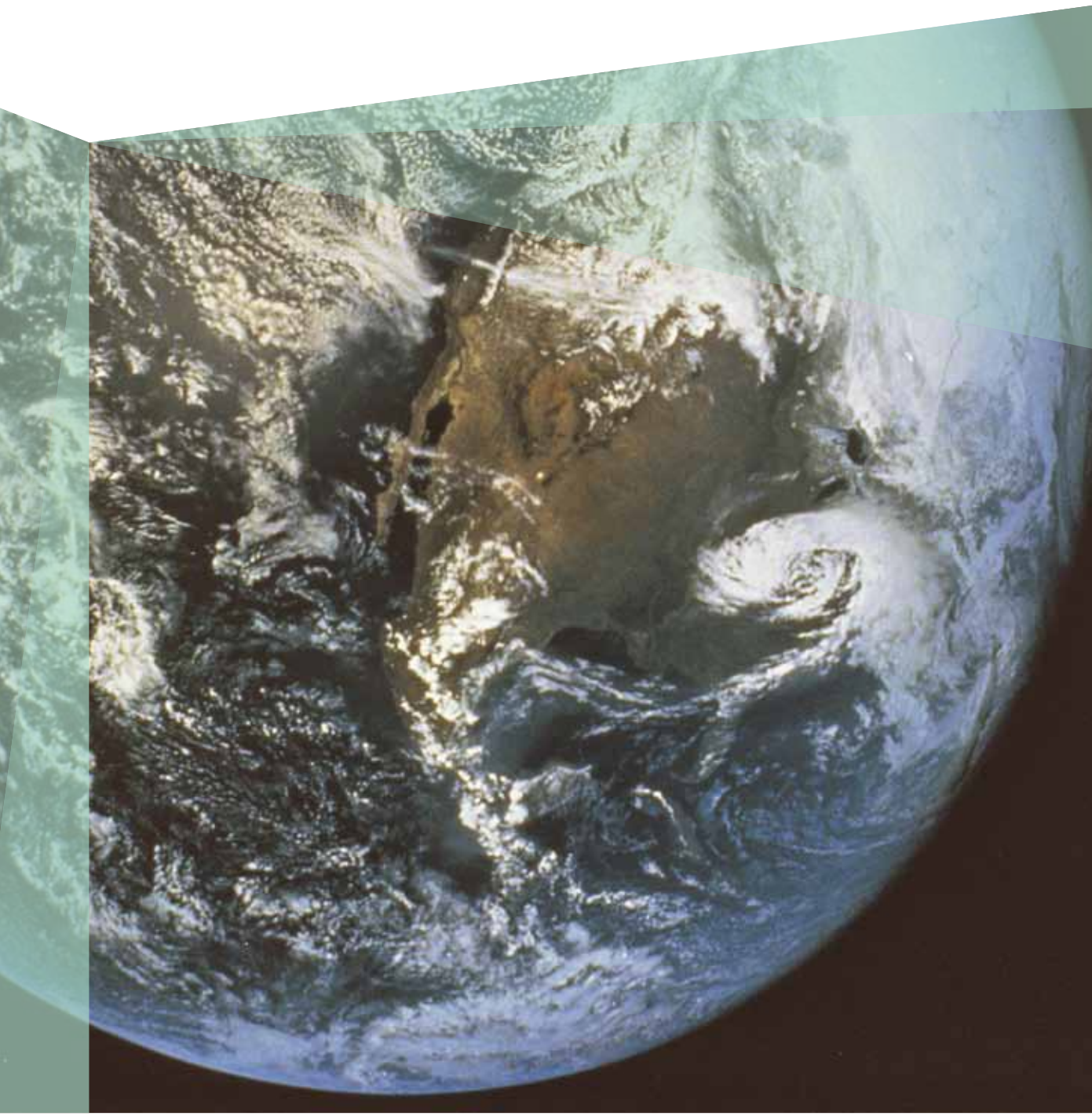
MERCER

TALENT • HEALTH • RETIREMENT • INVESTMENTS

COMPENSATION AND BENEFITS PRACTICES IN AFRICA



MARSH & McLENNAN COMPANIES

COMPENSATION AND BENEFITS PRACTICES IN AFRICA

In an effort to examine current compensation and benefits practices in sub-Saharan Africa, Global Remuneration Solutions, in partnership with Mercer, conducts approximately 26 remuneration and total cash surveys. While the surveys do not garner as many participants in this region as they do in other parts of the world, the findings offer a significant snapshot of current trends among preferred local employers and multinationals.

The number of participating organisations varies between five in Madagascar and nearly 120 in South Africa. The breakdown by industry sector also varies from country to country: in Ghana and the Democratic Republic of Congo, the mining sector is more heavily represented, in Nigeria energy, in South Africa financial services and so on. In 2012, the surveys included new questions related to employment benefits; these questions received varying responses from participating companies.

Among our first broad observations is that some of the most relevant and popular benefits in Africa, such as medical care, may not be as highly rated across the rest of the world. In addition, benefits such as private pension plans may be designed to appeal more to the American or European expatriate mindset but may not be relevant to employee satisfaction on the African continent. If employees have to contribute to their own pensions, they often believe that the money is coming out of their pockets and that they would have preferred to use it in different ways – for instance, to further their children's education.

COST OF LIVING: COUNTRY RANKINGS IMPOSSIBLE

From a cost-of-living perspective, it is very difficult to compare the countries of sub-Saharan Africa. Each country presents a very different – and constantly changing – picture, not just in terms of quality of life, but also regarding peace and stability, infrastructure investments and labour markets. The only comparable data we have available are from Mercer's annual cost-of-living survey.[1]

[1] For more information about Mercer's Mercer Cost of Living Survey 2012, visit www.imercer.com/col.

Based on the international basket of goods, and using New York as the comparison base, Luanda (the capital of Angola) is 46% more expensive in terms of the cost of living. In fact, it is often cited as the most expensive city in the world, even excluding additional factors such as education and accommodation. If we consider the main cities of Nigeria, Ghana and Mozambique roughly equal to New York in terms of cost of living, then we can see that 15 other capital cities in Africa are more expensive, while 14 are cheaper (Addis Abeba is the cheapest) – a far more mixed picture than one might expect.

In terms of quality of life, if we take Nairobi as the comparison base and give it a score of 100, Luanda scores 85, so the quality of life is worse there. The calculation of quality-of-life differentials is particularly shocking. If New York City is the comparison base at 0, all of the African countries score well below that, ranging from -12 (Port Louis, Mauritius) to -65 (Pointe-Noire, Congo). The hardship in these locations makes it very difficult to attract expatriate talent to these areas, no matter how much they are paid.

BENEFIT TRENDS

MEDICAL CARE

Across sub-Saharan Africa, more than 80% of companies provide some form of medical care to employees, usually via a preferred third-party provider. All medical insurance or care provided is from private companies in this part of the world, as there is very little social security covering it (Botswana has some limited availability).

While not a general requirement, most companies also provide medical care for spouses and dependents. The trend is to limit full coverage to a spouse and four children, or four to five people regardless of who is included. This is a clear improvement in strategy, as it addresses the needs of the local population, instead of replicating the same benefits strategy worldwide. Family structures and the definition of dependents are not identical across the world. In Congo, for instance, medical care is often used for elderly parents, while in other parts of Africa, more than one spouse may be included. However, for cost-containment purposes, companies are unable to provide medical coverage to the entire extended family.

RETIREMENT

Despite the fact that most countries in the region have some sort of social security system for pensions, based on joint contribution by employer and employee, the only country in which this is fully functional

appears to be Mozambique. Therefore, in most cases, companies need to provide additional private pensions. Across the continent, total pension contributions average 12% of basic pay and mostly take the form of defined contribution retirement plans. Very few defined benefit or final salary pension schemes are available today, and in many of these countries (such as Congo), no retirement savings plan is available during an employee's working career.

Average employee contributions vary between 2% (in Congo and Angola) to 9% (in Sierra Leone), while employer contributions are just under 8% on average. However, workers in Ghana, for example, have three tiers of retirement options, with the largest contribution currently standing at about 30%. The retirement age is typically around 60, although Malawi will increase it to 70 shortly, and Sierra Leone has already done so.

COMPANY CARS AND CAR ALLOWANCE

The provision of a company car is a sought-after and widespread benefit in Africa, with more than 30% of companies offering it to at least their senior management levels. In Burundi, the figure is up to as much as 80%. However, it is an expensive option, as managers' preferences tend to run towards high-range (and high-consumption) cars, such as Land Rovers. In a landlocked country such as Malawi, a car can end up costing much more than its actual value – even as much as 80% of the annual basic salary of top executives – as it has to be imported (and consequently taxed) through three borders.

Some companies, particularly in South Africa, are now turning towards car allowances, rather than an actual car provision, in an effort to save money. The average annual estimate for a car allowance is around US$10,000.

FRINGE BENEFITS

These comprise an almost endless list of traditional benefits that are not necessarily reflected on payslips. They may include items such as dependents' education, power generators, housing security, social-club membership fees, subsidised lunches, home internet connection, mobile phones, transportation or company goods in kind (beer allowance from breweries, etc.).

Some fringe benefits are more unusual – for example, a turkey at Christmas in Nigeria or a Christmas hamper in Ghana. In Portuguese-speaking African countries such as Angola or Mozambique, one fringe benefit may include annual flights to the "mother country", Portugal, even when the employee has no family or cultural links to that country.

All of these benefits can add up to quite a significant proportion of the total remuneration package – as much as 15%–20%. However, because they frequently do not appear on the payslips, it is relatively easy to lose sight of them.

REMUNERATION STRATEGIES

Aside from benefits, remuneration packages generally follow the pattern of base pay (including guaranteed additional monthly payments) plus nonguaranteed variable bonus payments. Performance-based bonuses are prevalent in the region. More than half (60%) of companies offer performance-related bonuses, which is quite high compared with the rest of the world. These typically average around 15% of basic annual salary, although Senegal pays out as much as an average of 35%. However, for senior managers the payout can be much higher – Cameroon is perhaps the most extreme example of that, with some isolated bonus payments in the region of 300% of annual salary.

The guaranteed annual income is supplemented in the form of a 13th cheque, which is common practice across most of Africa. In Congo, historical practice dictates as many as 16 guaranteed monthly cheques, with extra ones coming in on an employee's birthday month, the month he or she joined the company, 1 June and 1 December.

Additionally, remuneration packages also include a roster of cash allowances, which are often very important both financially and emotionally to employees. Some of these are tax-exempt, such as housing or transport allowances in Congo and housing or uniform allowances in Nigeria. This is another instance where global companies need to be culturally sensitive. Despite the fact that these allowances can become a huge administrative burden, companies need to think carefully before scrapping them or consolidating them into one single higher payment. Local employees want to see their allowances and not just have a higher salary – for example, when petrol prices go up, they expect their transport allowance to follow suit.

For some of these countries, a comparison of total remuneration was not possible, so the survey looked at total cash payouts for each Position Class (PC)[2] instead. For clerical and blue-collar staff across the 32 countries (PC 42–44), the midpoint value is under US$10,000, with Ethiopia at the lower extreme and Gabon and South Africa at the higher end. For PC 46-49 (professional entry level), Equatorial Guinea offers the highest payout and Ethiopia the lowest. Meanwhile, at the senior levels in organisations (PC 60–64), in the smaller countries the incumbents will be mostly expats, so the midpoint values are very high.

[2] In Mercer's International Position Evaluation (IPE) system, different job levels are assigned their own Position Class by evaluating the relative contributions of jobs and then ranking them within an organisation.

In Africa, there appears to be less of a correlation between GDP, the Consumer Price Index and annual salary increases. Typically, we are seeing annual salary increases of between 5% and 15%; however, there are occasional spikes, such as those we saw in Rwanda and Zimbabwe in 2011 (more than 20%).

In the 25 or so countries where we have data regarding total compensation packages, we have observed a mix of 50%–60% base salary, while fringe benefits make up around 20% on average. Other guaranteed cash payments may add up to 15%–20%. There is, however, a vast disparity between what senior managers and lower-level workers earn, with the positions PC 60+ earning up to 50 times more than the lowest-paid workers. At a time when Western countries are talking about capping executive pay to no higher than 20 times the salary of the lowest-paid worker, this is one aspect of the surveys that warrants closer attention.

CONCLUSION

In Africa, very few local employees can pick and choose the type of work they do or even their employer, so employee turnover is much lower here than elsewhere in the world. However, organisations should not rely on that alone and should also look to build employee engagement on a long-term basis.

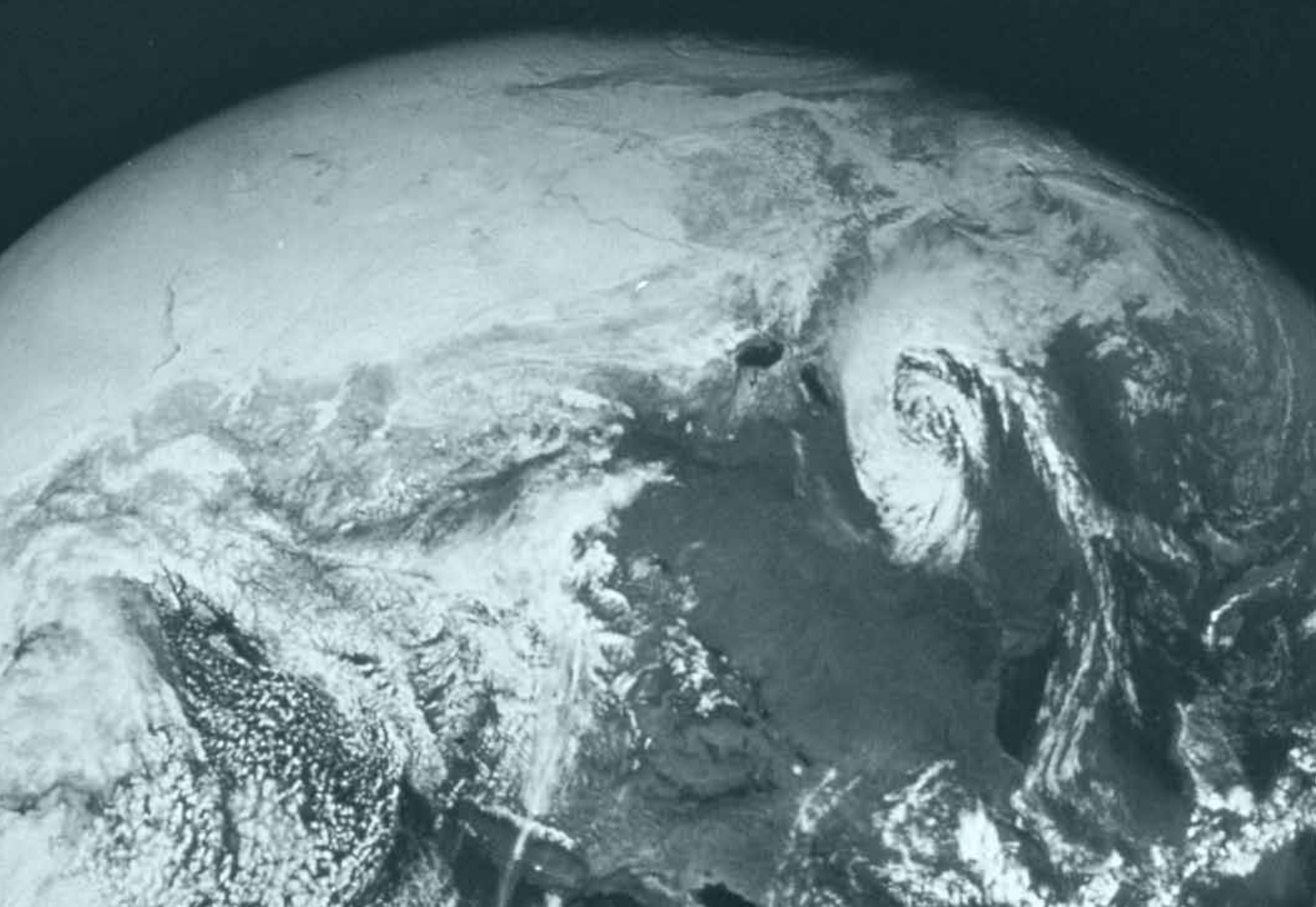
One way to achieve that may be to find out what types of benefits employees truly value and redesign remuneration strategies accordingly. In many cases, this may involve a combination of short-, mid- and long-term benefits for the whole employee lifecycle, without necessarily spending more cash on them.

Another way to achieve this is through capacity building, investing in training and development of both current workers and the future generations. This will lead not only to improved skills and higher productivity, but also to more engaged and loyal employees.

ABOUT THE AUTHORS

Carl van Heerden is an Executive Director at Global Remuneration Solutions (GRS). Based in South Africa, he can be reached at +2782 653 8721 or cjvh@globalrem.co.za.

Axel Zoma is a Principal at Mercer. Based in Paris, he can be reached at +33 1 55 21 37 46 or axel.zoma@mercer.com.



MERCER

For further information, please contact
your local Mercer office or visit our website at:
www.mercer.com

Argentina
Australia
Austria
Belgium
Brazil
Canada
Chile
China
Colombia
Czech Republic
Denmark
Finland
France
Germany
Hong Kong
India
Indonesia
Ireland
Italy
Japan
Malaysia
Mexico
Netherlands
New Zealand
Norway
Peru
Philippines
Poland
Portugal
Saudi Arabia
Singapore
South Korea
Spain
Sweden
Switzerland
Taiwan
Thailand
Turkey
United Arab Emirates
United Kingdom
United States
Venezuela

10989Q-HC-121212