

Reality check for salaries as recession bites

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The economic downturn is putting paid to the spiralling salaries, three-to-six tier bonuses and incentive schemes that had become the norm in the context of the longest economic growth period the world has known.

Sandra Burmeister, CEO of Landelahni Business Leaders, says it boils down to a simple question of supply and demand: a shortage of skills leads directly to an increase in remuneration, often not sustainable in the long term. In a downturn or recession, an abundance of skills drives down salaries.

Overall, the skills shortage is easing, and remuneration packages are falling, she says. Gone are the days of triple bonuses. Salaries are being frozen or in some cases even reduced, accompanied by the removal of retention bonuses and all other bonuses not directly linked to company performance.

"Linking bonuses directly to bottom line has the effect of focusing all employees on one common objective - a profitable and sustainable company. This will lead to a natural market rectification and an adjustment towards more sustainable pay structures."

However, these are short-term measures, she adds. The only way to drive down the remuneration spiral in the long term is for companies to balance supply and demand of skills though investing now in the development of graduates and young and mid-tier professionals.

"This will keep remuneration stable and be more sustainable when the next upturn comes. Now is not the time for companies to cut back their development programmes and skills training. The cost of scarce skills premiums far outweighs the cost of continuous skills investment.

"For example, in a 2008 global construction survey, 49% of participants stated skills shortages were the biggest constraint to growth. On the back of this, over the past three years both in South Africa and internationally, remuneration packages for highly skilled professionals, such as project managers, engineers and artisans, have tripled and quadrupled. Scarce skills incentives, shares, long-term incentives, performance bonuses, sign-on and project completion bonuses and retention incentives became the norm. Contractors who were paid for expertise on a project-by-project basis were earning as much as 40% to 140% more than their permanently-employed counterparts."

A few qualified professionals returning from deferred construction projects in areas like Dubai may have taken the strain out of the local market, she adds, but they are unlikely to play a huge role in mitigating the impact of a continued skills shortage in this sector. Returning engineers and artisans are likely to be absorbed immediately by local companies - at a high premium.

"Bear in mind that in the recent budget, finance minister Trevor Manuel announced infrastructure investment of R787-billion over the next three years, with more to follow. Rail, road, water and power projects currently underway on the African continent total \$21,5-billion. Over the next 10 years, emerging markets infrastructure projected spend is \$21,7 trillion.

"However, where there is a global and local surplus of skills, as in the financial sector, professionals returning from the UK and Australia will find themselves head-to-head with their locally retrenched counterparts also struggling to find jobs."

From a candidate perspective, it is important to temper your expectations, says Burmeister. "If you've been retrenched, you cannot expect to re-enter the market on the same salary. It's not realistic to expect companies that are not going to generate the same revenues and profits as in the past to pay the same salaries for skills that are now more readily available.

"Flexibility is important, and candidates willing to take jobs in different industries and geographies, for example in other African countries, are likely to stand a higher chance of success."

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