Let us use this salary review period to correct our remuneration systems

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The biggest challenge facing Zimbabwean organisations today is to manage wages and salaries against the worsening economic environment. This is the time for the country, industry and individual organisations to rethink their remuneration systems.

The major problems which I have alluded to in my previous articles are that wages and salaries are based on grade (all jobs), NEC negotiated, market related and are not performance based. Over and above these challenges, 99.99% of the remuneration is fixed and guaranteed for most Zimbabwean organisations – in bad times and good times you are forced to pay the same amount in salaries and wages. A lot of the remuneration items are hidden and not properly accounted for in staff costs. When I have helped companies to move to the total cost to company model, many organisations are shocked at the true amounts they are paying their staff. Another challenge is that very few organisations rarely pay for extra value created and that is another danger sign.

The current wage system entirely based on collective bargaining is rigid and does not allow employers to take into consideration different company circumstances: positive or negative. Wages and salaries are set on the basis of performance next door (same industry). Over and above this Zimbabwean collective bargaining agreements are permanent: in good and bad times we use the same model. The current wage setting system presupposes a stable and improving economic conditions as it does not take into consideration deteriorating economic conditions. Since the current system is so rigid, a majority of employers have surrendered wage setting to National Employment Councils. The wages and salaries in Zimbabwe are supported by a plethora of benefits and allowances that do not make business sense in the current business environment. The above conditions have led to a significant escalation of wage costs – the consequences are evident everywhere (delayed salary payments).

So what are the consequences of all of the above? Unemployment, which is a result of excessively high wages especially if not supported by productivity. Zimbabwe is emerging as an interesting case study. Faced with this situation, employers are likely to retain only those employees, whose productivity justifies higher wage levels and laying off the remainder. Employers have the option to replace labour with physical capital and technological innovations when labour productivity is too low like in the case of Zimbabwe. On retrenchment, unfortunately, it is always concentrated among lower skilled workers who do not have the education and experience to justify higher wages. With rigid collective bargaining agreements we are likely to see more companies switching from labour (manual processes) to automated processes in the production process.

The proponents of minimum wages argue that minimum wage increases are more likely to deliver income gains to low-skilled workers during good times and but have dire consequences in bad times.

They argue that minimum wages may stimulate macroeconomic growth. My challenge with this argument is that this a luxury for those living in good times – economically. Minimum wages as a way to fight poverty can be done by those with extra resources but does not work in our current situation.

The business context in Zimbabwe is changing. Government, businesses and individuals need to face reality and adjust. Revenue is cyclical over time and wages grow exponentially over time. This is a natural phenomenon that we cannot reverse. Employers and labour choose to fight instead of collaboration, unfortunately it seems both sides are losing dismally.

Here is what I recommend as the way forward:

1. Restructure your wage system and make the remuneration system flexible and competitive. You get better incentives in good times and you get job security in bad times. The system must be flexible to accommodate both good and bad times without threatening the existence of the business or the job security of the employee.
2. Link wages to productivity as it is the only way to sustain higher wages. Government has learnt the hard way.
3. Have the right company representatives in the NEC executive. This could change the fortunes of the industry overnight. Many employers miss an excellent opportunity to shape the labour trends in their sector by assigning powerless human resources officers to sit in the NEC executive.
4. Renegotiate Collective Bargaining Agreements – reconfigure wages adjustments in line with productivity and cost of living. Look at reality and face the reality as you go through the process.
5. Exempt SMEs from paying minimum wages – set a minimum revenue threshold they need to exceed to qualify for NEC Minimum Wage. This will promote their competitiveness and growth.
6. Government must exempt low wage earners from paying Payee. Imagine an exemption of $500 and what it will do to product & service demand.
7. Government must reduce tax on all performance related pay for lower level staff or tax performance based pay at half the current rates.
8. Negotiate for once off payments at NEC as an interim measure. This will ensure sustainability as the once off payments do not add to fixed costs. The modalities can be worked out for each NEC. In the same negotiations, make sure the Collective Bargaining Agreements run for period of no more than three years to accommodate economic cycles.
9. Reconfigure NEC Pay Structures – Let us change from minimum wage to "Going Rate." Create significant pay progression from one grade to the other. Create and widen pay ranges.
10. Create an affordability matrix based on factors that matter to your industry. Those doing more will pay more and those not doing well will pay less.

The quick wins you need to implement in the context of your business are as follows: Stop paying non – performance related bonuses (13th cheque), hiring freeze, cheaper hires, early retirement, freeze promotions and reduce non- statutory benefits.

The wage system is one of the many problems facing Zimbabwean organisations. However the greatest threat to Zimbabwean industries in not wage escalation. The greatest threat is leadership incapacity across many levels. Due to the exodus of talented people during the hyperinflation period, a number of organisations moved people into roles when they were not ready. As result whatever savings you will generate from salary cuts will be consumed by a greedy few.

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