Remuneration Levels and Practices in the Independent Oil and Gas (Upstream) Sector

Introduction

Remuneration remains a key lever as organisations strive to attract, motivate and retain the talent, critical to achievement of business objectives. To keep remuneration at competitive levels, companies require access to robust, accurate and timely data to enable them track pay market developments and movements. KPMG supports companies in obtaining this data, independently and without comprising confidentiality, through its several remuneration survey initiatives across key industries in Nigeria: the Consumer Markets, Banking, Insurance, Legal Services, Oil and Gas, Pension and Hospitality & Tourism. The information provided in our remuneration surveys assists companies to take informed decisions on leveraging an effective and aligned rewards strategy.

This publication provides key highlights from the KPMG 2018 Remuneration Survey amongst key players in the Independent Oil and Gas upstream sector.

The objectives of the survey are to:

- Assist companies to determine market competitiveness of their pay
- Provide robust information on key HR / Rewards policies and practices
- Create a platform for participants to collaborate, on a regular basis, to share information, while maintaining professionalism and confidentiality
- Contribute to the development of sound rewards practices.

Profile/Demographics of Survey Participants

- Fifteen (15) companies, comprising operators and non-operators
- Production size of 2,000 – 25,000 barrels per day
- Covers all staff levels, Graduate Entry to Managing Director
- Staff Strength of 20 to 380 employees.

Survey Methodology

Job Matching

We adopted the Whole Job Classification Methodology in determining equivalent jobs/grades across the companies. The methodology is non-quantitative and matches jobs/grades based on job content and factors such as: Responsibility/ Accountability; Company Structure & Size; Level of Authority / Reporting Relationships; Position/Role Complexity; Educational Qualification and Experience. The job matching results formed the basis of benchmarking compensation across staff levels.

Pay Elements Covered

We adopted a Total Remuneration approach as follows:

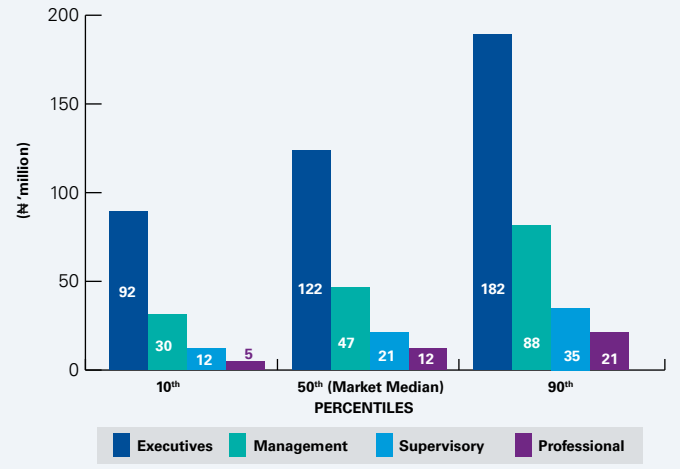
Pay Component Basis	Total Pay Basis
Fixed Pay (Basic Salary & Cash Allowances, including Monetised Benefits)	**Total Cash Compensation** (TCC = Fixed Pay + STI)
Short Term Incentives (STI: Pay-at-risk which changes directly with the level of performance or results achieved e.g. Profit Sharing, Bonuses & Equity-Based Schemes)	**Total Cost of Employment** (TCE = TCC + BIK + RB)
Benefits-In-Kind (BIK: Non-monetary programs used to supplement cash compensation e.g. Status Car, Medical, Mortgage Subsidy, Lunch, etc)	**Guaranteed Total Cost of Employment** (Fixed Pay + BIK + RB)
Retirement Benefits (RB - Income protection programs to provide post-employment benefits e.g. Pension and Gratuity Benefits)	

Each pay element was analysed using the annual payroll of incumbents. Also, in line with global standards, the age of the data was at least three (3) months old and only remuneration elements with at least five (5) unique data points were analysed.

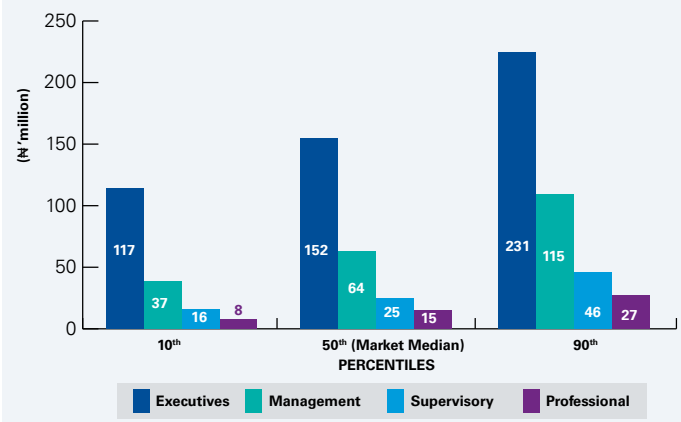
Summary of Survey Findings

The pay ranges observed for Fixed Pay and TCE are presented in the charts below:

FIXED PAY RANGES (N 'million)

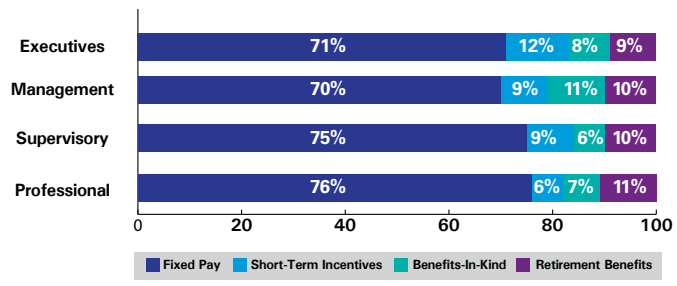


TOTAL COST OF EMPLOYMENT RANGES (N 'million)



Remuneration Mix: The composition of remuneration is largely similar across employee categories, with Fixed Pay comprising the largest portion of pay. However, the proportion of Variable Pay to Total Remuneration is low, when compared to leading edge practices that require Variable Pay of about 100% of Fixed Pay at Executive levels. The Remuneration Mix observed across employee categories is presented below:

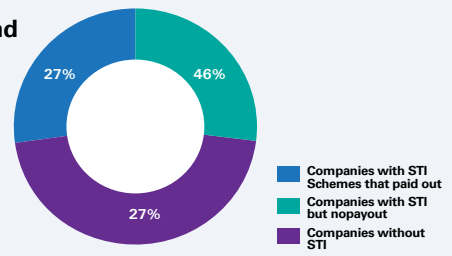
Remuneration Mix Across All Staff Categories



Fixed Pay: Most of the companies strive to deliver competitive Fixed Pay, as this determines employee's monthly take-home. The prevalent Fixed Pay components are Basic Salary, 13th Month, and other Cash Allowances, including Leave, Housing, Transport and Entertainment.

Short Term Incentives (STI): STI Plans are designed to drive a high performance culture, align interests of employees and shareholders and support sustainable growth. All the companies with STI schemes tie payout to company and (or) individual employee performance. Although majority of the companies (73%) operate STI Schemes, only 47% made payout in respect of 2017 financial year. The amount ranged from 1% to 39% of Fixed Pay:

STI Schemes and Payout in 2018



Benefits-in-Kind (BIK): These are pay programmes provided to supplement employees' cash pay. The prevalent BIK items per employee category are shown below:

	Staff Categories			
Prevalent BIK in the industry	**Executives**	**Management**	**Supervisory**	**Professional**
Medical	✔	✔	✔	✔
Professional Membership	✔	✔	✔	✔
Lunch	✔	✔	✔	
Club Membership	✔	✔		
Status Cars	✔	✔		
Vehicle Insurance	✔			
Mobile Phones	✔			
Drivers	✔			
Vehice Fueling	✔			
Vehicle Maintenance	✔			

Retirement Benefits: These are income protection programs to provide post-employment benefits such as Pension and Gratuity. All the companies operate pension schemes, in line with the requirements of the Pension Reform Act, 2014. In addition to pension, 40% of the companies operate funded gratuity schemes where benefits payment is based on terminal salary.

Pay Trends:

Achieving the right remuneration mix for different employee categories is critical in enhancing Employee Value Proposition. The survey findings show the following trends in pay practices:

- *Increased Focus on Incentives:* STI schemes are growing in importance in the Industry, as companies seek to link pay to performance. However, at current levels, the payouts observed are materially lower than leading practices.
- *Monetisation of Benefits:* As part of measures to manage exposure to escalating cost of benefits as well as the associated administrative burden, a number of companies have monetised their benefits, either by defining a spending limit or extending the replacement period for BIK items such as status cars and generating sets.
- *Downward Trend in Gratuity:* Due to funding and cost escalation issues, more companies are restructuring or terminating their gratuity schemes, most of which are defined benefits in nature (i.e. benefits are based on terminal salary). Some of the adjustments implemented include eligibility restriction and capping of years of service qualifying for benefits.

Conclusion

A company's ability to execute business strategy is directly related to its ability to attract, retain, motivate and develop talent. A key tool that an organization can use to differentiate itself as an employer of choice is an effective Rewards Strategy. Through our Industry Remuneration Surveys, KPMG supports companies in articulating a winning Rewards Strategy.

We also provide the following services:

1. Board Remuneration Committee Support
2. Change Management
3. Contract Personnel Recruitment and Administration
4. Country Briefing
5. Executive Resourcing and Workforce Assessment
6. HR Function Optimization / HR Transformation
7. Immigration Support Services
8. Incentive Schemes Design
9. Organisation Design for Performance
10. Remuneration Strategy, Compensation Benchmarking and Design
11. Payroll Outsourcing
12. Talent Management
13. Training Programmes
14. Workforce Optimization / Workforce Cost Enhancements

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