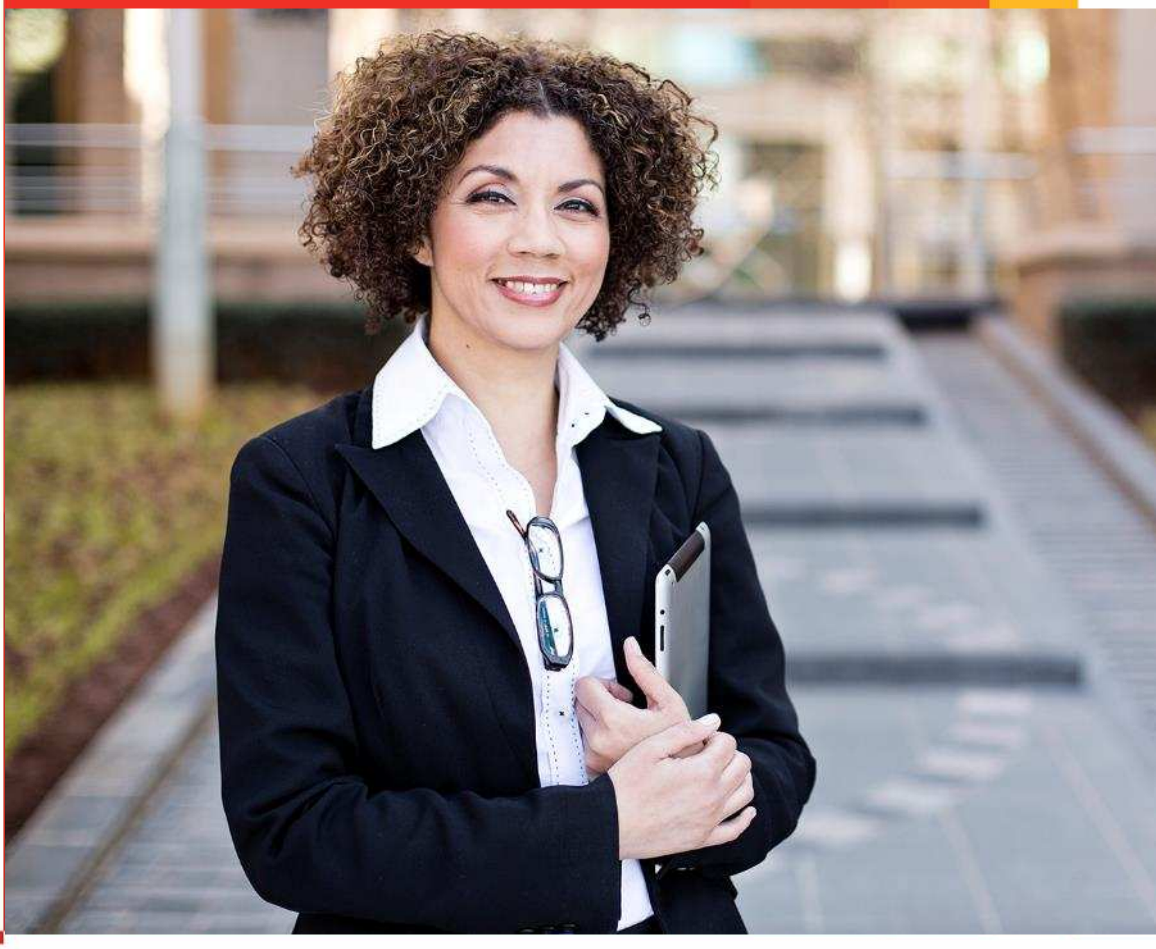
HR Quarterly

February 2016

A quarterly journal published by PwC South Africa, providing informed commentary on local and international developments in the Reward arena.



Contents

Contacts

If you require additional background on the published information, please contact:

Gauteng

Gerald Seegers
+27 82 655 7097

René Richter
+27 82 460 4348

Martin Hopkins
+27 82 459 4168

Barry Vorster
+27 83 286 6960

Louna Robbertse
+27 79 494 3222

Carol Shepherd
+27 84 657 3526

Chris Lamprecht
+27 82 457 6993

Minda Botha
+27 83 787 4878

Western Cape

James Whitaker
+27 (72) 117 2180

Gizelle Erwee
+27 (82) 871 5728

Julia Fourie
+27 (82) 781 3462

Kwa-Zulu Natal

Caitlin Shaw
+27 (83) 384 3111

Eastern Cape

Shirley Thomas
+27 (82) 735 8240

Yvonne Ducie
+27 (84) 605 6332

Pay governance in 2016

Managing employment costs and reputational risk are high on the agenda for most companies.

Employers are facing ever tighter controls and greater regulation around pay and benefits. This increased regulation is creating greater pressure on the reward function to ensure robust processes around what and how people are paid and get the basic infrastructure in place so that there is consistency and compliance across the businesses. While each employer is addressing the reputational risks around pay governance in ways appropriate for their business, common themes include:

- Ensuring an appropriate controls and process framework is in place across the reward agenda to minimise operational risks and inconsistencies
- Clear pay policies that are standardised across businesses to reduce inconsistencies and inequities between business units
- Robust grading frameworks with greater guidance on how to position people within these
- New approaches to pay progression linked to market, performance and other factors – rather than the formulaic approaches which serve to perpetuate equal pay risk
- Improved processes and controls between business units and the centre (for example in bonus calculations), and
- Harmonising Terms and Conditions to minimise risks of claims and manage employment costs.

In South Africa the legislative changes in the Employment Equity laws are clearly going to drive the actions of reward and human resources professionals in the coming months. The process of assessing risk of non-compliance starts with a detailed analysis of your current remuneration practices and benefits policies. This will include assessing your internal equity based on all the grounds specified by the legislation as well as any other arbitrary grounds. We recommend that you do the analysis by job title and job grade or, in the absence of a grading system by organisational hierarchical level. Large range spreads in your own data could be an indication of non-compliance.

Once the data analysis has been concluded it is important to revisit the fundamental principles on which you base differentiation.

As such the starting point will be job analysis and in many organisations this will include harmonisation of job titles to ensure consistency. The next step would be to assess your job profiles and job evaluation system to establish whether it is robust enough to deal with the requirements of legislation and to provide you with a defendable mechanism for differentiation.

This approach will provide you with a high level view to assess your risk in terms of the new legislation and allow you to put a remedial plan in place with the appropriate time frames.

The PwC People and Organisation team

Reward in 2020

Companies need to think more creatively and even radically about benefits that they offer, and really tap into the areas of the employment deal that are somehow not valued by employees. We expect to see much more innovative approaches to non-financial benefits in the future.

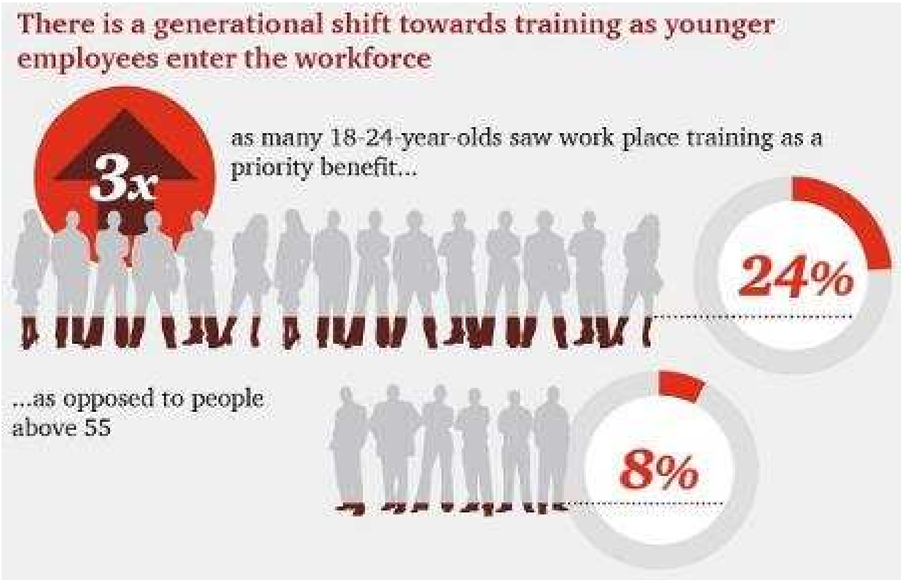
As shown below, the generational shift means this is becoming a greater priority. For example, the importance placed on training of younger employees is something that companies need to tap into and leverage this as part of the deal to attract and engage employees.

There are a number of areas of change for companies to think about:

Existing benefits: These are benefits that are already on offer but not understood or valued, or even well communicated.

New benefits: Discount cards, language or exercise classes, free food and gadget insurance are just some of the benefits which are being introduced.

Intangible benefits: Intangible benefits such as training and career opportunities may be hard to monetise but they are very important to the employment deal and companies are increasingly tapping into these and reinforcing their communication to extract the maximum value.



Gamification and recognition schemes: Companies need to tap into the creativity and collaboration in the social media generation. We are seeing companies introduce competition and social recognition schemes with awards, prizes and points for good ideas or good contributions at an individual or team level.

Customising benefits to match employee needs may seem like an extremely labour intensive task, the question is whether you can retain your top talent if you choose to ignore the changes in your workforce composition. PwC published the South African Employee Benefits Guide during December 2015. This unique survey analyses employee benefit practices and provides employers with the information required to rethink their approach to benefits in a changing reward landscape. Should you wish to obtain a copy of the publication please contact Margie Manners at margie.manners@za.pwc.com or Theresa Kite at theresa.kite@za.pwc.com

Please note that terms and conditions apply.

Customisation of the reward package

The workforce is more diverse than ever before. Many companies will have four generations in their workplace. Most strikingly, 'millennials' (those who entered the workforce after 2000) will make up 50% of the workforce by 2020.

With this diversity, the one size fits all approach to pay is no longer meeting the needs of employees. We find that there are huge amounts of lost value in pay and benefits that are not valued or understood by those who receive them. Addressing this lost value is crucial in an era where cost-constraint continues to be a focus.

Our recent research showed significant differences between age groups, professions and between men and women. It suggested that a greater proportion of women than men prefer benefits that have tangible and immediate impact in the year, such as a company car allowance and family medical insurance; whereas men have a preference for longer term benefits such as pensions and shares.

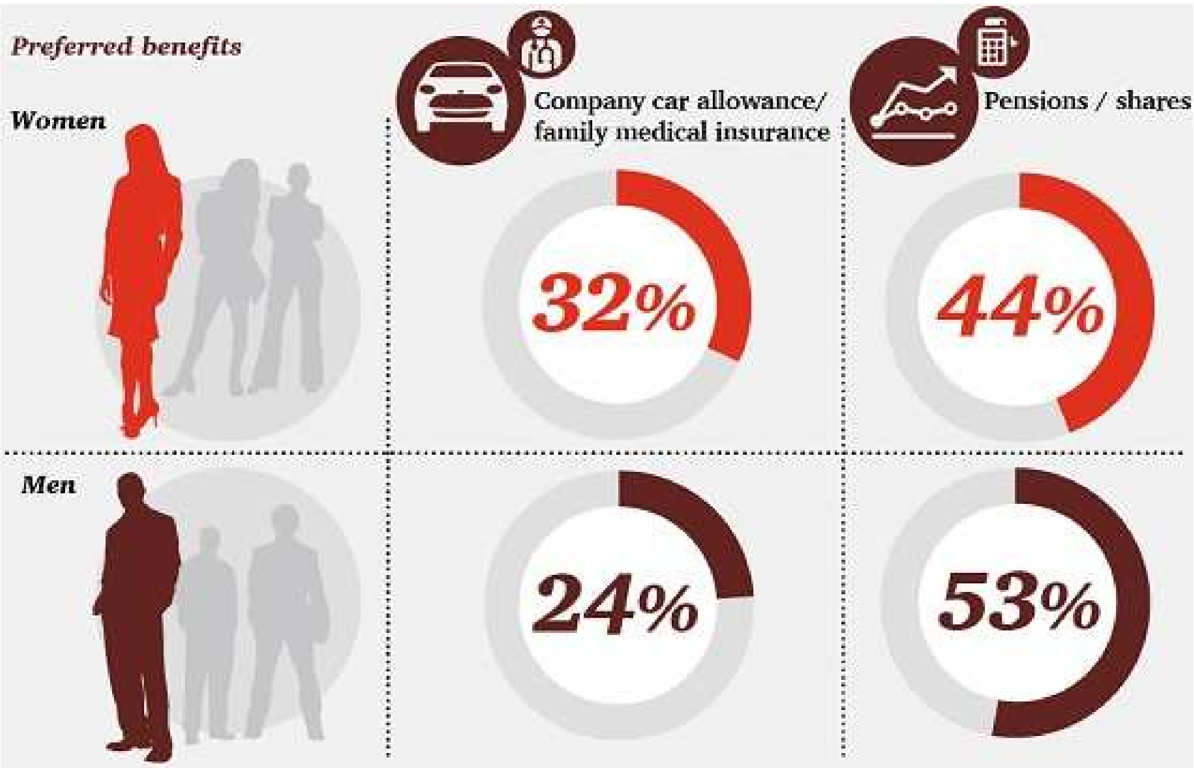
Meanwhile, appetite for greater risk was found in certain sectors. When given the opportunity to change their contracts to gamble a portion of their salary for a larger bonus opportunity:

- 56% in IT/Telecoms industry
- 47% in Construction industry
- 30% in Entertainment and Leisure industry
- and only 26% of employees in Charity organisations.

The message from the survey overall is that if employers target their benefits spend according to employee demographics, they may save valuable resources by only offering benefits valued appropriately by segments of their workforce.

What does this mean for employers?

Flexible benefits need to evolve significantly to meet this new challenge. Technology and data will be harnessed by employers in the same way that they use for customers to enable them to understand employee preferences better. This will enable companies to achieve cost savings and a competitive advantage by enabling employees to tailor the package according to their personal needs, for example, training and development, or work-life balance.



Moving people with purpose, the competitive imperative

The rising profile of global mobility

As your business enters new markets and the aspirations of your workforce change, the need to modernise your approach to mobility becomes ever more pressing. So what does modern mobility look like? Growth locations are changing. The focus of global investment and growth is shifting beyond the once dominant G7. This isn't just evident in the rise of the BRIC economies of Brazil, Russia, India and China, but also in the fast growing F7 'frontier' markets, stretching from the Philippines to Peru.

As a result, businesses are casting their net ever wider as they look for new growth opportunities; even relatively small companies are extending their international reach. This brings with it the challenge and complexity of getting people on the ground quickly in these new markets, as well as hiring and potentially mobilising local talent. It's clear that mobility has a key role to play. 85% of survey participants stress the importance of mobility in helping to meet business objectives and 75% agree that assignment destinations match their organisation's priority destinations for growth.

"There will be a significant increase in mobility and we need to be slicker and readier to execute this than we have been in the past." *Global Pharmaceutical Company, UK*. More people are moving, in new and different ways. 89% of organisations plan to increase the number of internationally mobile workers in the coming two years. Short-term assignments of up to one year will see the biggest increase in usage, probably due to our increasingly service-led economy and the need to get the right people on the ground quickly to deliver projects. We're seeing short-term moves being used as a way to develop emerging, high potential talent, providing exposure to working in different cultures and countries. They're often more attractive to women and can encourage mobility from destinations where there is often a reluctance to move away from extended family members for a longer period of time (e.g. Asia).

International business travellers are the second biggest group to grow. While the need for employees to travel internationally from time to time to perform their role is clear, this is the most challenging mobility type to manage. Do you know every time one of your employees works overseas? Just 17% of respondents said they had robust policies, processes and controls in place to track and manage business travellers. “Business travel tends to be something people are afraid to touch because it’s quite a big area which can be complex and tie up resources. But it’s a hot area that various countries’ tax regimes are looking at more closely, and so businesses need to think about bringing it forward on their agenda.”

The biggest predicted increase in new mobility types that businesses don’t use today is centred on talent. The results show an expected 22% adoption rate (and 49% net increase) in the use of talent swaps.

Mobility and talent start to align

Organisations globally are planning to introduce new mobility types. The biggest predicted increase in new mobility types that businesses don’t use today is centred on talent. The results show an expected 22% adoption rate (and 49% net increase) in the use of talent swaps. This is where an organisation ‘swaps’ high potential talent between two countries for a fixed time, so employees can experience working in a different country at an early stage in their career.

These swaps can help to promote personal development, cultivate a group culture and strengthen a global mind-set. This is closely followed by developmental moves which 17% of organisations expect to adopt; a 42% net increase in use. There is a shift away from the traditional use of mobility as a way of deploying people for tactical business needs, towards also using mobility as a way to attract and develop top talent and create a more global mind-set in the company.

To obtain a copy of the *Moving people with purpose - Modern mobility survey* please contact Rene Richter at rene.richter@za.pwc.com.

Employment law update

Garden leave finds applicability with restraint of trade in South Africa

Until very recently, the concept of 'garden leave' was something more commonly seen in the UK and Europe. Garden leave is a period whereby an employee whose employment has terminated remains at home, but continues to receive normal monthly remuneration. Garden leave clauses are inserted into employment contracts with a view of ensuring that any confidential or proprietary knowledge held by the employee will become out-of-date by the time that they change employers. This prevents the employee from taking such confidential and proprietary knowledge to a competitor. The Johannesburg Labour Court had an opportunity to comment on its applicability in South Africa when the case of *Vodacom vs. Godfrey Motsa and MTN* came before it. Judgement was handed down on 9 February 2016.

Garden leave is a period whereby an employee whose employment has terminated remains at home, but continues to receive normal monthly remuneration.

Motsa was employed as a senior executive by Vodacom. In December 2015, Motsa resigned and confirmed that his resignation would be effective 1 January 2016. Vodacom subsequently discovered that Motsa was offered a position at its competitor, MTN, with the appointment effective 1 January 2016. Vodacom then brought an urgent application seeking to enforce the terms of Motsa's employment contract, in particular the terms relating to garden leave and the restraint of trade. Vodacom argued that the six month period of garden leave was the notice period and the further six month restraint period was to be applied after the garden leave. Motsa contended that this would effectively be a period of 12 months which would be unreasonable.

The Labour Court held that the period of garden leave had the effect of "sterilizing" the employee. During this period Motsa would not have access to any of Vodacom's trade secrets, confidential information or any trade connections that may be of value to MTN. Motsa was privy to strategic business decisions and had knowledge relating to Vodacom's strategic plan for the forthcoming three years. This plan related to every aspect of Vodacom's business. Such information would be of benefit to a competitor and therefore the period of restraint which is effectively 12 months was not unreasonable.

The court accepted garden leave as an applicable provision within South African law and enforced both the period of garden leave and the restraint of trade, allowing Motsa to take up employment with a competitor only from 1 January 2017. Despite the decision by the Labour Court Motsa will not be prejudiced since he will still receive his salary and all benefits from Vodacom for the six month period.

Please contact Nardia Hanif at +27 11 797 4728 or nardia.hanif@za.pwc.com for further information.

Enhancements to REMchannel® and REMeasure®

More than 700 clients utilises one or both of these flagship products to increase their internal efficiencies and establish their remuneration practices in the reward and human resources arena.

We continuously assess the functionality of the products and services offered by PwC. We want to make sure that our products and services are constantly enhanced to improve not only the user experience, but also meet the needs of our clients. We are in the process of developing additional features and our users will have noticed some navigational changes over the past few months.

Below is a list of upcoming enhancements for REMchannel®:

- Reporting by listed and unlisted organisations as well as market capitalisation
- Additional reporting for on target bonuses
- Percentile reporting for the Gender, Age and Race reports
- New trend reports such as staff and executive ratios

The REMchannel® value proposition can be differentiated from other surveys available in the South African market in terms of the following:

Secure access to market data via an allocated licence to the survey on-line database.

Real time, interactive data base with new market data being published on a monthly basis as companies complete their salary increases.

By participating in one survey you get access to the general staff, management and executive data as well as industry specific data (on the proviso that your data is submitted to the survey).

Our very stringent data validation process.

Assistance from an allocated Key Account Manager to match the client's positions to correlating market positions.

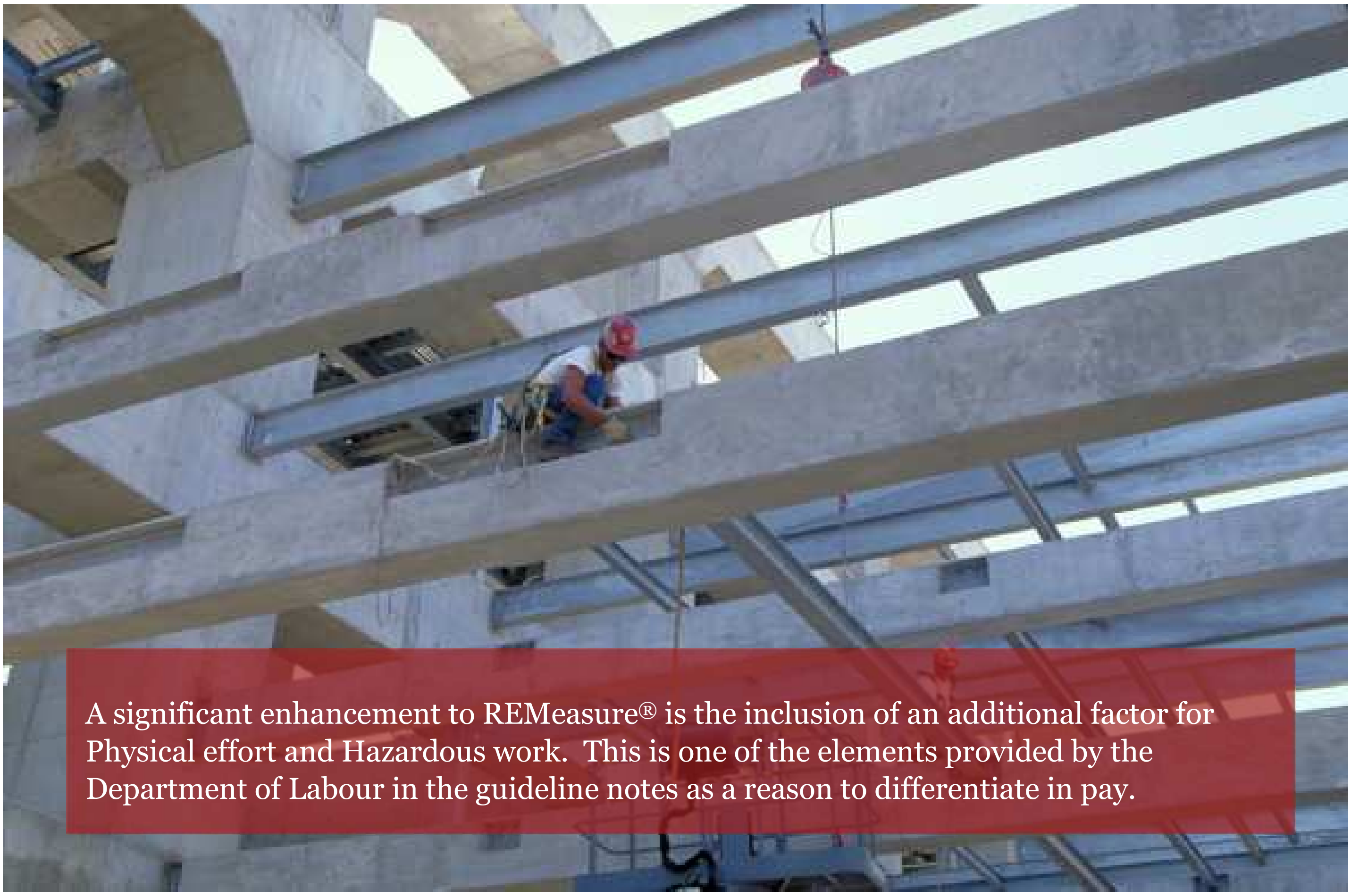
The organisation's own remuneration data is excluded from the market data to prevent the comparisons being impacted by the organisation's internal pay ranges. The interactive reports provide immediate comparative ratios of the organisation's own data to that of the selected market.

Comparison reports by job/employee/grade can be extracted based on parameters supporting the organisation's remuneration strategy.

Market ranges reports can be generated for comparisons by level and utilised when establishing the organisation's salary scales (if applicable to the benchmarking strategy).

Comparison reports (by job or employee) provide not only data to test external parity but also internal equity for employees in the same positions.

We have also improved REMeasure® by enhancing the navigation and the evaluation process and clients can now view their previous evaluation selections per question at the click of a button. We will also improve the mobility of REMeasure® by developing an application for off line iPad evaluations, this is specifically beneficial in African countries where connectivity may hamper access to the web.



We are also developing a new product to further enhance value that we provide to our clients. More details will be provided in the next few months, including regional launches. Watch this space!

Are South Africans retirement savvy?

In light of the recent developments regarding the delay in effecting the implementation of the tax harmonisation on retirement funds, it would appear that this is due to the misinformation about what retirement reform is and its effects.

Yes, high-level articles have been written about the pension tax changes and many opinions are in circulation about the new proposal by National Treasury. However, have the members that belong to the various retirement funds been educated about the new changes? The answer is probably not, as many employers took the wait-and-see approach since the announcement of the planned retirement reform.

In 2015, South African's managed to save 15.4% of their GDP. These savings include pension fund contributions and other forms of investments. This shows that the majority of South African's are still making poor retirement decisions. Employers and retirement funds alike, continue to assume that members are financially literate and are able to understand and make the right choices regarding their investments and retirement options.

The unfortunate reality is that many South Africans remain financially illiterate and this is evident in statements that have come from the various unions that represent the organised labour that belong to retirement funds. According to Finance Minister Pravin Gordhan the amendments are about the welfare of workers and encouraging saving in the South African economy. He said he is willing to sit around the table with those who have concerns about the new laws. Unions continue to threaten strikes to affirm the stance against the proposed changes. This is a true reflection of the gap that exists in respect of financial education. Instead of leaving employees to their own devices, more needs to be done to ensure that they are educated about retirement funding and the proposed changes.

Continued education and discussion regarding the tax changes that will come into effect could make the transition easier than having to deal with protests that may have an impact on the economy. Knowledge puts us in a better position to eradicate misconceptions and allows us to change our situations and make better decisions.

In keeping with the best interests of the employees, employers should understand its role in ensuring that all issues that affect the employees' retirement outcomes are addressed. This includes education on the retirement reform. If you require assistance with retirement reform education for employees and human resources staff, please contact Gerald Seegers at gerald.seegers@za.pwc.com or Chris Lamprecht at chris.lamprecht@za.pwc.com.

By Puseletso Matsheng

References:
Peacock, B 2016, 'The hidden effects of pension tax changes', Business Times 7 February, p.5.
South Africans amongst the world's worst savers, 2015. Available from www.fin24.com [07 July 2015]
More unions blast the new tax, retirement savings, 2016. Available from www.fin24.com [17 January 2016]

What can reward professionals expect in terms of salary increases?

South Africa technically escaped a recession during the third and fourth quarters of 2015 and the gross domestic product (GDP) growth outlook for 2016 is continuing to deteriorate.

Even with a relatively subdued inflation outcome for October and weak GDP growth prospects, the South African Reserve Bank (SARB) decided to raise its benchmark repurchase rate by 50 basis points (bps) in January. The decision was based on the SARB's assessment that their inflation forecasts are most likely to be influenced by risk factors such as the rand dollar exchange rate, above inflation electricity tariffs and the worsening drought conditions. The January consumer price index already increased to 6.2% and it is expected that the full impact of the drought on food prices will start becoming clear during the second quarter of 2016.

For this reason it is anticipated by most economists that the SARB will raise the repurchase rate again during 2016 as the all-items consumer price index (CPI) is expected to average at 6.2% during 2016. The rate increases are going to put further pressure on consumers and their disposable cash for 2016. This will also impact employers as the pressure for larger salary and wage adjustments will increase, specifically by organised labour.

It is evident that the average budgeted 6% salary and wage movements by more than 500 REMchannel® participants now seems to be conservative. Already some economists are predicting wage and labour inflation for 2016 to be between 7.6% and 8.1%. The reality is that these increases are not viable for many organisations and will ultimately affect the sustainability of those organisations where margins are already very low, or even at breakeven levels.

This creates major challenges for reward professionals – on the one hand cost containment remains the highest priority and on the other hand retaining skilled and scarce talent. The latter is extremely difficult if budgeted increases are lower than the increase rates in the market. Staff turnover costs are also significantly higher than most reward professionals anticipate. The recruitment process and fees only contributes a portion of the costs. Lost productivity, impact on client relationships and the on boarding process of new staff cost is almost never calculated.

PwC is currently conducting the *March Salary and Wage Movement* survey to assess the impact of the current economic climate on increases. It will be interesting to see how organisations are dealing with the challenges that they are faced with in the coming months. To obtain a copy of the survey please contact Theresa Kite at theresa.kite@za.pwc.com or Margie Manners at margie.manners@za.pwc.com. Please note that terms and conditions apply and a copy of the research will only be made available to organisations who commit to participate in the September 2016 research.

Current and forthcoming attractions

The following thought leadership and survey publications have been released or will be released in the next few months. Should you wish to download a copy of any thought leadership publication, please go to our website www.pwc.co.za and select the "Publications" tab. For enquiries regarding survey publications, please contact Margie Manners at margie.manners@za.pwc.com or Theresa Kite at theresa.kite@za.pwc.com.

Thought Leadership

- 19th Annual Global CEO Survey: January 2016
- Annual South African Non-executive Director's Survey: January 2016
- Annual South African executive Director's Survey: July 2016
- Bi-ennial South African Trustees Survey: July 2016

Surveys

- South African Employee Benefits Guide: December 2015
- Salary and Wage Movement Survey: March 2016 and September 2016
- Short Term Incentive and Long Term Incentive Surveys: planned for 4th Quarter of 2016