KPMG

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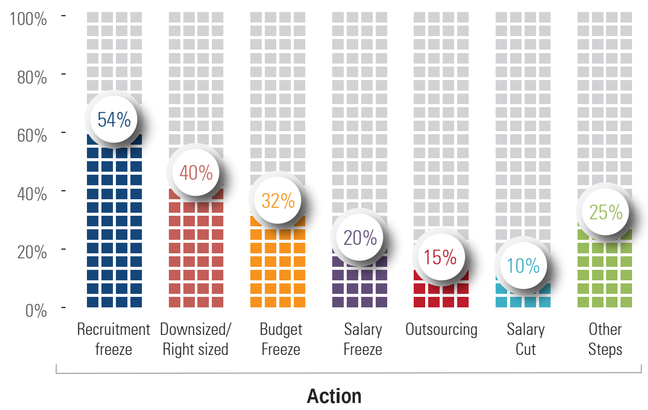
Optimising People Costs in an Economic Downturn

Newsletter

The current economic landscape calls for conscientious efforts in optimizing value from scarce resources, while keeping costs at the minimum. In response to the economic headwinds, organisations have had to adopt various cost-cutting measures over the last few months. In a recent KPMG survey involving 120 companies, which cut across the various sectors of the Nigerian economy, respondents have reacted as follows:



Whilst there is nothing wrong in cutting cost, organisations need to realize that they cannot cut their way to prosperity. Overall, a strategic approach is required to navigate the tough times, while focusing on better MANAGING costs and putting in place systems to enhance efficiency in the long run. Otherwise, the cost shed today may still mount again tomorrow, wiping out today's gains.

With respect to People Cost, this principle of MANAGING costs, rather than just cutting cost, can be applied to optimize value for the employer. This involves taking a critical look at employee rewards models and the modus operandi to identify areas for achieving efficiency and cost containment now and in the future. Given that Staff Cost is often a significant cost item in organisations' income statements, there is much to be gained in this area, if employers could carry out a comprehensive review of their rewards systems and models.

At KPMG People Services, we partner with organizations to support them in making the "right" investments in their People and putting in place systems for optimizing returns to the business. We would be happy to come in and have a discussion with you in the areas listed below, or any other areas of interest you may have for making the most from your scarce resources:

1. **Pay Restructuring**– If not carefully structured, an organisation's remuneration framework may encourage cost escalation that is not intended or desirable at this time. For example, the linkage between pay elements and allowances can mean that a minimal change will have unintended multiplier effect. There may be a number of practices within a pay structure that are no longer necessary to continue delivering. Also, if no formal pay band/structure is in place, it will be difficult to manage pay in a cost-efficient manner. For example, how do you determine the amount of promotional increase to award to an employee and which will not be considered excessive or too little? How do you determine the pay of a new hire while ensuring internal and external equity?

2. **Diagnostic Review of Incentive Schemes**– Most organisations have some form of incentive scheme or the other. However, a good number do not have a properly-designed scheme, which aligns with leading practices. This may, therefore, undermine the ability of the scheme to achieve the desired objectives in a cost-efficient manner. The KPMG 2015 Consumer Market Remuneration Industry Survey noted a 17% increase in incentive payouts between 2014 and 2015, at a time

when most of the companies struggled with shrinking revenue and profits. If an organization has never reviewed its scheme, it would be difficult to determine the impact it is having on corporate results and employees. You may just be paying out money without commensurate value-add to the business.

3. **Gratuity Restructuring** - Many Gratuity Schemes are still being operated on a Defined Benefits basis. A tough economic period, such as we face now, probably presents an opportunity to begin the conversation with employees and / or unions to restructure Gratuity schemes, making them more affordable and sustainable. This has the potential to save significant cost in the long run, while at the same time curtailing the growing costs to the business.

4. **Redundancy Management** – To optimize costs, organisations have had to right-size and review staff manning levels. If the process is not well-managed, it could have adverse impact on the remaining employees and the business. Organisations must be armed with the right information to take an informed decision on carrying out a redundancy. Also, are there learning outcomes from other organizations that have successfully laid off employees and which can be leveraged upon? How will the employee union be handled? Change Management and a robust communication plan will therefore become extremely important.

We will be happy to meet with you to discuss any of the foregoing and other cost optimization initiatives in the People Management space.

Service Offerings by KPMG People Services

1. Board Remuneration Committee Support
2. Contract Personnel Recruitment and Administration
3. Country Briefing
4. Executive Talent Sourcing
5. HR Benchmarks and Analysis
6. Immigration Support Services
7. Incentive Schemes Design
8. Job Grading & Evaluation
9. Organizational Structure Design
10. Payroll Outsourcing
11. Performance Management and Target Setting
12. Remuneration Strategy, Compensation Benchmarking and Design.

Upcoming KPMG Open Training Programmes

May 10, 2016
Fundamentals of Base Pay Structure Design

May 17, 2016
Leveraging Employee Recognition Programme for Business Performance

June 2, 2016
Managing Expatriate & Immigration Issues

June 07 - 08, 2016
Pay-for-Performance: Strategies for Driving Employee Engagement

June 14, 2016
Optimising Value from Compensation Surveys

June 15, 2016
Tax Implications of Hedging

June 16, 2016
Operationalizing Transfer Pricing

July 05 - 06, 2016
Managing Total Rewards for Value Creation

July 12, 2016
Implications of IFRS Adoption for HR & Reward Practitioners

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