



2015/2016 HR / Reward Practices Survey

Tax, Regulatory & People Services
KPMG in Nigeria

September 2016

kpmg.com/ng



Executive Overview

The prevailing economic headwinds present Human Resources (HR) professionals with an enormous challenge of helping businesses survive the downturn, while also repositioning to optimise future opportunities. HR realises that a strategic approach, beyond cutting costs and heads, is required to ensure sustainability. To discharge this strategic role, HR requires the right and complete information to demonstrate that proposed reforms are appropriate for steering the business in a positive direction. Internal and external data are required to form a holistic view of issues and determine how best to respond. In line with KPMG's objective of inspiring confidence and empowering change for companies, we have designed the 2016 edition of the HR/Reward Practices Survey to focus on how companies are dealing with the prevailing economic slowdown. Armed with the right information, an organisation can better review existing programmes, policies and practices, with a view to cutting needless cost, while enhancing efficiency, effectiveness and better alignment with strategic objectives.

We are, therefore, pleased to present the findings from the 4th Edition of the KPMG Annual HR/Reward Practices Survey ("the Survey"). We have expanded the Survey to enhance its robustness and relevance to participants. Majority of companies have either Down/Right-Sized and / or placed a Freeze on Recruitment.

Salary Cuts, on the other hand, are not common. We also noted other measures such as Zero-Based Budgeting, Optimising Cost via Infrastructure Transformation and Reduction in Travel Cost as strategies for surviving the tough times.

Based on the survey results, 76% of the participants implemented salary increases of up to 10% in 2015. Based on our experience of the market, the two major drivers of the increase are inflation and collective bargaining agreements with employee unions. 33% of the respondents review their pay structure every year. It is however left to be seen what the actual pay movements for 2016 will be, in light of the economic uncertainties and widespread focus on cost containment.

In 2017, we expect to see strident agitation by unions for some palliative measures to cushion the effect of the recession on employees. This may, therefore, threaten the relatively-peaceful relationship between unions and management.

The survey showed that the culture of Workcation¹ and Sale of Vacation, which are common in the global market, is still alien to the Nigerian market, as 82% and 100% of the respondents, respectively, do not currently adopt these practices.

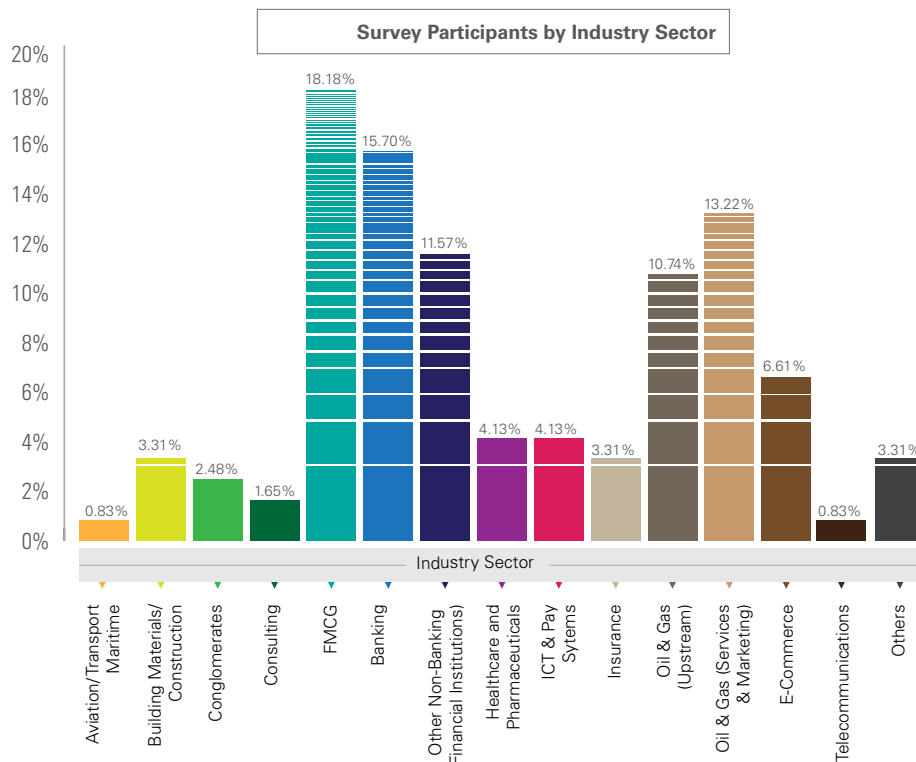
The survey covers the following key areas:



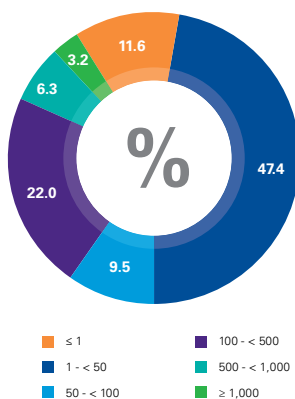
¹ The WorldatWork Society for Human Resources Professionals defines Workcation as "...a situation where employees are provided perks by allowing them log in remotely from vacation destination, but not have those days counted against their leave days".

Respondents Demography

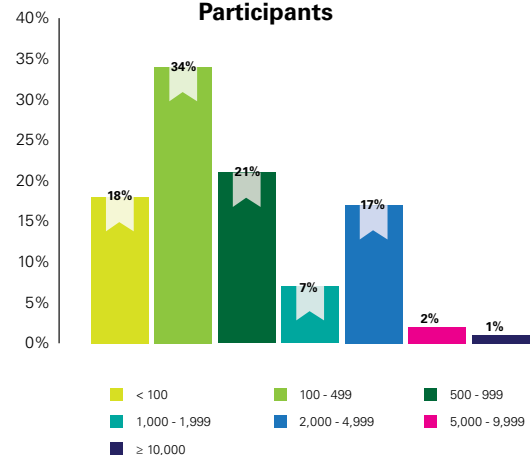
One hundred and twenty-one (121) organizations spanning various sectors of the economy participated in the survey exercise. The sectors covered include Financial Services, Consumer Market, Oil & Gas (Upstream, Mid-Stream and Downstream), Healthcare, Aviation, and Telecommunications. The scope of the survey covers companies with turnover of up to N1 trillion and staff strength ranging from 100 to over 10,000 employees.



Financial Turnover of Survey Participants (N'Billion)



Staff Strength of Survey Participants



Key Findings

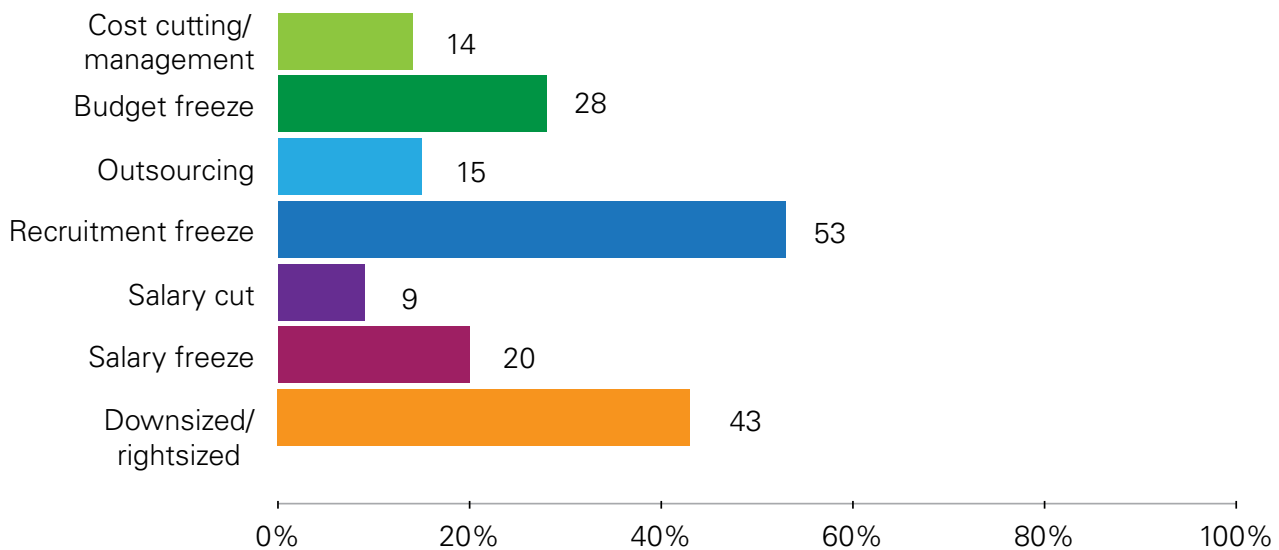


Cost containment measures dominate companies' response to economy downturn

Given the pressure on income, majority of the survey respondents have cut heads or placed embargo on recruitment to keep the business running on lean resources as much as possible. Other measures adopted include budget freeze, salary freeze, outsourcing and zero-based budget. Salary cuts are, however,

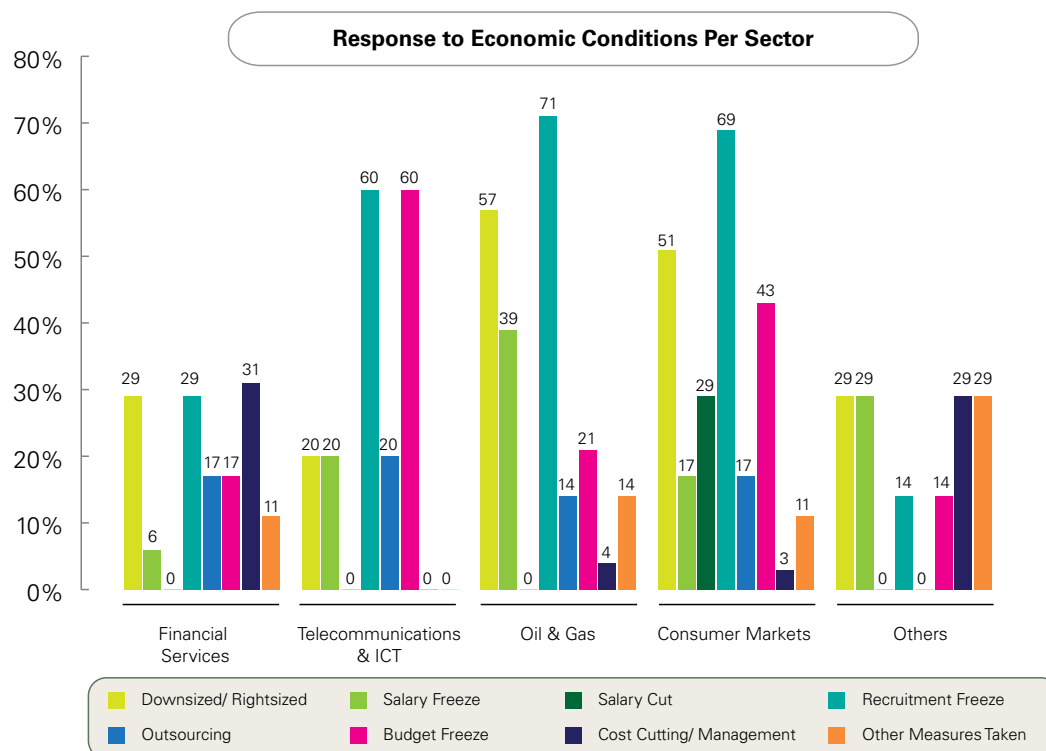
unpopular, possibly due to the demotivational effect on employees. Some companies have adopted a more strategic approach such as challenging junior staff to do the work of more senior staff, albeit with some supervision provided.

How Organisations Have Responded to the Economic Recession



Note: Multiple responses are possible for this survey item, hence, the total percentage is more than 100%.

Expectedly, the Oil & Gas Sector had the highest prevalence of Recruitment Freeze and Downsizing at 71% and 57%, respectively, followed by the Consumer Market.



| Sector | Composition |
|--------------------------|---|
| Financial Services | Banking, Non-Banking Institutions & Insurance |
| Telecommunications & ICT | E-Commerce, ICT & Pay Systems, Telecommunications |
| Oil & Gas | Exploration & Production (E&P), Oil Services & Marketing |
| Consumer Markets | Building Materials/ Construction, Conglomerates, FMCG, Healthcare & Pharmaceuticals |
| Others | Aviation, Transport, Maritime, Consulting, Not-for-Profit Organisations |

Note: Multiple responses are possible for this survey item, hence, the total percentage is more than 100%.

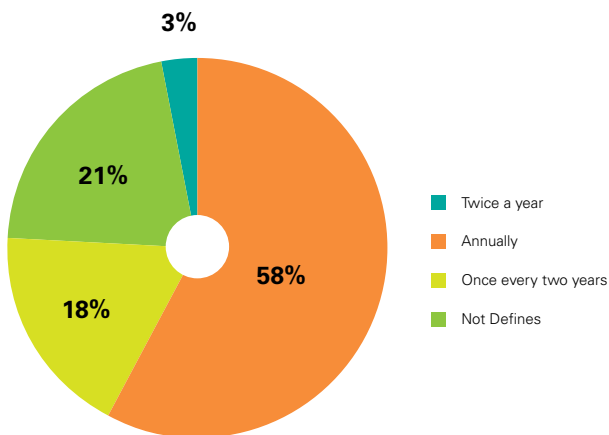


Expected contraction in pay reviews

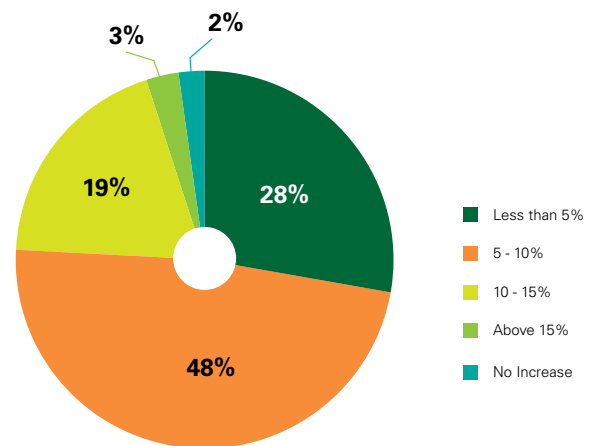
58% of the respondents review their salaries annually, while 33% review their pay structure every year. Based on the survey results, 76% of the participants carried out salary increases of up to 10% in 2015. Based on our experience of the market, two major drivers of the 2015 increases are inflation and collective bargaining agreements with unions, as most companies

struggled with business results. It is, however, left to be seen what the actual pay movements for 2016 will be, given the lingering economic uncertainties and focus on cost containment. Contrary to the responses reported above, we are of the opinion that actual pay increases in 2016 will contract.

Frequency of Salary Reviews



Actual Salary Increase in 2015

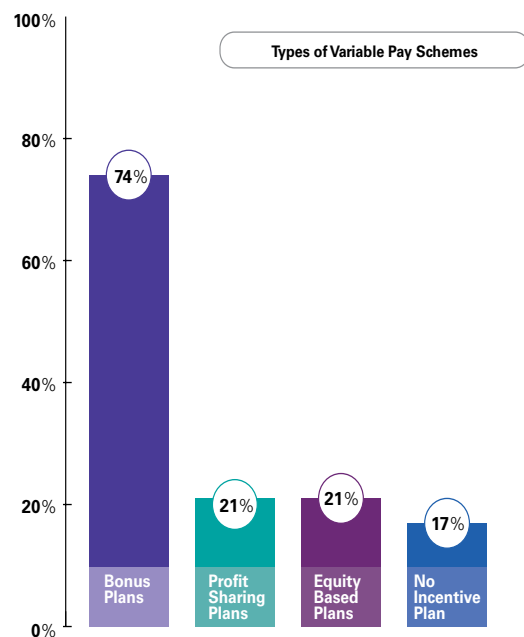
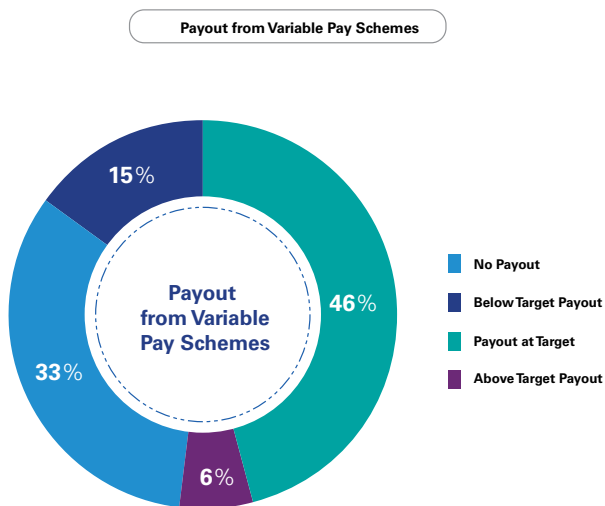


Driving & Rewarding Performance - incentive payout shrinks with economic recession

Performance is key to an organisation achieving its strategic objectives. A critical success factor of variable pay schemes is the positive correlation with employees' efforts and results achieved. Most respondents (74%) leverage bonus schemes to provide this positive consequence. However, in respect of 2015 payouts, about 50% of the companies either reported no payout or paid out at levels below

the target payout. This is indicative of the tough business terrain that most companies faced in 2014/15.

We noted a slight drop in the proportion of companies offering Equity-Based Plans from 27% in 2014 to 21% in 2015. The average prevalence over 2013 to 2015 is 20%.



Note: Multiple responses are possible for this survey item, hence, the total percentage is more than 100%.

Documenting pay strategy enhances alignment with business objectives

Companies must ensure alignment between Business, HR and Reward Strategies in order to achieve their objectives. The process of ensuring alignment often entails defining and documenting the approach and belief as to how employees will be remunerated in order to attract, retain and motivate top talents in the

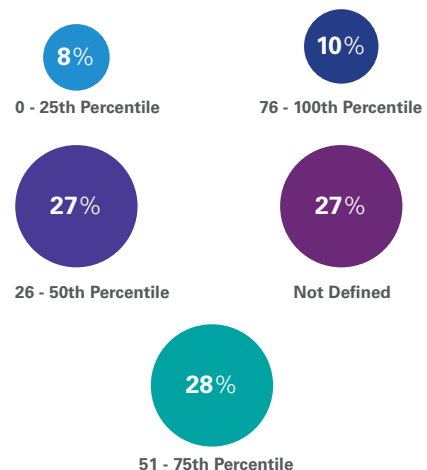
business. 72% of respondents adopt written pay strategies, compared to 70% in 2014. This improvement in proportion of companies documenting their pay strategy may be an indication of increased awareness on best practices.

Pay Philosophy

There is a drop in the proportion of companies aiming to anchor pay at above the market median, while there is an increase in the percentage of companies anchoring pay below the median

A pay philosophy is broadly an organisation's belief as to how its employees should be paid. It defines a peer group for benchmarking purposes as well as a market-anchor point for pay. 38% (48% in 2014) of respondents aim to anchor pay above the median of their respective markets, while 35% (27% in 2014) aim to anchor at / below the median. 27% of the respondents, however, do not have defined philosophies. We noted that about 37% of the companies without a defined philosophy also do not have a defined or documented reward strategy.

Distribution of Organizations by Pay Philosophy



Communicating pay

Most respondents prefer emails and individual letters

Communication is key to preserving the message embedded in reward programmes as well as enhancing employee buy-in. For optimal results, a communication strategy should adopt a combination of different channels for getting the message across to employees. Most of the participants tend to prefer Emails and Individual Letters in communicating reward programmes to their people. The least explored communication channel is Meetings with Employee Groups. Although Line Managers could be a powerful means of communication, only 50% of participants leverage them for “selling” their reward programmes.

Strategies Adopted by Companies for Communicating HR/ Reward Programmes



50%

Through line Managers



46%

Meeting with Employee Groups



66%

Emails



67%

Individual Letters

4%

Do not Communicate

Note: Multiple responses are possible for this survey item, hence, the total percentage is more than 100%.



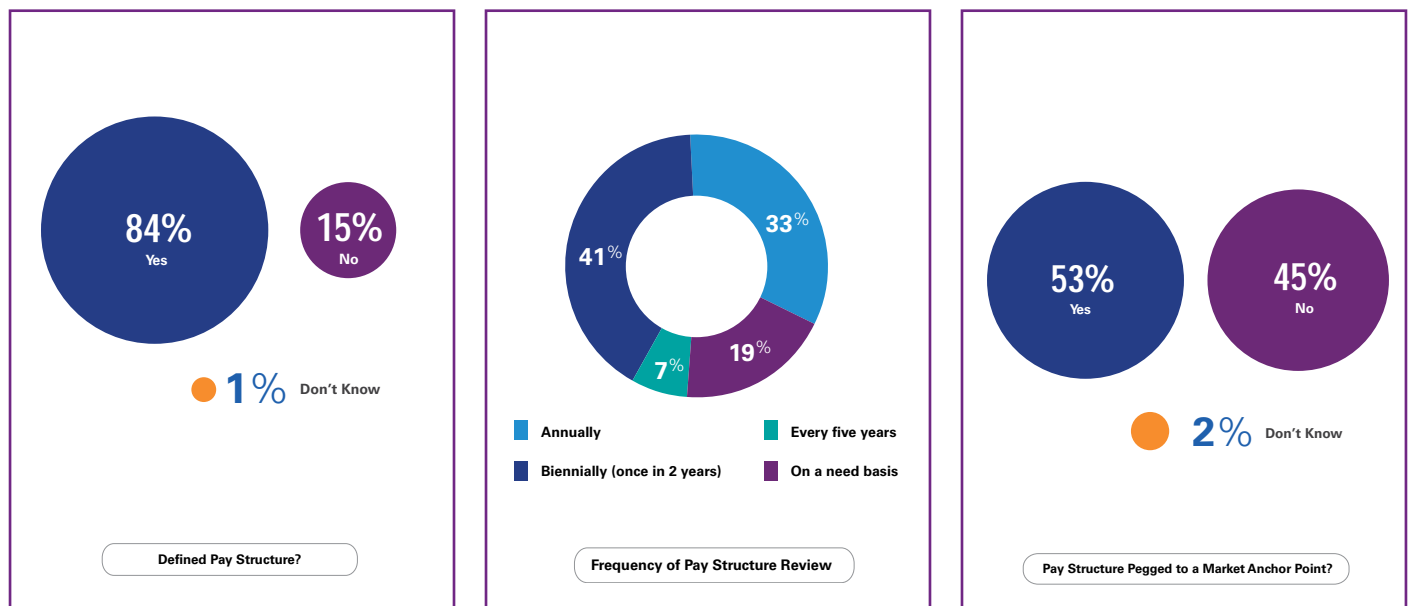
Majority of respondents adopt a defined Pay Structure/ Band in managing employees' pay

A base pay structure is a tool for managing employees' pay as well as administering a pay philosophy. A well designed structure fosters achievement of corporate objectives, by creating alignment between work and compensation as well as ensuring efficient allocation of resources such that employees are adequately rewarded for their talents, skills and results achieved.

Majority of the survey respondents (84%) adopt a defined pay structure for managing

their employees' pay, while only 53% actually peg their structure to a market anchor point.

Pay structures / bands are typically reviewed periodically to make adjustments for internal (promotions, merit reviews, intakes and exits, etc.) and external changes (such as market movement). 19% of the respondents do not have a fixed cycle for reviewing their pay structure.



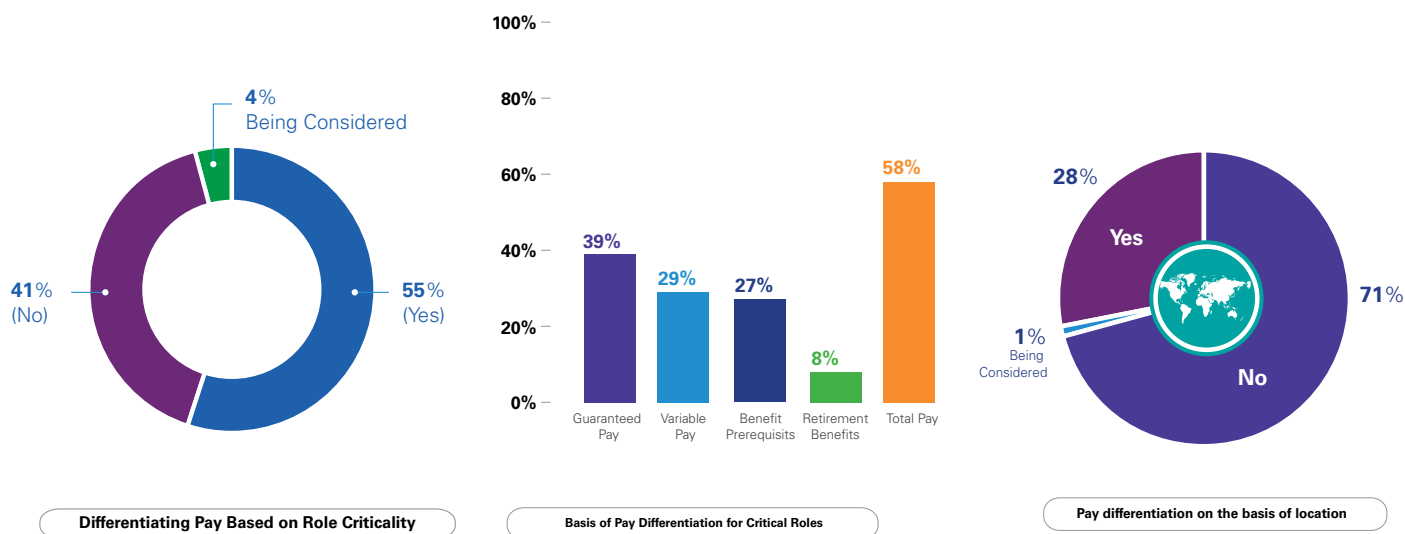
Majority of respondents adopt Pay Differentiation to manage talents

Compensation for a job role typically gives an indication of the job's worth / value. Different jobs / skills should, therefore, attract different pay. Roles classified as critical form an example of such job group requiring differentiation.

Majority of the respondents (55%) adopt the practice of differentiating pay based on role criticality. More than half of those that differentiate pay based on role criticality do so on a Total Pay basis, while 39% create the differentiation in Guaranteed Pay.

It is rather interesting to note that performance is not emphasised as a basis of differentiating pay for critical roles, given the value and impact they have on business results. Only about one out of three of the respondents differentiate pay for critical roles based on performance.

Pay differentiation based on location is not common. In Nigeria, only 28% of the survey participants practice differentiation based on location.

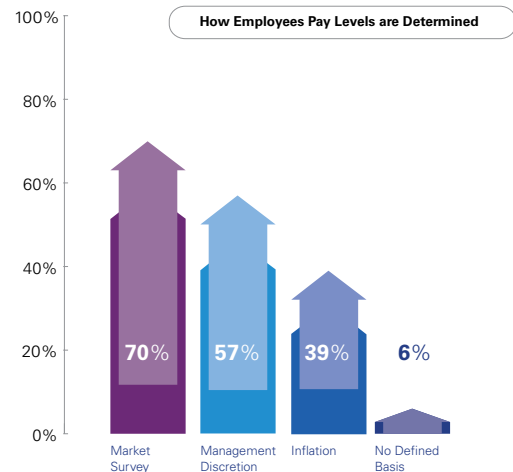


Note: Multiple responses are possible for this survey item, hence, the total percentage is more than 100%.

Most respondents leverage remuneration surveys in determining employees' pay

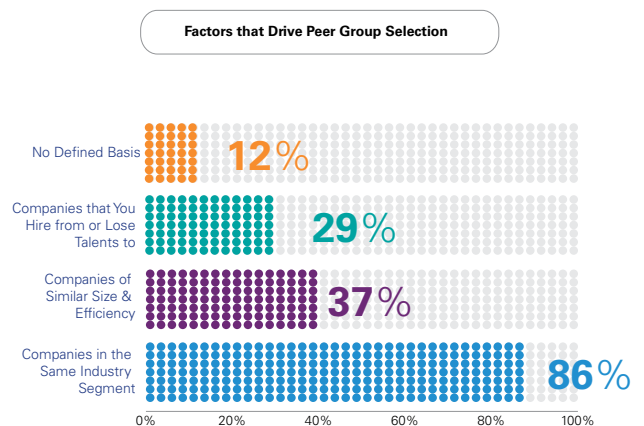
70% of the participating companies rely on market data to take pay decisions for their employees. Management Discretion also plays a large role in pay decisions, according to 57% of the respondents, while 39% consider Inflation. This result shows that pay decisions are mostly taken based on several considerations.

Information obtained through remuneration surveys provides employers with a more accurate view of pay levels and HR practices within their selected pay market. They are therefore better positioned to take informed pay decisions. Armed with the right information, companies can actually save crucial cost, at a time of heightened focus on cost containment.



Note: Multiple responses are possible for this survey item, hence, the total percentage is more than 100%.

Majority of the companies that rely on market surveys define their comparator group mostly based on companies in the same industry segment (86%). Fewer companies consider competition for talent and organisational size and efficiency in selecting their pay peers.

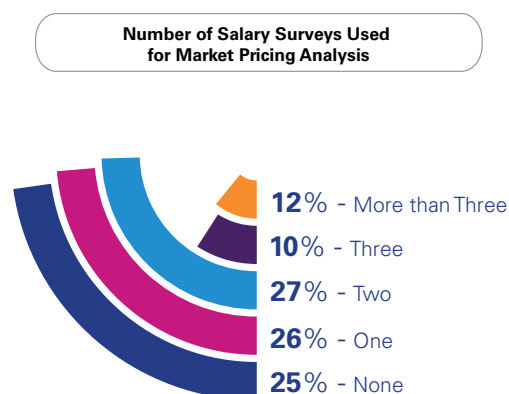


Note: Multiple responses are possible for this survey item, hence, the total percentage is more than 100%.

Majority of participants use up to two (2) salary surveys for their market pricing analysis

Best practice requires that companies utilise more than one salary survey data for taking pay decisions. This practice enables companies to validate the market data they are receiving from different survey providers. In addition, a number of companies are able to combine the different data by applying weights to derive a more balanced view for a robust decision.

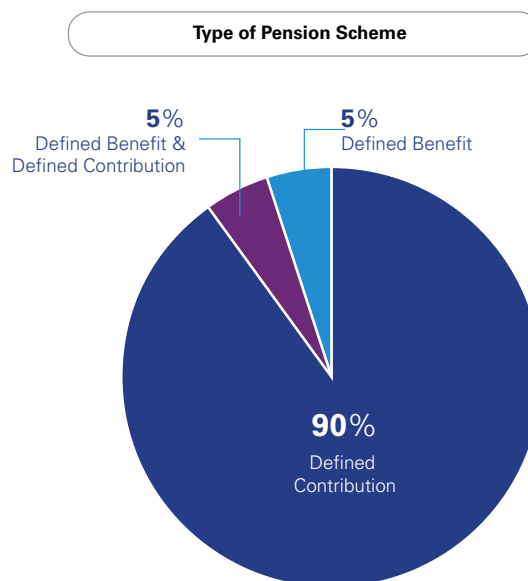
Based on the survey results, 53% of the respondents utilise up to two (2) surveys for their pay decisions, as shown in the adjacent chart:



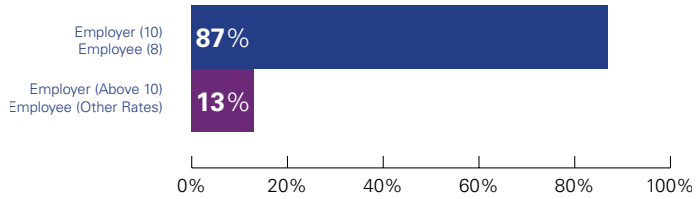
Pension Reforms in Nigeria

Two years on, most companies have adopted the prescribed minimum contributory rates

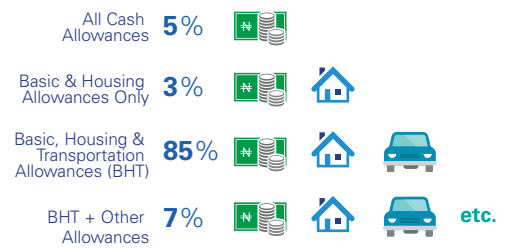
Most of the pension schemes in the responding companies are Defined Contribution (DC) in nature (90%). This is not unexpected, given the provisions of the Pension Reform Act, 2014. 87% of the respondents adopt the minimum Employer and Employee contributions rates of 10% and 8% of Gross Emolument (GE), respectively. 85% of the companies have defined GE as the aggregate of Basic, Housing and Transport Allowances.



Employee & Employer Contribution Rates



Definition of Gross Emolument for DC Pension Contribution

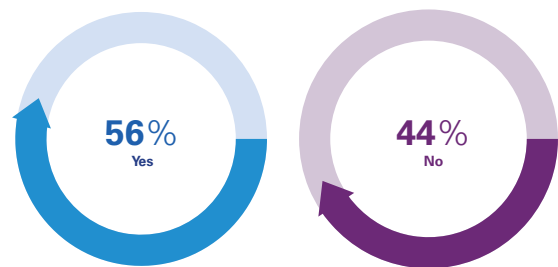


Most Gratuity Schemes are still Defined Benefit in nature

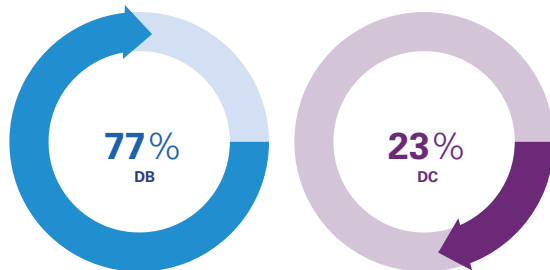
Prior to the introduction of the mandatory DC Pension regime, Gratuity Schemes were widespread and constituted the major form of retirement benefit for employees in the private sector. Following the mandatory pension regime, we have witnessed a significant decline in the number of companies providing both gratuity and pension. In addition, the cost of managing the schemes has made them unattractive. Companies still operating gratuity schemes are looking for ways to exit them.

56% of the respondents still operate gratuity schemes. Majority of the schemes (77%) are DB schemes, while 69% have some sort of funding in place to back the scheme obligations.

Gratuity Scheme Provided?



Type of Gratuity Scheme



Gratuity Scheme Funded?

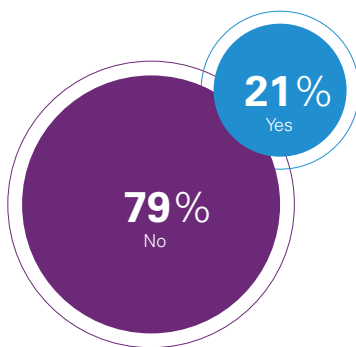


For companies thinking of restructuring gratuity, most wish to close the scheme to new and existing staff

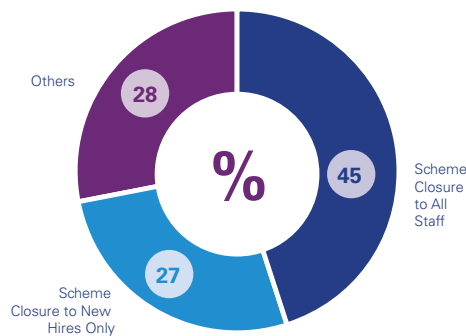
21% of the companies are considering restructuring their gratuity scheme to address the issue of cost escalation. Most of the companies considering a restructuring (72%) are thinking of closing the scheme to both

new hires and existing staff. Also, 85% of the companies recognise Employee Union buy-in as critical for any restructuring efforts to succeed.

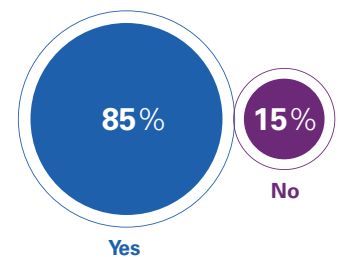
Plans to Restructure Gratuity Scheme?



Nature of Gratuity Restructuring Being Considered



Consideration of Union input in Gratuity Restructuring



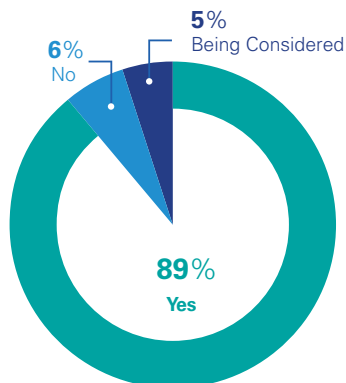
Performance management is critical, but how fair are the systems?

Effective Performance Management (EPM) is key for realising the optimal capabilities of an organisation's workforce. An EPM system is key to aligning employees' focus and efforts with strategic objectives.

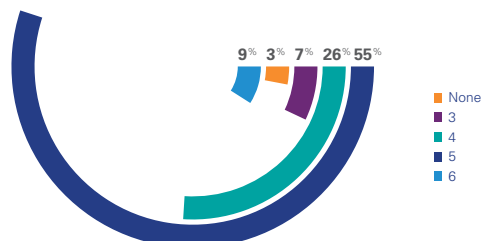
89% of the respondents have a Performance Management System (PMS) in place. While organisations measure performance across

different levels in the business, majority (98%) focus on individual performance. Majority of the PMS (81%) adopt 4 or 5 point rating scale in measuring employee performance levels. 69% of the companies say their PMS are fair and equitable to a very large extent.

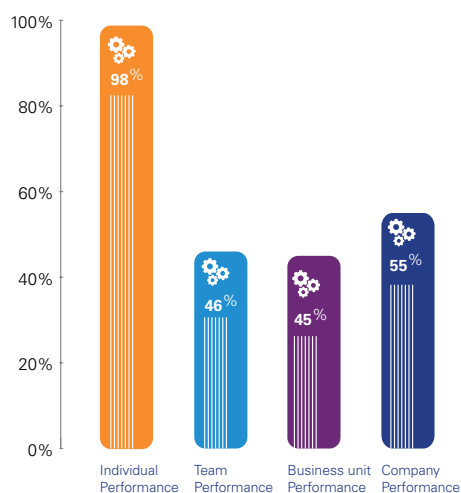
Prevalence of Performance Management Systems



Rating Scale Used for Measuring Performance



Levels of Performance Measured



Employees Perception of Performance



Note: Multiple responses are possible for this survey item, hence, the total percentage is more than 100%.

Recognition

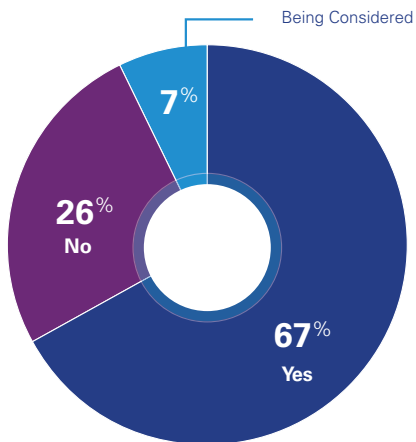
A growing tool for enhancing employee retention

Recognition continues to grow as a tool of motivation and retention in organisations, with a prevalence of 67% across the organizations surveyed. Given the fundamental nature and benefits associated with embracing a recognition culture, all companies should adopt the policy i.e. the remaining 33% of the

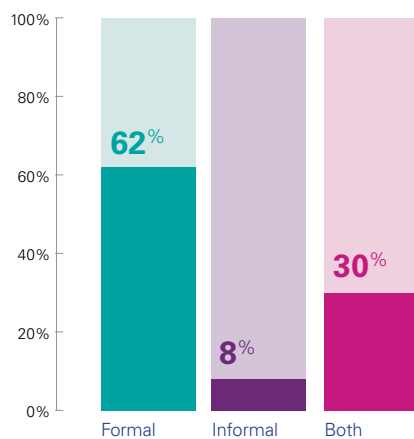
respondents should quickly adopt recognition programmes for their employees.

62% of the companies with recognition programs adopt Formal Plans, while the most common forms of award are Gift Vouchers, Plaques and Certificates.

Prevalence of Recognition Schemes



Types of Recognition Programme in Place



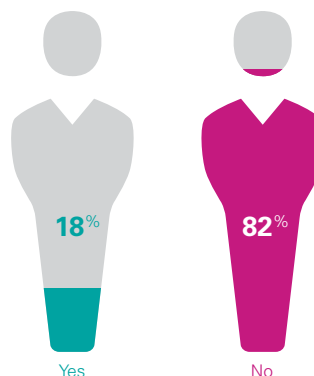
Forms of Recognition Award



Employees Value Leave/ Vacation Day

Employers are making efforts to ensure that employees stay off work during leave days. However, in situations where employees are required to perform tasks during their vacation days, 18% of the respondents ensure that such hours/days are claimed back i.e. the days worked are not counted as part of the leave days.

Do Employers allow employees claim back hours worked during their vacation days?



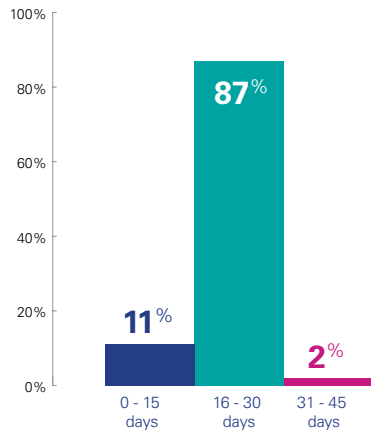
In addition, no respondent allows employees buy and sell their vacation days.

Paid Time Off: Annual Leave/Vacation, Maternity & Paternity leave days

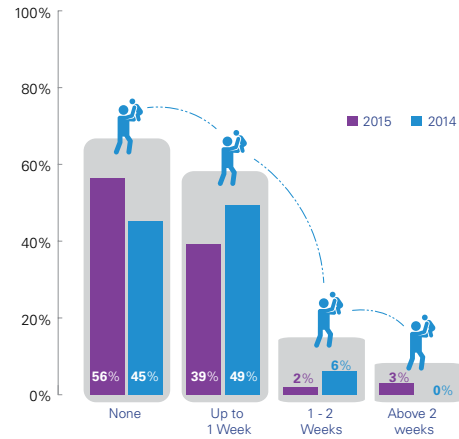
As part of an employee's paid time off package, annual vacation days, sick leave days and maternity leave days are provided by most organizations. The results of the survey show that 87% of respondents grant annual vacation days ranging from 16 to 30 days.

Although the provision of Paternity Leave is still catching on across many organizations, we observed a decrease in the proportion of companies providing leave days of up to 1 week from 49% to 39%, when compared with the 2014/15 survey edition.

Duration of Annual Leave

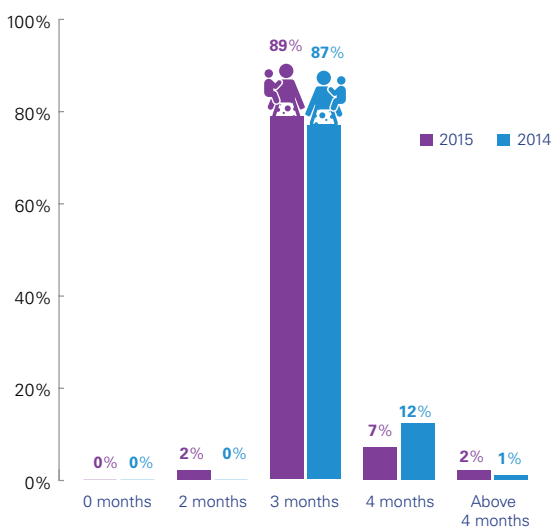


Duration of Paternity Leave - 2014 & 2015

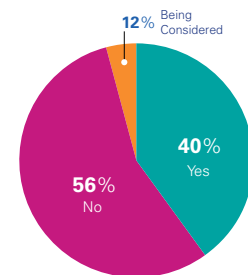


For Maternity Leave, majority of the companies (89%) offer three (3) months, while 9% are more generous, providing a minimum of four (4) months leave, compared to 87% and 13%, respectively, in 2014. The survey results also reveal that 40% of respondents allow female employees take annual and maternity leave in same financial year. 12.5% of this group allow both leave periods to be taken at a stretch, while the other 87.5% require that they should be spaced out.

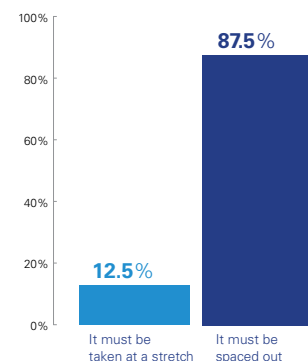
Duration of Maternity leave - 2014 & 2015



Can Maternity/ Annual Leave be Taken in One Financial Year?



Scheduling Annual/ Maternity Leave

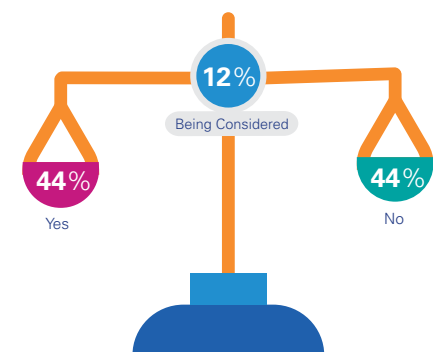


Work - Life Initiatives

WorldatWork studies show that work-life initiatives contribute to several positive business outcomes such as reduced labour costs, improved work flow planning, increased employee loyalty and satisfaction, and consequently, improved productivity as employees are given the opportunity, to flexibly manage both work and personal lives to meet their needs and that of the organization.

The survey results show that 44% of the respondents have implemented work-life initiatives for their employees. Flexible Working Hours and Sporting Facilities are still the most prevalent initiatives. The survey also reveals that only 13% of the organisations allow employees to Work Remotely. The survey findings also highlight the need for management to be more supportive of the policy of allowing workers to work remotely, extending flexible hours to all levels of staff, while considering flexible resumption time.

Length of Annual/ Maternity Leave



Types of Work-life Initiatives

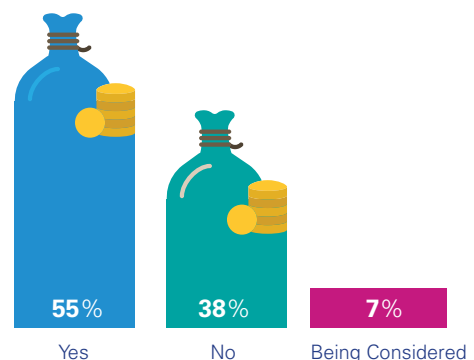


Loan Subsidy

Loan Subsidy is a benefit-in-kind and income protection programme for employees.

In respect of respondents that provide loan subsidy, we observed a 5% decrease from 60% in the 2014/15 to 55% in this edition of the survey.

Employers Who Offer Subsidized Loans to Employees



Conclusion

HR/Reward practitioners are increasingly required to play strategic roles in defining corporate goals and developing capabilities and structures towards achieving the goals. At a time such as the lingering recession, HR needs to support the business in taking decisions and adopting measures to ensure sustainability and repositioning for future growth opportunities. We believe the 2015/16 HR / Reward Practices Survey Report provides valuable information to enable HR/Reward professionals function more strategically. In terms of communicating effectiveness and alignment of HR/Reward programmes to market practice and strategic objectives, companies require critical and complete benchmark data.

As a partner desiring to inspire confidence and empower change, KPMG will continue to make available such information via its various forms of industry surveys and HR thought leadership materials.

How we can help

At KPMG, our purpose is to inspire confidence and empower change. We are dedicated to helping our clients take informed decisions and realise their investment in their employees. Through our multi-disciplinary team of experienced and qualified professionals, you can count on us as a valuable partner in the following areas of People 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. Payroll Outsourcing
11. Remuneration Strategy, Compensation Benchmarking and Design
12. Talent Management
13. Workforce Optimization / Workforce Cost Enhancements

Upcoming KPMG Open Training Programmes

- 1 **October 4 – 5, 2016**
Pay-for-Performance: Strategies for Driving Employee Engagement
- 2 **October 11, 2016**
Analytical Skills for HR & Reward Practitioners

Contact us

Uchechi Ananaba

Manager, People Services

Tax, Regulatory & People Services

T: +234 803 891 2051

E: uchechi.ananaba@ng.kpmg.com

Nneka Jethro-Iruobe

Manager, People Services

Tax, Regulatory & People Services

T: +234 808 313 3012

E: nneka.jethro-iruobe@ng.kpmg.com

David Uzosike

Manager, People Services

Tax, Regulatory & People Services

T: +234 803 402 1043

E: david.uzosike@ng.kpmg.com

Lucky Sada

Manager, People Services

Tax, Regulatory & People Services

T: +234 803 403 5538

E: lucky.sada@ng.kpmg.com

Oludolapo Ogunkanmi

Manager, People Services

Tax, Regulatory & People Services

T: +234 803 853 7737

E: dolapo.ogunkanmi@ng.kpmg.com

Boluwaji Apanpa

Senior Manager, People Services

Tax, Regulatory & People Services

T: +234 706 417 1642

E: boluwaji.apanpa@ng.kpmg.com

Nike Yomi-Faseun

Senior Manager, People Services

Tax, Regulatory & People Services

T: +234 803 402 1044

E: nike.yomi-faseun@ng.kpmg.com

Adewale Ajayi

Partner,

Tax, Regulatory & People Services

T: +234 803 402 1014

E: adewale.ajayi@ng.kpmg.com

kpmg.com/socialmedia



kpmg.com/app



The information contained in this document is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is provided or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2016 KPMG Advisory Services, a partnership registered in Nigeria and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.