Remuneration outlook for Zimbabwe

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The issue of remuneration remains topical in Zimbabwe largely because workers feel they are not being remunerated enough while employers feel they can not afford some of the wage demands. Before we go into the outlook for 2021, it is important to understand that wage increases have implications for economic development. Economists have generally argued that increasing wages lead to organizations reducing the number of people they hire. On another side, others have argued that increasing wages have a positive effect on consumer spending. All arguments above are plausible. For employers, these two reasons are probably the least of their worries.

Employers are more concerned about affordability and sustainability. Yes, wages increases can be implemented today because we can afford them. What happens six months down the line when we can not afford the same wages. The result in most cases is retrenchment. Employees through their Trade Unions are hard-pressed due to the cost of living. They expect to leave a decent life out of their earnings. This is a fair request. The challenge for employers is balancing worker demands with sustainability. If they get that wrong it could mean the demise of the businesses. Two many examples of organizations that have failed due to unsustainable wage bills are available.

Given all the above what are we seeing happening in 2021? While the market will move in a certain direction as outlined below, we do expect that organizations would consider their circumstances first before adopting market practices that may end up harming their business.

- We are in a multicurrency system and that presents its challenges. A survey we did shows that 56% of organizations are paying a full USD salary package or part USD. The organizations that have been doing this are those that are earning export revenue.
- Towards the end of last year, we started observing that even non-exporters are paying key employees in hard currency in full or a portion of their earnings. When quizzed on how this is funded the majority indicated that they earn a portion of their local sales in US dollars hence they can afford to pay in US dollars. The major driver for this policy shift is that in 2020 quarters 2 & 3 we started seeing a significant number of employees resigning to joining those that were offering US dollar salaries. This trend is still on the rise and many organizations have lost staff.
- 60% of the surveyed organizations pay part of the salary as USD ranging from 25% to 75% of the total salary. All this is meant to retain and attract talent, as those organizations with US dollar earnings of over 60% are paying in US dollars. Such organizations are finding it easy to retain and attract staff.
- 40% of the surveyed organizations have a retention allowance paid in hard currency. This retention allowance is not a permanent part of the contract. It is very likely to fall away should circumstances change.

- From our sample, the sectors that are not paying salaries in US dollars at all are banking, insurance, and quasi-government. All the other sectors in our sample have some form of US dollar payment; indexed or actual hard currency payment.
- In the survey analysis, we noted that a significant number of organizations that can not afford to give the actual USD salary are indexing part or 100% of the Zimbabwe dollar earnings the US dollar. Payment is then done at the interbank rate. This has helped those who are not earning US dollars sales to retain and attract staff.
- Over 33% of Zimbabwean organizations surveyed have now moved to the total cost to company model of salaries. This model is clean and works extremely well in a situation where the economy is stable. A stable economy allows employees to purchase their vehicles through bank loans at reasonable prices. The total cost to the company model is the most effective model of remuneration that will serve Zimbabwe well going into the future.

Given the trends and dynamics above it is very likely that in 2021 the following trends will dominate the market on the wages and salaries front.

1. The economy is fairly stable therefore we do not expect huge changes to what people were earning in 2020. Changes are likely to arise from those organizations that had not adjusted their salaries significantly in the last two quarters of 2020. The changes will largely be “catch up” changes.
2. For those already paying salaries in hard currency, there is likely to be no significant changes in earnings in 2021.
3. For the non-managerial categories in sectors that are still far behind the market, we are likely to see collective bargaining driven by the need to close the cost of the living gap created so far by significant upward price changes. We see all collective bargaining being anchored on this factor alone. The challenge though is, how many companies can pass the upward wage changes to their consumers without losing market share? Employers and employees would need to find common ground in these areas to preserve the going concern of the businesses.
4. We have noticed that the perks that used to be enjoyed by executives such as the top-of-the-range luxury cars, DSTV, and Holiday benefits payment are slowly disappearing, largely as a result of affordability and governance challenges.
5. We have also noted that school fees benefit remain a popular benefit among employees. Many organizations are paying huge amounts towards children's school fees benefits for their employees. Many employers have incorporated this into the total cost to the company model but a significant number (68%) still pay school fees directly to the school based on the invoice.
6. Fuel Allowance – Most organizations offer fuel allowance in the form of coupons or a straight USD dollar payment to the employee. This is one of the popular benefits on the market.
7. For the lower-level staff, transport and housing allowance are popular benefits and form part of most collective bargaining agreements.

The area of remuneration presents several opportunities to be innovative. The biggest constraint that limits the level of innovation is the contractual obligations that do not allow flexibility. For the lower-level staff, the situation is worsened by very rigid collective bargaining agreements. Here are some of the areas to look at as we go into 2021.

1. Organizations that have moved to the total cost to company model have a strong handle over staff costs but at the same time giving the employee the choice to utilize their earnings in whatever way they choose. The traditional remuneration disadvantages people without kids for example as they are deprived of school fees and medical aid benefits. Under the total cost model, there is more equity in earnings as your grade determines your earnings, not your circumstance.
2. While others have touted Staff buses as an innovation, it is likely to work well for your lower-level staff. I am not sure of the cost-benefit analysis of this approach. It may be the same as giving people transport allowance or even be cheaper to do. Let us treat employees like adults who can manage their life on their own. Also, consult the employees before implementing such programs. Staff buses are a noble idea in areas where the employee can not access public transport to go to work especially where mines are located. I have noticed that organizations are implementing this benefit even where reliable public transport is available.
3. Assess the demographics of your staff and customize remuneration and benefits to the needs of the different groups. The young generation does not value pension that much as they value things like cars and loans to buy household things that enhance their status.
4. Loans are popular with staff. However, loans are not necessary if the employer pays well. The employee should be able to go to the bank and get a loan of their choice. The loans an employer can give are emergency medical loans.
5. In Zimbabwe as long as the economy is sorted, there will be very little noise around remuneration. This is precisely why you find that in 2020 there were fewer deadlocks on remuneration negotiations in the private sector compared to say 2015 and 2016.
6. Another popular benefit, which has huge benefits to both the employee and employer, provided its administered well is the issue of educational loans for staff to further their education. Our research shows that over 72% of all professionals staff in Zimbabwe have a post-graduate qualification of some sort. This number keeps going up.
7. We have seen very few employers that have trained their staff to start small businesses as a way to prepare them for life after retirement. Some have availed loans to their employees. This is a good idea if it is well structured.
8. The best way and most sustainable remuneration model is the one that is made up of 60% fixed pay and 40% variable pay. Under the variable pay program employees will be paid under some form of performance incentive. This model is sustainable in good and bad times because it is based on value sharing between the employer and the employee.

In conclusion, I would like to urge companies to periodically assess remuneration market practices so that they are not completely lagging behind other organizations. If this is not done you normally start seeing your good employees resigning to join other organizations. It is important to note that you are better off retaining the employees you have than looking for replacements. Looking for replacements costs you lots of money. Overall companies should always look at affordability as the key factor in making remuneration changes. As a country, if we move to productivity-based remuneration our products and services will be competitive on the global market. Productivity is the answer to most of the challenges companies are facing.

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