Emerging Trends in Remuneration Practices in Nigeria

November 2016

Developing a better understanding of cost optimization, while repositioning for future opportunities, has become a strategic imperative for HR/Reward practitioners. Remuneration is one of the areas businesses are exploring to reduce cost. There is therefore a renewed trend towards making revisions to certain HR/Reward policies and practices that unduly expose companies to escalating costs, in a bid to ensure sustainability. Overall, companies are taking a critical look at their employee benefits structure to identify areas to cut any perceived 'good-to-haves' and retain on only critical, compelling items that have real impact on employees' welfare.

KPMG, through its various thought leadership initiatives and extensive experience partnering with clients across various sectors, has collated insights and trends in the changing rewards landscape. This is in line with our purpose of inspiring confidence and empowering change.

A key area the economic recession is chipping at the traditional benefits culture is the provision of status cars. Nigeria has a culture that is heavy on benefits and status due to inadequate infrastructure. It is, therefore, typical for Manager level roles and above to receive status cars, with related perks such as comprehensive insurance, fueling, maintenance, driver, etc. In fact, some new hires will not accept offers that exclude the provision of status cars. Interestingly, the recession is forcing changes to customary status car practices. With the government's adoption of the automotive policy in 2014 and significant depreciation of the Naira, the cost of providing status cars has nearly doubled and companies are not willing or able to afford them any longer. To limit their exposure, companies are now monetizing the cars by providing cash limits. Monetizing cars not only limits the company's cost of acquisition but also eliminates the associated administrative burden/cost of managing them. Other cost-saving measures observed include provision of perceived lower brands and extension of the replacement period. However, for executives, most companies still continue to provide status cars. A key question is whether companies will revert to the old policy, when the economy bounces back. Or could this be a permanent change in the status car culture and practice?

We have also witnessed a similar trend in monetizing power generating sets, with lower cash amounts than the actual cost of the generator. These assets are also exposed to imported inflation, caused by the depressed Naira. Instead of bearing the cost that has gone up by at least 50%, companies are seeking alternatives such as elongating the replacement period, monetisation with cash limits, or providing cheaper generating set options.

Companies are also seeking to reduce the cost of providing overseas air ticket and per diem for holiday travel/rest and recuperation, typically provided to senior and executive management staff. With the escalating cost of air tickets, companies are moving away from providing the actual tickets to limiting their exposure to the current highly unfavourable exchange rate regime. Companies are monetizing and providing Naira cash limits for the tickets, reducing the class of ticket provided, reducing the number of tickets or the frequency of such holiday trips. In the same vein, companies are providing cash limits in Naira, instead of dollar-based per diem or reducing the per diem amount altogether.

> **In a bid to ensure sustainability, companies are taking a critical look at their employee benefits structure to identify areas that unduly expose them to escalating costs**

Another key development is reduction in expatriate wage bill by localizing hitherto expatriate roles. Paying for the same roles in Naira helps eliminate exposure to the high exchange rate and challenges in sourcing scarce dollars. However, companies that earn revenue in foreign currency appear better off in terms of affordability and sustainability. We are aware that some of these companies are now paying a portion of their employees' salaries in US dollar. The portion that is payable in dollar is converted at the prevailing interbank rate on the day of payment. The underlying driver of this initiative is to provide some form of palliative for the employees that have some financial obligations in foreign currency.

Other areas that companies are exploring to manage cost include: recruitment freeze, cut-down in travel-related expenses, zero budgeting, down/rightsizing, conversion of defined benefits schemes to defined contribution schemes, etc. However, as a trade-off for the various cuts being carried out, some companies are using part of the savings generated to provide palliatives such as educational assistance and enhanced medical cover, that more directly impact employees and their families.

Similarly, companies are reviewing their employee incentive schemes to ensure alignment with new strategic imperatives. Performance measures / key performance indicators are being revised and new thresholds set, to reflect today's realities. Governance structure is being strengthened, with the Boards and/ or Board Committees now becoming actively engaged in target setting and remuneration matters. Incentive payouts to executives are now subject to claw back provision in some companies. Efforts are also made to link the interest of executives to those of shareholders by subjecting the payout to achievement of pre-agreed total shareholder returns. Overall, companies are concerned about how to better leverage their incentive schemes to drive corporate objectives.

HR/Reward practitioners, therefore, need to closely monitor the rewards landscape, given the increasing pace of developments as companies relentlessly pursue changes aimed at reining in cost and keeping operations as nimble as possible. We are available to provide strategic support at these critical and challenging times to enable you attract, motivate and retain the talents required to reposition your business in the most cost efficient and strategic manner.

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We, therefore, help to define the appropriate overall framework and philosophy for managing your people.

We have the capabilities and experience to assist you in the following areas:

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