

## **Remuneration Challenges & Recommendations - A Country Perspective**

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### **Country Wage System overview**

Staff costs take a big chunk of what every business generates in revenue hence the high level of attention it attracts from senior corporate leaders and shareholders. Despite the significance of optimal staff costs in running a successful business most organisations have no coherent strategy to harness the value from what they pay in staff costs. A number of Zimbabwean companies are struggling with unsustainable wages bills which have no link to productivity. Industry players across all sectors have raised the concern of unsustainable wages but still up to now there is no agreed national strategy or response to deal with the high wage costs. It is evident that Zimbabwe's competitiveness as a country and its products in particular have been impacted negatively by the unsustainable wages.

### **Government Wage Bill**

Zimbabwe's government's struggle to pay its employees is a lesson that every business needs to learn. At over 90% of total government revenue it could, subject to contrary evidence, be viewed as the highest staff cost to revenue ratio by any government in the whole world. Despite this abnormal situation, the government continues to manage the wage bill as if everything is normal. One example of this is the payment of bonuses to civil servants when they can hardly afford or sustain such a payment. When wages move faster than productivity they become unsustainable resulting in payment delays. The evidence that the government can't afford or sustain the current wage bill is there for everyone to see.

### **What is wrong with Remuneration Systems in Zimbabwe?**

The first problem with our wage system is that it's 99.9% fixed; meaning whether an employee performs or not, they still get paid. Whether people come to work or not, you still have to pay them. Whether you are producing something or nothing, you still have to pay them. How can that be sustainable? Other countries have moved towards a wage system that is 60% guaranteed and 40% variable. We need to correct this now and the government must show the way. A few private organisations have already started on this journey. The second problem is that salaries in this country are grade based. You need to get into a higher grade in order to earn more. This has forced every employee to focus on getting into higher grades. The assumption with grading systems is that the higher you go the more value you add to the business. This is not always the case. You might have noticed that there are people in the same grade who are not performing to the same level but are earning exactly the same salary. Progressive companies have built pay structures with wider ranges so that they can accommodate the different levels of performance by employees in the same grade. The third problem is that we pay people on the basis of what they want in order to maintain a certain life style. Regardless of the size of

the organisation, most organisations give their CEOs top of the range luxury vehicles over and above the basic salary and other “standard” benefits. In some instances you get companies replacing the same vehicles after 3 to 4 years at a huge expense to the company. Why would a company incur costs of over a million dollars to buy vehicles for executives when the company needs slightly over a million to recapitalise? This kind of expenditure is what lower level employees see, especially when this happens in cases where they have gone for months without pay. The fourth problem is that companies are still providing unnecessary benefits. Companies need to get rid of some of the unnecessary benefits. Why should a company pay DSTV, buy cellphones for the executives, etc.? Surely at this level most of these executives can afford these things without company assistance. Other benefits that need to be removed are canteen meals (except where it’s not possible for employees to go and buy their food without disrupting production). Give people a choice to buy their own food and choose what to eat for themselves. We have also now seen a proliferation of company buses. This a practice from hyperinflation. Let people find their own way to work; unless you are saying your location is not accessible to public transport. Imagine what catastrophe will befall your company if a full bus with employees is involved in an accident? The fifth problem is the per diem problem. A number of companies pay their employees for going on training or strategy sessions outside town. The same employees are receiving a salary from the same company for the same days they are away on training. As a result managers are creating workshops outside town or outside the country in order for them to earn per diems. That is a very bad practice.

The company needs to pay for accommodation, meals and transport and a refundable incidental expenses money. That’s it. The sixth problem is the practices of paying people when they have not created value. When we start paying people for value created we will never have a problem. Even in cases where performance incentives are paid, they are not well structured to allow the company to pay extra remuneration for extra value created. The problem is that such schemes pay people extra remuneration for no extra value because they are poorly structured. In such schemes, very few companies define the minimum value to be created for the fixed remuneration we are already paying an employee. Only after the minimum threshold is reached should we start talking about paying for the extra value created. The way forward is, you must define value and how that value is created in the context of your business. Once that is done, find a scientific way of sharing that value between employees and shareholders. This can be achieved through profit linked productivity measurement schemes. The seventh problem is misplaced priorities when it comes to remuneration. Executives must, by all means, try to dismantle all symbols of “obscene” corporate benefits when ordinary employees are starving. Some of these symbols include top of the range vehicles, trips that are not business linked, expensive offices meant to show status when employees have not been paid. Zimbabwean executives can do themselves a favour by leading by example; if employees have not been paid, the next time your cash position improves, pay the lower level employees first. Most of them have no other means of raising money for their upkeep. We have heard stories of executives paying themselves every month while ordinary employees go for months without receiving anything. We see an opportunity for companies to save thousands, if not millions of dollars by restructuring their benefits structures to reflect the current realities in the economy. This will help companies not only save costs, but allow them to be profitable. For most companies the restructuring of the benefits will give significant net savings per year which may be reinvested into the business.

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