wages and ability of union leaders to negotiate skillfully

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<td>Non-Unionized</td>
<td>7</td>
<td>7</td>
<td>6</td>
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<td>10.99</td>
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<tr>
<td>Total</td>
<td>18</td>
<td>17</td>
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<td>47</td>
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Table 4. Impact of unionization on general conditions of service

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and the ideology and culture of the organization. The level of education of workers is of paramount importance in bargaining. Omole (2001) indicates that collective bargaining has not become the cornerstone of labour relations in Nigeria because bargaining situations are few and far between. Omole adds that really it is almost nonexistent in the public and private sectors. In addition, the International Labour Organization (ILO, 1988) identified a list of prerequisites for effective bargaining among which is the ability to negotiate skillfully on either side. Effective and active participation in negotiation is dependent on the competence of participants. Further, the International Labour Organization (ILO, 1988) identified a list of prerequisites for effective bargaining among which is the ability to negotiate skillfully on either side. Effective and active participation in negotiation is dependent on the competence of participants. Participative ability is limited with illiterate leaders or those with low levels of education and intelligence so there is need for more union and labour education for union leaders in the country.

Hypothesis 4 - Unionization has no significant impact on general conditions of service Table 4.

The results in Table 2 indicate a chi-square ($\chi^2$) calculated value of 10.99 which is greater than the table value of 9.49 at 4 degree of freedom and 0.05 level of significance. The null hypothesis is therefore rejected. This implies that unionization impacts on the general conditions of service. Workers tend to feel that they stand to gain more in terms of wages and general conditions of service when they belong to unions.

RECOMMENDATIONS

Reflecting on the findings one recommends that a new balance between unionization and non-unionization must develop. Collective agreements will continue, due to the need for co-ordination of topics such as wage development at national and industrial levels. Again, the need to reduce transaction costs, for economies of scale and for predictability favour collective agreements. However, there must be continuous innovation in the collective agreement towards an instrument for the flexible arrangement of collective issues. Further, within these arrangements there must be increased room for individual specifications, developed in consultation between employees and managers. Oftentimes workers in non-unionized firms are given good compensation packages in order for them not to form unions. The trend is towards dealing with employees individually not collectively. Organizations now exploit the freedom of association and non-unionization options to engage more in decentralized and individualized employment relations. In main areas such as reward systems, decentralization and individualization are taking place. It has also become clear that management as well as workers support this and that a new form of negotiation between them is developing at workplace level. These decentralized and individualized employment relations nevertheless, must however remain linked to the national and collective levels of bargaining. A new balance between collectivism and individualism is therefore advocated.

CONCLUSION

Management strategies may inhibit or constrain union formation or encourage it. Recent strategies tend to be directed towards individualism and inculcating employee commitment to the organization rather than collectivism. This weakens the employee’s need or desire to seek union protection and representation. This study concludes that trade unions are multi-dimensional institutions in functions and operations, in which the impact on earnings or wage determination is dependent on their objectives. Union leaders are motivated by a complex set of factors; and wage policy is one of the most important variables over which union seek control. Non-unionized firm in many cases have been subjected to management prerogative implying that wage determinant will only be controlled by the employer. The
trend towards non-unionized and individualized employment conditions will continue, to a certain extent as a trade-off against agreements at the central and collective levels. Nevertheless, the strengths and efficiencies of the central agreements will have to be combined with the need for more flexibility and individualization.

REFERENCES


