

# Compensation Strategies in a Recovering Economy

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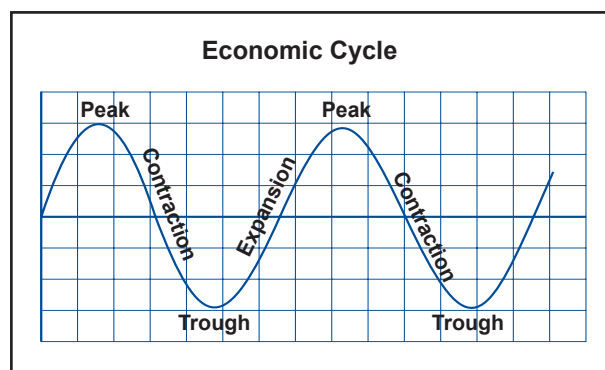


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The World Bank, in its Bi-annual Economic Update, predicted that the Nigerian economy will record a slight recovery from the recession in 2017<sup>1</sup>. This position has also been reiterated by the Federal Government of Nigeria and its apex financial regulator, the Central Bank of Nigeria (CBN)<sup>2</sup>.

Following a recession, an economy is said to be in recovery when, as a result of fiscal and monetary policies, economic activity is stimulated leading to improved demand and macroeconomic indicators, increasing investments and production of goods and services<sup>3</sup>.

According to the National Bureau of Economic Research (NBER)<sup>4</sup>, a leading economic research organisation in the United States of America, the chronology of economic activity consists of peaks and troughs, as illustrated in the Figure below:



A trough marks the end of an economic contraction (recession) and the beginning of an economic expansion, while a peak is said to be the end of an expansion and the beginning of a contraction.

Nigeria may be said to have commenced a trough phase in its economic cycle. However, according to the research body, this does not necessarily mean that the economy is already back to normal. It only means that the economic decline has ended. Economic activity may still be below normal during the early stages and remain so well into the recovery period.

In response to the economic recession which began in 2016, the immediate reaction for a lot of organisations was a reduction in people costs. The results of the 2015/2016 HR/Reward Practices Survey carried out by KPMG across 121 companies spanning various sectors of the Nigerian economy, showed that organisations have adopted one or a combination of the following cost saving techniques: Recruitment freeze, downsizing / rightsizing, salary freeze, budget freeze, salary freeze, outsourcing. Although panic cost cutting/downsizing measures are common in such conditions and may have benefits in the short term, they possibly can hamper future business growth.

As the economy commences a growth phase, it is imperative for companies to review their HR strategy,

including policies that were introduced during the recession to ensure alignment with business strategy going forward, while identifying areas of waste and ineffectiveness.

This article explores various compensation strategies that may be explored by organizations to position themselves to maximize the growth prospects presented by the burgeoning economy.

These strategies include:

**Pay Restructuring:** Organisations need to put in place formal structures to manage pay in a cost effective manner. Where this is already in place, companies need to check the existing remuneration framework to ensure there is no unintended cost escalation e.g. linkage between pay elements and allowances can mean that a minimal change will have unintended multiplier effect. Also, certain practices are no longer necessary such as having multiple allowances.

**Review of Incentive Schemes:** Companies need to ensure that incentives are sufficiently linked to business strategy and growth targets. Weightings may be applied to Key Performance Indicators (KPIs) to reflect relative impact on business goals. An increase in incentive payout without commensurate increase in business results, indicates inherent structural issues that should be addressed immediately.

**Sound Performance Management Systems:** Pay needs to be linked to performance to guarantee the integrity of compensation plans. However, for pay for performance to work, a well-defined Performance Management System (PMS) must be in place. The PMS should be objective and fair as much as possible. There must be pre-defined company, team and individual KPIs. Thereafter, regular review of the PMS is required to ensure that these KPIs remain relevant, specific, measurable, attainable and time bound. Also, it is important for employees to have a clear line of sight on how their contributions directly impact business results. These contributions should be tracked, recorded and rewarded as applicable. A properly defined PMS is a prerequisite for an effective incentive scheme.

**Adopt Pay Strategies that Align with Renewed Business Objectives:** HR is required to adopt or align existing pay strategies with renewed business strategy. The re-aligned pay strategies must be cost-effective and geared towards helping the organization achieve its overall objectives.

**Recognition Programmes:** When it comes to aligning employees with company values and objectives, nothing sends a clearer message than acknowledging an employee for a behaviour that furthers your business goals<sup>5</sup>. Organisations can leverage formal or informal recognition programmes as a reward tool to motivate employees as well

as improve employee performance. Recognition programs such as email commendation, handshake from the CEO, open recognition, plaques and branded gifts can be intrinsic drivers of employee motivation, with minimal or no cost implication.

**Leverage Remuneration Surveys** to obtain accurate and up to date information on pay levels and practices within selected pay market(s). This will enable companies make informed pay decisions.

**Transparent and Clear Communication:** A workforce culture that realises the importance of transparency and clear communication will breed highly optimal and engaged employees. This is especially important during this period of transition and change.

Now more than ever, HR needs to demonstrate its strategic partnership with the business. HR professionals must understand and be able to articulate what this period of growth means for the organisation, communicate same effectively to employees and deliver strategic imperatives that will improve business performance. We have outlined below, some specific roles of HR professionals during an economic recovery:

- **Manpower Planning-** HR must ensure the business has the right skills, at the right place and doing the right things. This will result in optimal and long term value creation, for both employer and employee.
- **Talent Acquisition and Management-** Identify internal talent and employ strategic recruitment plans, with a view to optimising productivity with available resources.
- **Change Management-** Proactively manage employee perception of and reaction to changes in the work environment, to keep them motivated and productive, whilst mitigating people issues that typically arise with change.
- **Proper use of HR metrics-** Use HR metrics to substantiate the value of human capital Investments and communicate its impact on business goals.

## Conclusion

People are the engine of business growth. Therefore, maximizing the prospects presented by the economic recovery will require, among other things, an HR strategy that is responsive to changes in the business climate, and an Employer Value Proposition that is able to attract, motivate and retain critical talents required to drive business performance.

1. World Bank Bi-annual economic update, April 2017  
 2. CBN Economic Report May 2017  
 3. CBN Understanding Monetary Policy Volume 14 (Economic Recession)  
 4. [http://www.nber.org/cycles/recessions\\_faq.html](http://www.nber.org/cycles/recessions_faq.html)  
 5. Inwood, 1992: 245-47; Margalit, 2001: 128-129

## Contacts

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