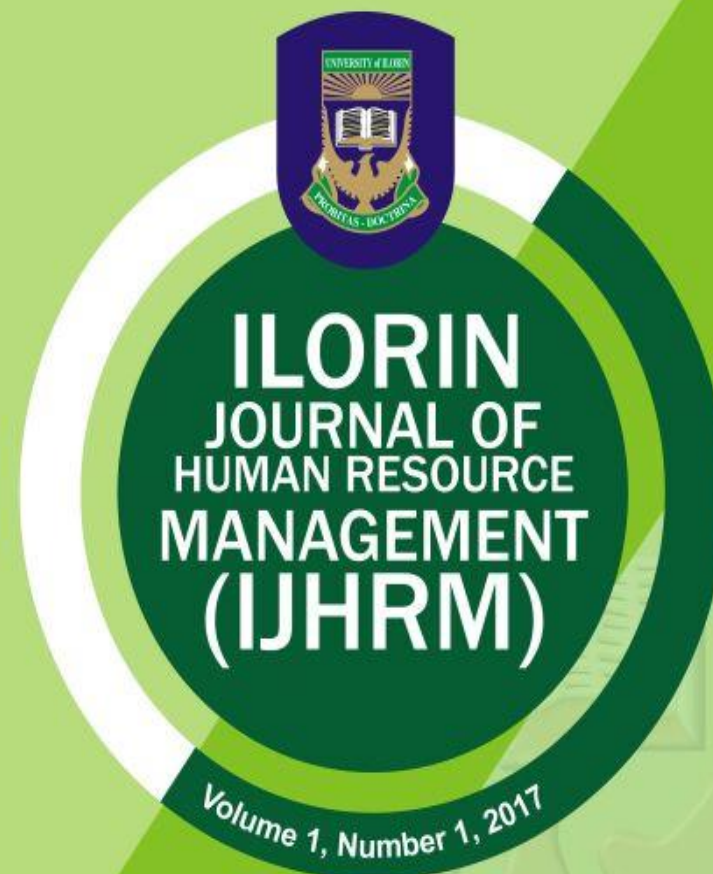




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EFFECT OF MINIMUM WAGE ON EMPLOYEE WELFARE: A CASE STUDY OF LAGOS STATE CIVIL SERVICE

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Abstract

Employee welfare refers to the state of well-being determined by the adequate levels of earnings which enhance the quality of life of workers and their work productivity and minimum wage is a government Act/Law to help protect the most poverty-stricken workers in developed countries, but it is the other way round in the developing nations like Nigeria thus the purpose of the study. The study was a descriptive research survey. The study population was all the staff of ministry of Labour and Women affair in Lagos State. 50 employees of those ministries were the respondents and data was collected using questionnaires. 66% of the respondents were males and 34% female. The formulated hypothesis was tested with t-test statistical tool. Data was analyzed with the help of Statistical Package for Social Sciences (SPSS) software. The findings revealed that there is a significant effect of increase in minimum wage on employee well-being ($t(48) = 2.84, p < .05$). Also the findings shows that employee in senior cadre level significantly high on life satisfaction than employee in junior cadre level ($t(48) = -.654, p < .05$). The study concludes that an increase in minimum wage has an effect on employee well-being and that employee in senior cadre level are more satisfied receiving increase minimum wage than employee in junior cadre level. The study therefore, recommends that in the future adjustment of National Minimum Wage Act for an effective policy formulation, policy maker should put into consideration the prices of basic economic and physiological needs of people before setting the new increase percentage for the minimum wage.

Keywords: Minimum Wage, Well-Being, Welfare, National Minimum Wage Act.

1.0 Introduction

In Nigeria society of today, majority of the citizens are living in the state of destitution while the remaining relatively insignificant minority, are living in affluence. These skewed economic relations do not reflect the geographic spread of resource endowment; rather it is a product of classical greed, injustice and selfness, which is beyond any economic principle. Though it is true that where one comes from can be a strong determinant of one's economic status because of different opportunities and constraints it can offer but what is happening in Nigeria society

differed too much from this. And one of the determinations of government intended to reduce the level of inequalities in the country was the introduction of National Minimum Wage Act. The National Minimum Wage Act (NMW) thus is seen by government as one of the key components in its package of reforms intended to provide “a decent income” and that will improve the standard of living for the working class families. Because the purpose of economic structures that are able to do so are more desirable than those that do not.

So, the motivation behind imposing Minimum Wage ultimately lies in social objectives related to wellbeing and equity; notably the desire that an acceptable “take home pay” is afforded to support low wage workers and their families. International Labour Organization stated that Minimum Wage should be adjusted regularly to maintain the purchasing power of affected workers in the face of price increases and avoid large occasional shocks to the economic. The welfare of poor workers and households critically depends on both their wages and the prices they face. The adjustment of the nominal minimum wage in the context of increasing of increase prices is thus as important as the setting of the initial rate for minimum wage. In the current context of sharply increasing food and oil prices and high inflation forecasts for 2008 and 2009, swift adjustment in minimum wages is all the more important.

In view of this appeal by International Labour Organizations and the trend of introduction of minimum wage Act, in the Nigeria, it seems to be in contrary to ILO appeal. Although minimum wage may be more relevant in the new compared to the old world of work for a number of reasons. The growth of small business and non-standard employment means that minimum wage legislature may be more difficult to monitor given the nature of such jobs which can be assumed as providing employment for the large chunk of working poor after the large the number of unemployed citizens (Baker, Benjamin & Stranger, 1999). This study therefore set to investigate the effect of minimum wage on employee financial wellbeing among civil/public servant using Lagos state civil service as sample area.

Today, Nigerians who are lucky to have jobs are finding it increasingly difficult, if not impossible, to survive on their monthly pay. The major reason for this is that the pay of the Nigerian worker is not only one of the lowest in the world; it has also not improved as it should in the face of changes in market conditions. Workers in the public sector are particularly worse off, because their welfare most especially junior cadre workers and their households critically depend on both their wages and the prices they face every day. Workers can no longer survive on what they earn; the situation is made worse by the fact that those who work also have to support family members who form part of the huge army of the unemployed. This and many more brought the issue of national minimum wage to the forefront in 2001 and it became an Act. Since then, it has been reviewed two or more times. The question now is: what effect does minimum wage have on the wellbeing of employee in Nigeria since making it an Act and does it fulfills the intention as stated by ILO. It is pertinent to say that does increase in minimum wage have any effect on employee's well-being? This study therefore seek to examine the effect of minimum wage on employee well-being

2.0 Literature Review

Concept of Minimum Wage

Earlies in 1967 international labour organization meeting of experts on minimum wage fixing and related problems had explained that the concept of the minimum wage contains three basic ideas: (a) the minimum wage is the wage considered sufficient to satisfy the vital necessities of food, clothing, housing, education and recreation of the worker, taking into account the economic and cultural development of each country. (b) the minimum wage represents the lowest level of remuneration permitted, in law or fact, whatever the method of remuneration of the qualification of the worker; (c) the minimum wage is the which in each country has the force law and which is enforceable under threat of penal or other appropriate sanctions.

Issa (2010) defines minimum wage as the lowest to be paid to an employee in his or her place of work. A minimum wage is normally fixed by a Decree or Act. It is a wage or amount which should provide for subsistence of a worker. (ILO, 1992) The intended objectives of establishing minimum wages are to prevent the exploitation of workers by employers, to promote a fair wage structure, to provide a minimum acceptable standard of living for low-paid workers and, eventually, to alleviate poverty, especially among working families.

Concept of Welfare or Well-being

Webster Dictionary (2007) refers to wellbeing to “the state of being healthy, happy, or prosperous some time called quality of life”. Mia (2011) defines wellbeing as “the state of welfare and employee welfare is thus referred to anything done for the comfort and improvement of employees aside from their wages”. This is because if employees are satisfied, it increases the productivity of the employees and provides growth to the organization. Welfare is what helps in keeping the morale and motivation of the employees high so as to retain the employees for longer duration, be more productive and have a satisfying job. According to Dockery, Ong and Wood (2008) refer to employee welfares to mean that it is those activities of employer which are directed towards providing the employees with certain facilities and services in addition to wages or salaries.

The Trend of Minimum Wage Legislation Act in Nigeria

In the post-independence Nigeria, the federal government in 1973 enacted the wages board and industrial council act which empowered the minister of labour to set up machinery for fixing Minimum Wages and conditions of service in both private and public sectors of the economy. However it was in 1981 that the Minimum Wage in Nigeria was first passed into law, giving birth to the minimum wage act of 1981 (Official Gazette, 1981, A53-57) which prescribed a minimum wage of #125 per month and is the principal act on Minimum Wage in Nigeria till date. It was revised after 10 years in 1990 to #250 per month and revised again in 2000 leading to the amendment of the principal act by the national Minimum Wages (Amendment) act

2000 laws of the federation of Nigeria which prescribed a national minimum wage of # 5,500 per month. The 2000 Minimum Wage Amendment act was further amended in 2010 based on the recommendations of the justice Alfa Belgore led tripartite committee on national minimum wage. According to justice Belgore, the committee met severally and consulted widely.

It further took cognizance of the need to ensure that the outcome of the exercise must be growth-propelled in term of GDP growth rate ... it also considered its capability of promoting rapid socio-economic transformation of the country, which will not lead to inflation spiral... the objective is aimed at alleviating poverty in the country as well as maintaining macro-economic stability,” Consequently and based upon the negotiation of the stakeholders, the justice Alfa Belgore committee proposed the following inter alia, which were forwarded to the secretary of the federation by the chairman of the committee at a widely reported ceremony on the 1st of July 2010.

1. A National Minimum Wage of #18,000 per month for all establishments in the public and private sectors employing 50 workers and above.
2. An upward review of the sanctions that would serve as a deterrent to would-be violators of new national minimum wage. The committee recommended that section 8 of the principal act, which prescribed a fine not exceeding six months or both such fine and imprisonment.” It also recommended the amendment of section 3 of the principal act which prescribed a fine not exceeding #100 and in the case of a continuing offence a fine not exceeding #10 for each day during which the offence continues,” to read instead,” a fine not exceeding #50,000 and in the case of continuing offence to a fine not exceeding #10,000 for each day during which the offence continues.”
3. A more frequent review period, not exceeding five years, to be carried out by a statutory tripartite committee that would be appointed from time to time by the president.
4. That the extant national minimum wage act 1981 and its subsequent amendments of 1990 and 2000 should be repealed, and replaced with a new act to be enacted.

In line with an appeal by ILO, that Minimum Wages should be adjusted regularly to maintain the purchasing power of affected workers in the face of price increase, and to avoid large occasional shocks to the economy. The welfare of poor workers and households critically depends on both their wages and the prices, and high inflation forecasts for 2008 and 2009, swift adjustment in Minimum Wages in the context of increasing prices is thus as important as the setting of the initial rate for a Minimum Wages. It is very important to note that the Justice Alfa Belgore committee report was accompanied by a draft new National Minimum Wage Bill of 2010 to the national assembly which was passed into law in 2011.

Minimum Wage and Poverty

The goal of helping the working poor was also an important motivation behind the most recent legislation to increase the National Minimum Wage from #7,500 to #18,000 per month in 2011, and it remains key rationale for legislative act, the standing

with National Minimum Wage act of 2011, which would increase the National Minimum Wage yet again from #7,500 to #18,000 per month. While reducing poverty among the working poor is a laudable policy goal, the evidence suggests that Minimum Wage increases have thus far provided little more than symbolic support to this population (Card and Krueger, 1995; Leigh, 2007; Sabia 2008). Several explanations have been offered for this finding. Card and Krueger (1995) emphasize that in America, Minimum Wage fail to reduce poverty because many poor Americans do not work. Others have argued that even among the working poor, the relationship between earning a low hourly wage rate and living in poverty is weak and has become weaker over time (Neumark & Wascher, 2008).

While an increase in the Minimum Wage will lift out of poverty the families of some low-skilled workers who remain employed, other low skilled workers will lose their families into poverty (Neumark and Waschcher, 2002; Neumark, Schweitzer, and Wascher 2004, 2005; Sabia 2008). These studies find that some low skilled workers lose their jobs or have their hours substantially reduced as a result of Minimum Wage hikes, causing income losses and increased poverty. On net, Neumark and Wascher (2002) found that the families of low-skilled workers are no better off and may be made worse off by Minimum Wage hikes. Sabia (2008) finds a similar result for less educated single mothers.

Simulations of Who Gains from Minimum Wage Increase

While literatures recorded that adverse labour demand effects may help to explain the ineffectiveness of past Minimum Wage increase in reducing poverty (Neumark and eascher, 2002; Neumark et al; 2004; 2005; Sabia, 2008), another explanation may be poor target efficiency. A series of studies by Burkhauser, Couch, & Glem (1996), Burkhauser & Harrison (1991), and Bukhauser & Sabia (2007) have avoided the controversies surrounding the magnitude of employment and hours worked effects past Minimum Wage increases and have instead focused on the target efficiency of proposed increases. These studies assume no behavioural effects of the Minimum Wage, giving, giving proposed hikes their best chance to benefit affected workers. But even under the optimistic assumption of no employment or hours worked effects, the authors find that few benefits are received by workers in poor households, because most poor workers earn hourly wages higher than proposed state or federal Minimum Wage and most workers who do earn Minimum Wage are second-or third-earners that live in non-poor families.

One important critique of these simulations is that they overstate the benefits of Minimum Wage to poor workers because they ignore employment effects. As the authors note, because they assume zero employment elasticity's their simulations are likely upper-bound estimates of the benefits to workers (Burkhauser & Sabia, 2007) and in fact, a recent case study of New York state (Sabia and Burkhauser, 2008) finds that when they account for the adverse labor demand effects of the Minimum Wage, poor workers receive an even smaller share of shrinking. Somewhat related to the objective of reducing poverty, Minimum Wage are also sometimes regarded as a policy instrument for reducing wage inequality (theory and evidence discussed

subsequently). Such wage inequality has increased in recent years, largely reflecting the impact of technological change that has reduced the employment prospects of the less skilled, while increasing those of the more skilled. Other contributing factors include industrial restructuring from manufacturing to service (both low-end personal services and high-end business and financial service) as well as trade liberalization where import competition has been strongest at the low end of the wage spectrum.

Theoretical Framework

Bargaining Theory

The bargaining theory regarding wages states that the amount of compensation to be paid in an organization depends on the negotiating power or strength of both the management and the union. If during collective bargaining the strength or power of the worker's representatives is strong they may get more pay to the workers but if they do not have strong bargaining power, workers may likely to get fewer wages. We hear this comment every day that in business we do not get what we deserve but we can only get what we bargain for. However, we have to caution that in an organization, workers and management should be partners, their relationship should be interdependence and compromise which is a challenge as well as an opportunity. It is necessary to give worker what they deserve and workers should in turn give the organization what it deserves. There is no doubt that Davidson John's bargaining theory has made a useful understanding on wages payment but bargaining power alone is dangerous as it would become the survival of the fittest which could be understandable in a business relationship but not in an organizational relation such as workers and management.

The Wages Fund Theory

The wages funds theory states that organizations set aside funds from where workers' wages are taken from and paid to them. If this trust fund is rich, workers would be pay more but if the fund set aside for workers is not buoyant enough wages given to workers would likely be less. Adams Smith was interested in seeing organizations set aside funds for its workers. However, we live in a dynamic world and situations change. Such funds set aside may not be enough which could lead to underpayment of labour.

Subsistence Theory of Wages

David Ricardo wrote in his theory of rent that price of corn (maize) is high not because rent is paid but is paid because the price of corn is high. However, in his theory of wages Ricardo maintained that the labourers are paid to enable them subsist and perpetuate the race without increase or diminution. In other words subsistence wage is that wage or remuneration which provides for mere subsistence wage is that wage of support or livelihood. It is for the barest minimum, in terms of clothing, food and shelter. According to David Ricardo, if wages are above subsistence, more would come for employment which would ultimately reduce the amount of compensation. But if wages are below subsistence, it would bring misery to workers.

Empirical Framework

Jonathan and Jeremy (2015) conducted research on Effects of Minimum Wage on Employment Dynamics. They show that commonly-used specifications in this literature, especially those that include state-specific time trends, will not accurately capture these effects. Using three separate state panels of administrative employment data. They find that the minimum wage reduces job growth over a period of several years. This finding is supported using several empirical specifications. They argued further that the minimum wage will impact employment over time, through changes in growth rather than an immediate drop in relative employment levels.

David, Mark and Williams (2000) carried out a study on The Effects of Minimum Wages throughout the Wage Distribution. The study provides evidence on a wide set of margins along which labor markets can adjust in response to increases in the minimum wage, including wages, hours, employment, and ultimately labour income, representing the central margins of adjustment that impact the economic well-being of workers potentially affected by minimum wage increases. The evidence indicates that workers initially earning near the minimum wage are adversely affected by minimum wage increases, while, not surprisingly, higher-wage workers are little affected. Although wages of low-wage workers increase, their hours and employment decline, and the combined effect of these changes are a decline in earned income. They also delve into the political economy of minimum wages, attempting to understand the vigorous support of labour unions for minimum wage increases. Using the same empirical framework, they find that relatively low-wage union members gain at the expense of the lowest-wage non-union workers when minimum wages increase.

Christopher, Rowena and Eugenio (2015) evaluate Impact of a Wage Increase on Mental Health: Evidence from the UK Minimum Wage. They focus on low wage earners who have a higher propensity of experiencing mental health problems, and exploit the policy experiment provided by the introduction of the 1999 UK minimum wage to identify the impact of a wage increase on mental health. Combining matching techniques with a series of difference in different models, we find that the minimum wage had only limited short run effects on the mental health of those affected by the minimum wage. Their estimates do not appear to support earlier findings that indicate that monetary shocks improve an individual's mental health. Several robustness checks controlling for measurement error and treatment and control group composition appear to confirm our main results. Therefore, their findings suggest that policies aimed at improving the mental health of low wage earners should consider either the non-wage characteristics of employment or larger wage increases.

Card and Krueger (1994) conducted research on Effect of New Jersey's Minimum Wage Increase on Fast-Food Employment: A Re-Evaluation Using Payroll Records. New Jersey-Pennsylvania minimum wage experiment, using new data based on actual payroll records from 230 Burger King, KFC, Wendy's, and Roy Rogers restaurants in New Jersey and Pennsylvania. They compare the results using these payroll data to those using CK's data, which were collected by telephone surveys. They have two findings to report. First, the data collected by CK appear to indicate greater

employment variation over the eight-month period between their surveys than do the payroll data. For comparable sets of restaurants, differences-in-differences estimates using CK's data imply that the New Jersey minimum wage increase (of 18.8 percent) resulted in an employment increase of 17.6 percent relative to the Pennsylvania control group, an elasticity of 0.93. In contrast, estimates based on the payroll data suggest that the New Jersey minimum wage increase led to a 4.6 percent decrease in employment in New Jersey relative to the Pennsylvania control group. This decrease is statistically significant at the five-percent level and implies an elasticity of employment with respect to the minimum wage of -0.24.

3.0 Methodology

The research design adopted for the study was descriptive research design according to Hassan (1995), the design attempts to provide an accurate description or a picture of a particular situation or a phenomenon at one point in time. The target population for the study consisted of workers under government employment whose salaries/wages is paid according to National Minimum Wage Act of the Federal Republic of Nigeria reviewed in 2011. The study used Lagos State Civil Service for convenience purposes because they received their salary/wage according to the National Minimum Wage Act.

Sampling Technique and Sample Size

The study used both stratified and simple random sampling technique. The random sampling was used to ensure that all staff in the ministry of labour and women affair/social development has an equal chance of being chosen and the convenience sampling was adopted so employees who were available in the office and consented to partake in the study were given the questionnaire. Fifty (50) employees were sampled from the population of employees in the two ministries in Lagos State Civil Service. Questionnaire was used to gather data from the respondents. The study adopted two way response structures which is otherwise known as Yes or No questions. The data collected from the respondent were subjected to statistical analyses using the Statistical Package for Social Science (SPSS) software. The analysis was in two phases. The socio-demographic variables were analyzed using descriptive statistics while the second phase involved the testing of generated hypothesis. The hypothesis was tested using t-test statistical tool.

4.0 Data Presentation and Analysis

Showing frequency distribution table of respondent whether they have been receiving the minimum wage and their comparison between the new rate and old rate.

Have you been receiving the minimum wage?	Frequency	Yes 44	No 6
	Percentage	88.0	12.0
Are you financially better receiving new minimum wage rate than old rate	Frequency	32	18
	Percentage	64.0	36.0

Source: field work 2016

The table 4.1 above shows that 88.0% of the respondents responded to have been receiving the new minimum wage rate while 6.0% responded yet to receive the new minimum wage. While 64.0% reported that they are financial better receiving new minimum wage rate, 36.0% responded No, that is, they are not better receiving new minimum as the old rate.

Showing distribution table of cadre of placement in work place

Employee	Frequency	Percentage
Junior	44	88.0
Senior	6	12.0
Total	50	100.0

Source: Field work 2016.

Table above shows the distribution of respondents according to the cadre level of category in civil service employment by cadre level category. Junior level cadre employee between level one and level nine and senior category were employee in level 10 and above. The result shows that 88.0% of the respondents were in junior level category and 12.0% were in senior category level.

Hypotheses Testing

Ho there is no significant effect of increase in minimum wage on employees welfare

This hypothesis was analyzed using the t-test for independence and the result presented in the Table below:

t-test summary table showing the effect of National Minimum Wage implementation on workers financial well-being

Employee Well Being	Minimum Wage Implementation	N	Mean	Std	Df	T	P
	New minimum Wage	32	14.71	2.54	84	2.84	<0.05
	Old minimum Wage	18	12.63	2.54			

Source: Field work 2016

The result from table shows that employees who believe that new minimum wage implementation is better than the old minimum wage rate (M=14.71, SD=2.49) significantly reported higher scores on well-being than employees who believe that the implementation of new minimum wage rate is not better than the old rate (M=12.63, SD=2.54) on their well-being. The mean difference was found to be statistically significant (t (48) =2.84, p<0.05). This implies that increases in minimum wage implementation have significant effect on employee's welfare among the employees sampled. Thus, the null hypothesis is therefore rejected and the alternative accepted. That is, there is significant effect of increase minimum wage on workers welfare.

Discussion of Findings

The first hypothesis shows that the new minimum wage rate is better than the old minimum wage rate received. This finding is consistent with Aydin and Ozer (2005) who find in their perceived service quality was positively and significantly related to customer loyalty. It is not surprising to see companies that perceive better quality and value of their products or services charge price premium. More often than not, customers will be satisfied when their expectations that offers services and/or products to them, (Zeithaml, 1988).

The second hypothesis findings show that senior cadre level workers are more satisfied receiving minimum wage than their junior cadre level counterpart. The difference in life satisfaction of junior and senior cadre workers receiving minimum wage may be a function of other variables that the scope of this study is not cover. The finding is consistent with Neumark and Wascher (2002) who found that the families of low-skilled workers are no better off and may be made worse off by minimum wage hikes. According to Aaronson (2009) minimum wage increase are associated with increases in consumer spending, particularly on durable such as vehicles, but that spending increases more than income, leading to greater household debt. This confirm this finding in that those in senior cadre by the reason of earning more, were able to engaged in spending that will give them more life satisfaction than in junior cadre.

5.0 Conclusion and Recommendations

The study has investigated the effect of minimum wage on employee's welfare. The study found an increase in minimum wage has an effect on employee wellbeing. Also, the finding shows that employees in senior cadre level are more satisfied receiving increase minimum wage than employee in junior cadre level. Hence, the government parasternal under which the management of wages and salaries structure is in care should be prompt and diligent in reviewing the minimum wage issue every ten years according to the regulation of ILO so as to motivate and encourage high productivity among government employee's. the study therefore recommended that:

- i. In the future adjustment of national minimum wage act for an effective policy formulation, policy maker should put into consideration the new increase percentage for the minimum wage.
- ii. To reduce poverty and curtail the large difference the workers in senior grade level and workers in junior grade level benefits of increase in minimum wage, the percentage of increase should not be the same. The worker's in junior category should receive more than the workers in senior category.

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