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PwC's HR Quarterly 2nd Edition June 2016

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

June 2016



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Trends in people analytics

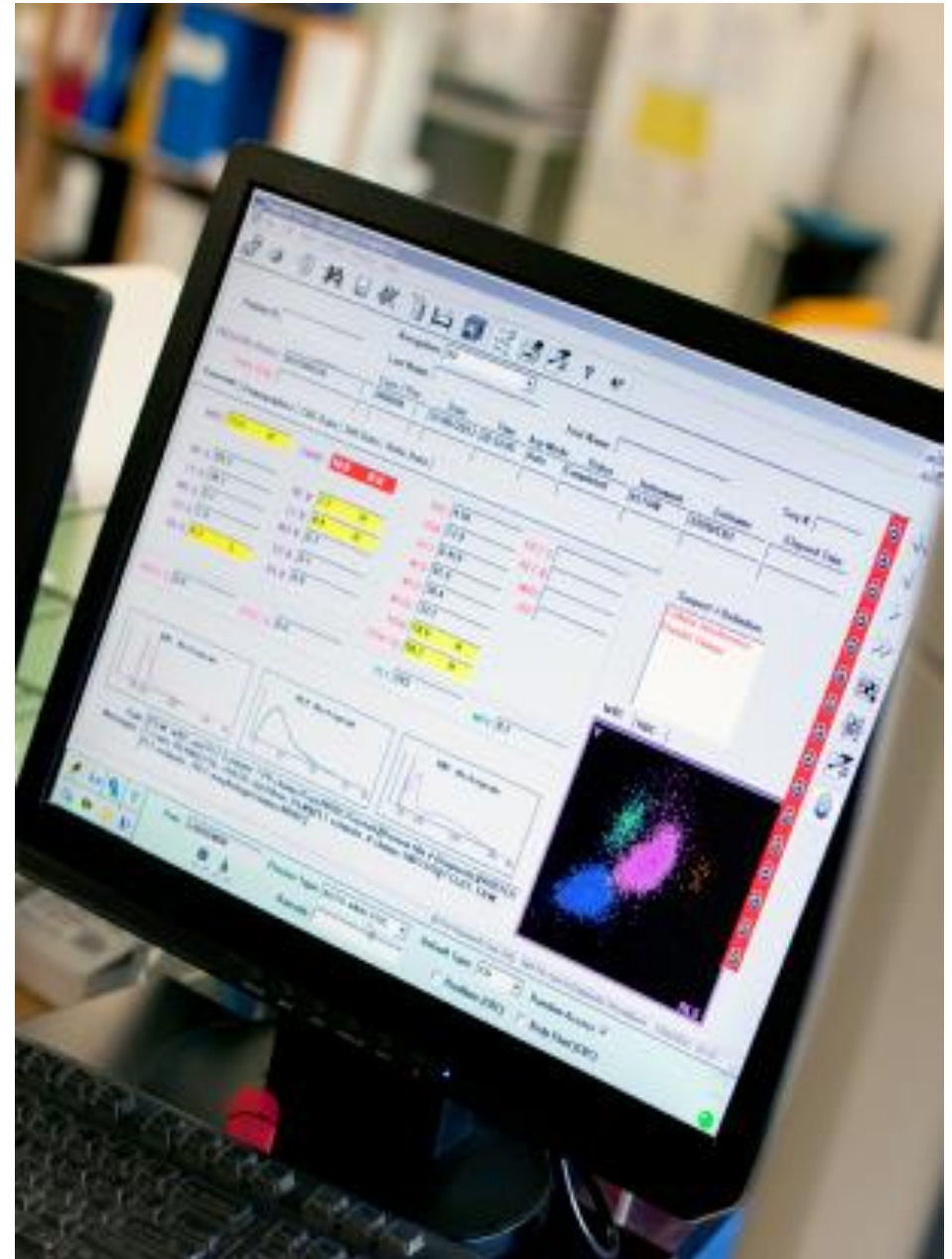
Talent is top of mind to senior executives, and that is more evident than ever today. For the first time in eight years results from PwC's Annual CEO survey shows that 34% of CEOs are "extremely concerned about the availability of key skills. They are right to be concerned – talent drives the top line. It also drives the achievements of the business strategy. It creates innovation, controls cost and drives change.

Executives are increasingly pressuring HR to produce evidence-based insight on critical talent to develop solutions. The burning question remains whether we have the right talent mix to achieve our business objectives. How engaged are our top performers in alignment to new business strategies being formulated in a down-turned economy? Can we do more to predict who are going to be the right leaders of the future and what experience should we give them? Can we identify potential flight risks in our most important roles?

People analytics is a new domain for most HR departments. A new function is being born as companies look to better drive the return on their investments in people. The old approaches of "gut feel" and "doing what everybody else is doing" is not sufficient anymore. We believe in making decisions based on tangible evidence and not hunches.

The article in this edition of the HR Quarterly provides a few people analytics trends to provide more clarity on how essential it is becoming to workforce planning and people management. We trust that you will find this issue of our HR Quarterly of value.

The People and Organisation Team



What do the benchmarks say?

Return on workforce investment is declining

A critical measure of workforce productivity, Labour Cost Revenue Percent, rose from 28.2% to 29.9%, indicating a decline in return on workforce investment. Though productivity has been high in recession and post recession years, it is levelling off after several years of consistent increase. Despite a drop in Labour Cost per full time equivalent, employees earned less revenue on their investment. Organisations may be hesitant to continue to invest in talent the way they were when the economy bounces back, however, this lack of investment may cause productivity to decline over the long term.

High performer turnover trend continues

Although voluntary separation turnover is inclined to decrease in poor economic circumstances the proportion of high performers leaving organisations is concerning. High performers, despite being among the most valuable employees are not driven to stay with their organisations.

High potential promotions slip

Similar to high performers, high potentials are also showing concerning career trends. High potential promotion rates are decreasing while overall promotion rates are increasing. This has major repercussions for organisations who have identified high potentials as the future leaders in the organisation.

Diversity stalls

Headcount of diverse leaders is also declining somewhat after showing progress for several years. Ethnically diverse Executive headcount decreased from 11.6% to 10.7% and female executive headcount percent declines from 26.7% to 25.7% as reported by PwC's Saratoga benchmarks in the US.

Investment in HR increases

As HR is increasingly being asked to solve strategic human capital issues, the function is receiving increased funding to deliver. For leaders this raises the question, "are we improving". The rise of people analytics and an abundance of data provides the opportunity to analyse root causes for critical human capital issues.

Execution:

We are seeing the following trends commonly appear in this area:

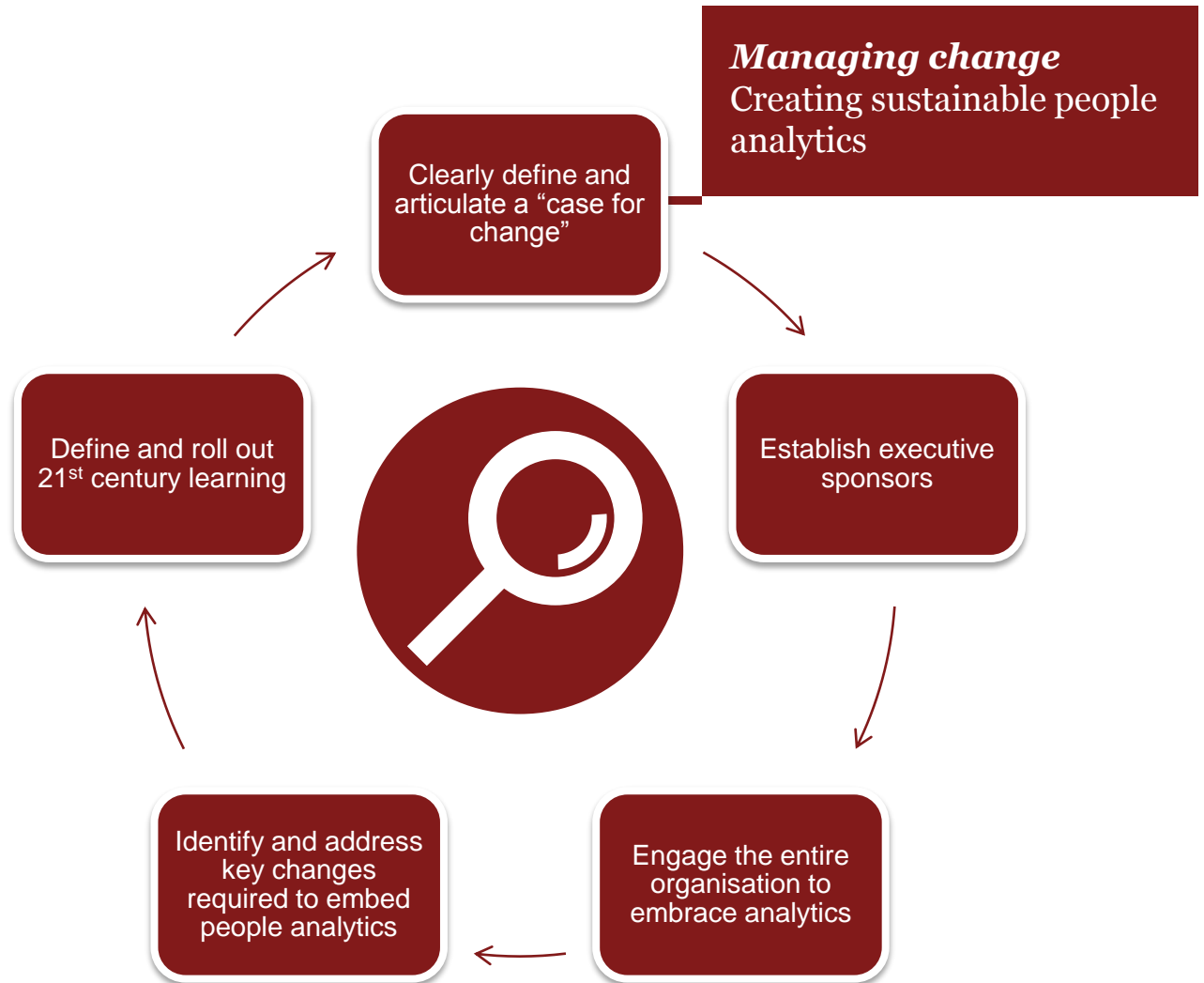


Actions arising from these trends

In a recent pulse survey 86% of PwC's Saratoga participants reported that creating or maturing their people analytics function is a strategic priority for the next one to three years. Not one of these participants expected to see a decline in the resources dedicated to people analytics.

Many organisations recognise that this is crucial to driving production, distribution, adoption of analysis reports and insight into the workforce. When asked what the major barrier is to produce meaningful reports and analytics, the top response was "multiple unintegrated sources" of people and organisational data. The solution is therefore too much for technology tools alone. Organisations across industries are investing in or creating the business case for building or buying technology solutions. 56% of organisations who participated in the 2014 HR Technology Survey indicated that their organisations have a roadmap and strategy to implement suitable technology solutions. 25% indicated that they plan to move their HR analytic technology to the cloud in the next three years.

For a copy of the full report please contact René Richter at rene.richter@za.pwc.com



Salary benchmarking 101

A light-hearted article about benchmarking: Shirley Thomas

Remuneration practitioners in our Research Services environment generally know what they are talking about and can and do sound smug to their friends and families when asked “what is it that you actually do?” Eventually, after explaining that you analyse and reconcile remuneration and benefits; extract compa-ratios against the market’s percentiles and assist in setting pay scales; all this after creating job profiles and evaluating each position according to the input, process and output factors – there is a polite blank look, a smile, and then “oh so you are a Payroll person then?”. You end up answering “yes I work with payrolls”. So much easier than arguing, but the smugness kicks in and you wonder what it is that they don’t understand, because it is really quite plain and simple!

Friends who grasp that you have something to do with what people should be earning – suddenly get excited and ask “my brother works in IT – what should he be paid?” “My cousin has been in the bank for more than 10 years”, “my Mom’s a bookkeeper”, “my sister has a fine-arts degree”, etc. etc. How long is a piece of string – they may as well ask! The other favourite is at the top level – “what does a CEO earn?”. A CEO of a 10 man band with a budget of R200,000 per annum, or a CEO of Anglo American, or all points in-between? Not that we can tell them, I hasten to add, even if it was a one-word answer, but it doesn’t stop them asking!

All these well-meaning friends and associates are very good at what they do in their respective jobs, no doubt, and could confuse and impress our noble remuneration practitioners any day of the week with their knowledge and expertise – so we try to stay humble! But it is hard!

So here is a step-by-step layman’s description of the lifecycle of the remuneration process.

1. Companies have employees who need job profiles (descriptions) summarising what their duties entail. Most laymen know this! Tick.
2. Each job should be evaluated (graded) to test the complexities of the responsibilities, both internally and externally against similar positions in other organisations. There are several Job Evaluation tools available for this purpose. We obviously recommend our own REMeasure® on-line system. I am sure most of you have heard of job grading? Tick.
3. As economies grow (well most of them do), salaries and benefits need to keep in line with this growth, (to motivate and retain high performers), so annual salary increases are awarded. I think everyone agrees with this. Tick.
4. The development of pay scales, based on market remuneration information and also taking present salary levels into account, ensure that salary increases are not thumb-sucked. Don’t sound shocked - this still happens!
5. To explain market remuneration information and salary benchmarking – organisations provide their salary information (yay – here is the payroll connection), to their choice of survey provider, and all these “payrolls” are consolidated into one big pot, from which can be extracted data by position, grade, region, industry, gender, age etc. Clever stuff! We recommend the REMchannel® survey of course.

Salary Benchmarking 101

6. And now the tricky bit – the sample of information in either the national database, or by relevant geographic sector, does not consist of one value only. In a sample of 11 people, for example, they don't all earn the same salary (they should if the new terms of employment equity regulations of "equal work for equal pay" have anything to do with it) - but let us assume for this example that in this group of employees, five are earning R2,000 a month (I did say it was an example!), one is earning R2,500, three are earning R2,750, one is earning R3,000, and one is way out in front, earning R8,000! Yes I know – not fair! The average of that sample of 11 people is R2,886. That is one way to check what people should be earning, but the fairer way is to take the half-way mark of the 11 people – and below you will see that R2,500 is the middle value. This is known as the mid-point of the range. Another term for this is the median or 50th percentile. 50% of the sample earn less than this and 50% of the sample earn more.

Employee 1:	2,000]	
Employee 2:	2,000]	
Employee 3:	2,000]	This is the 25 th percentile of this range of salaries
Employee 4:	2,000]	
Employee 5:	2,000]	
Employee 6:	2,500]	This is the middle value, i.e. mid-point (median, 50 th percentile)
Employee 7:	2,750]	
Employee 8:	2,750]	
Employee 9:	2,750]	This is the 75 th percentile of this range of salaries
Employee 10:	3,000]	
Employee 11:	8,000]	The average of these 11 salaries = R2,886.90

To expand on this percentile method, the salary information can then also be divided into other percentiles, and the most common are 25th and 75th – nice easy quarters! The 25th percentile of this group would be R2,000 (25% of the sample earn less and 75% of the sample earn more) and the 75th percentile of this group would be R2,750 (75% of the sample earn less and 25% of the sample earn more). The ideal position is for salaries to fit neatly between the 25th and 75th percentiles. Are you still with me? Can I tick?

Another tick?

For the record, and the reason we cannot tell you, off the cuff, what each job holder should earn - there are several levels of most jobs, depending on years of experience, qualifications etc. There are 4 levels of Accountant, 5 of Secretary/PA, 3 of Logistics Manager and Engineering Manager respectively and 7 levels of CEO for example, and the list goes on!

So there! How long is a piece of string indeed?!!

7. Now this is still a bit complicated for the greenhorns – because when we talk about pay scales – these generally use the market percentiles as a base, but not necessarily in quartiles as explained previously. In a straightforward case, the mid-point of the market data would be used to set the mid-point of the scale, and then the ranges could be 25% below and 25% above, i.e. as in the explanation earlier, but not necessarily, and are often restricted to 20% above and 20% below (just to confuse everyone). Are you following me – come on keep up!
8. This is a general scenario – but sometimes a company’s remuneration philosophy allows for a higher level pay scale and they could use the 75th percentile of the market as a mid-point of the pay scale and the lower and upper ranges set at 20% below and 20% above that mark – but I know that is really getting very complicated for the layman, so we won’t go there! Suffice to say, these pay scale ranges are developed and the organisations actual salaries are plotted against them, per grade usually, and it becomes evident how they “fit” into the ranges. Again, as with market comparisons, the ideal situation is to have most of the employees within the lower and upper brackets, but there are always low and high outliers (as per the set of figures shown above where there is one person earning a lot more than everyone else – caused often by historical progression, long service etc.). These extremes are flagged and can be dealt with according to the company’s in-house remuneration policy. Historical high outliers are more difficult to deal with than those at the lower levels, because salaries can be accelerated, but you can’t take remuneration away from an employee – except in cases of demotions etc. But that is another whole story! So the high outliers have to be handled carefully, and performance should always be taken into account. If I have lost you, don’t worry because the next point is about actual salaries, so I am sure to regain your attention!
9. Once employee salaries are reviewed or new hires appointed, using the organisations’ in-house updated pay scales, they are then uploaded (payroll again) into that big pot I mentioned earlier, and the comparison reports that the survey provides will enable your employer to see where each individual employee’s salary “fits” into the market, compared to the job they are doing. Increases are awarded based on, firstly, the Company’s budget; secondly using the market information as a guide; and thirdly, they will also be guided by an employee’s performance over the review period. Performance Management is another huge part of a good HR practice – but also a story for another place and time!

People in a technology world

‘It is impossible to contemplate the progress...in Great Britain within the last 30 years without wonder and astonishment. Its rapidity...exceeds all credibility.’ So wrote Patrick Colquhoun in 1814 of the transformation of the manufacturing sector at the height of the Industrial Revolution. The digital revolution we’re living through has brought changes of a similar magnitude in a shorter amount of time. Credibility is indeed being stretched; innovations that seemed close to science fiction not long ago – robot butlers, driverless cars – are a reality, and some are close to becoming ubiquitous. It’s hardly surprising that organisations and their leaders are preoccupied with keeping up with digital innovation and terrified of being left behind. Forming a technology-led roadmap and strategy as a result, is top of the business agenda.

But is this really all about the technology?

We don’t believe it is; we think it’s really about people. While technology is clearly fundamental, what’s most significant is the way in which technology is changing our behaviour and the choices we make; the things we do as employees and as consumers, at work and at play. The Industrial Revolution brought automated factories but it also ultimately resulted in the rise of the unions. Successfully navigating change is all about people. Our capacity to benefit from digital technology is enormous – we’ve only scratched the surface of what digital can do for us. But competitive advantage isn’t about the technology; it’s about the way in which organisations use, manage and inspire their people.

People want to matter

In the digital world, everyone can be heard and everyone can contribute. We live in an age where Twitter has created an army of frontline news reporters at major events and disasters and where community forums such as tripadvisor and glassdoor roar the opinions of millions. The omnipresence of mobile devices has accelerated this trend; last year we reached the point where the number of mobile-connected devices in circulation exceeds the world's population. We live in a networked, connected, collaborative world where anyone has infinite access to the ideas and resources of the global online community. We're creating a sharing economy, where access has become more important than ownership and where our skills, ideas and our time can be made available to anyone who needs them, or is prepared to pay for them. This has brought greater opportunities through crowdsourcing (of ideas and the money to fund them) but is also transforming the demand/supply equation, just as the Uber app has transformed the taxi sector, by creating an on-demand market. At the same time, digital technology has turned the spotlight onto each and every one of us as consumers. We have far more choice than ever before, and sellers have a far better understanding of what we want. Advertising and marketing has become highly personal – online adverts are based on our shopping habits, the homepages of our favourite shops are personalised to suit our tastes, and we are showered with recommendations based on what we've bought in the past. As consumers, it's all about us. We're not part of a crowd; we are all exceptional. So what are the implications of individualism in a collective world?

Digital has changed our behaviour – but it's also changed our expectations. In the digital world, the internal client experience for employees is just as important as the external consumer experience. We expect to be unique as consumers, so why not as employees? The digital world has opened up a world of alternatives to us, as consumers and as employees. Other, perhaps better, options are more visible than ever through LinkedIn, glassdoor and multiple online recruitment sites – which means that dissatisfied workers are a greater flight risk than before. Organisations need to work harder to keep the people they want and to spot unhappy workers before they leave. When considering that consumer technology is quickly outpacing enterprise technology, the shift in employee expectations this brings is creating both a challenge and opportunity. Organisations that are adopting technology for HR are able to create an employee and manager experience that more closely matches their experience as a consumer. This helps meet their expectations and supports this cultural shift. Transparency and information rule in this world. Digital technology has given us immediate access to huge amounts of information and knowledge in our lives and we expect the same at work; transparency around what we contribute and how we're rewarded for it, but also transparency around what the company does and stands for.

Digital success is not about securing the best technology; the true value comes from the way your people use it

We expect to be unique as consumers, so why not as employees?

People are more than their demographic

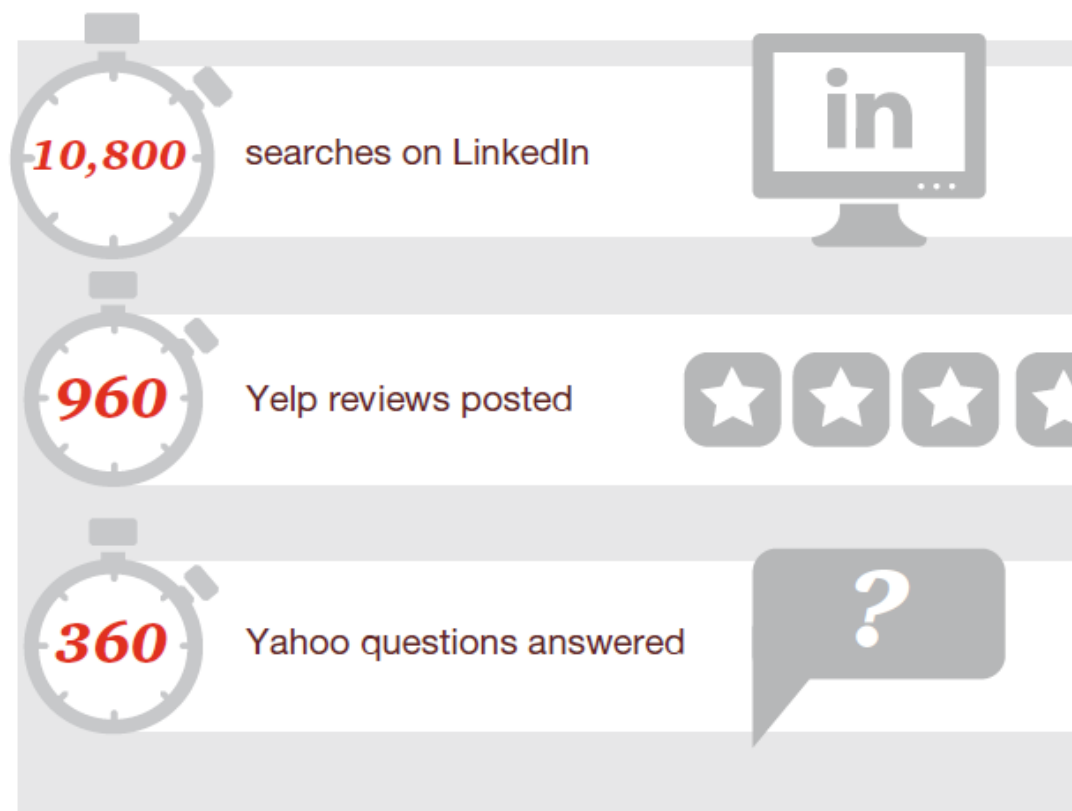
While people may have demographic traits in common that doesn't necessarily mean they'll all behave in the same way. Digital technology and analytics give us access to individual data that brings an added level of value, so the broad trends seen in certain demographic groups, can be supplemented with a more sophisticated understanding of individual behaviour.

The power of analytics is that it allows us to reflect on the differences within segments of the workforce, which can be much greater than the differences between them.

The best organisations are using analytics to optimise the employee value proposition, understand better how people make decisions and value reward, benefits and career opportunities, and collect feedback and engagement data. These organisations will win.

A global community

A lot can happen in a minute



Talent on tap

A perfect match of talent demand and supply is still the ideal rather than reality, but digital technology has given both employer and employee the power to advertise their skills and needs and seek out the best opportunities. We pointed out in our study of talent adaptability that online professional networks give organisations access to a larger talent pool and critically, to passive candidates as well as those actively looking for a job. Similarly, talented people can explore well beyond their own borders and have access to far more information on potential employers. This ‘uberisation’ of talent is creating a rise in freelance workers who are able (or obligated) to take control of their contribution to the workplace. According to our latest annual global CEO Survey, a third of CEOs have greatly increased their reliance on contractors, part-time workers and outsource arrangements over the past year. This is the ‘Orange World’ we predicted in our studies on the future of work, where innovation encourages radical new ways of working in a highly connected world.

Digital technology allows us to work anywhere and at any time, that doesn’t necessarily mean that the workplace is doomed. Rather, digital has made the concept of work much more flexible – the line between work and home is blurred and people want to be able to work in the way that suits them best. The digital-savvy millennial generation, in particular, see work as a thing they do, rather than a place they go to. But even so, research consistently shows that while digital has increased the options for working remotely, the majority of workers prefer to have human interaction – whether that’s at an office or a less formal meeting space.

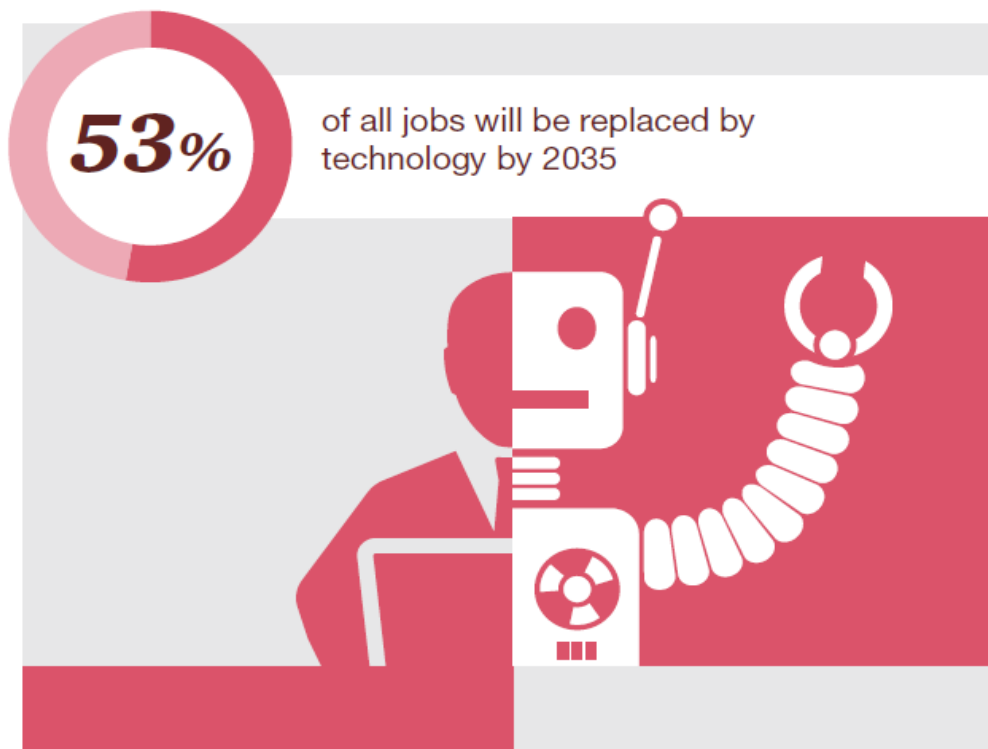
Work increasingly crosses territorial boundaries too; which for employers raises questions about how the organisation can remain flexible enough to attract and retain talent while continuing to keep the control necessary to manage the workplace. Our recent mobility study found that 31% of companies didn’t know how many of their staff worked internationally each year – a significant compliance risk.

The commoditisation of work

As more work is automated, non-commoditised work becomes very high value. This, potentially, creates two tiers of employees. At one end are the valuable, sought-after workers carrying out specialist work, who are heavily courted and individually targeted by employers. At the other end of the scale are the mass of ubiquitous workers carrying out commoditised work (who one day may well be automated out of the workplace). The supply/demand model for each is in sharp contrast – specialised workers have a large say in their choices and respond to a highly personalised experience, while the model for commoditised work is drifting towards an uberised, ‘free market’ for talent where work is won by the lowest bidder, driving wages and privileges down. The result could be a world of ‘haves’ and ‘have nots’. As well as creating new challenges, digital technology has provided the tools that organisations need to manage the modern workplace, to create an atmosphere of individuality and to seek out workers with the specific skills they need. It’s essential that HR uses the technology available to its full advantage.

Robot colleagues – myth or reality?

Robot colleagues



Swedish Foundation for Strategic Research, Vartannat jobb Automatiseras, 2014

Robotics and automation are transforming the workplace, particularly in place of repetitive, high volume work. There's a debate raging over to what extent robotics will replace humans in the workplace. So far the impact has largely been confined to the manufacturing sector and to high-volume and manual work. It's the next stage of robotics, though, that's critical; smart robots that are capable of decision-making and learning. Robotics engineers in Japan, for example, are close to completing an artificial intelligence programme that can pass the entrance exam of the University of Tokyo. A recent report from the UK Government's Digital Skills Committee has estimated that 35% of UK jobs were at risk of being automated over the next 20 years, while the Swedish Foundation for Strategic Research has said that 53% of all occupations will be replaced by digital technology over the same period. This raises questions for governments, employees and organisations: What are the implications (and responsibilities) for companies and governments, for example, when a significant proportion of workers will be automated out of their job? Are there processes which should never be automated?

How will organisations compete for the best specialised workers?

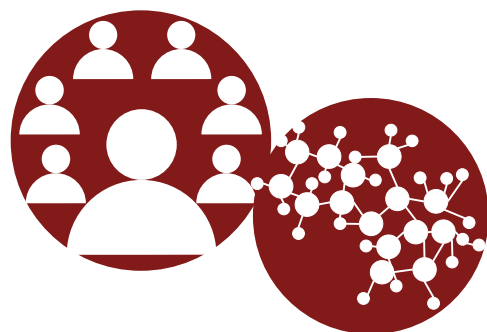
Ideas are an increasingly valuable currency

Maximising diversity

Innovative companies tend to have a diverse workforce – meaning workers with a wide range of experiences, backgrounds, education and perspectives – and that requires not only a recruitment policy that encourages ‘true’ diversity, but a workplace culture that doesn’t encourage conformity or filter out potentially brilliant misfits. Digital technology has opened up, literally, a world of possibilities for employers, allowing them to scan new geographies, sectors and demographic groups for the diverse talent they need. Professional online networks give visibility to both employers and potential employees across borders and industries – and most importantly they also open up the possibility of accessing passive candidates who are not actively looking for a new role. In this world, the employer brand on social media becomes far too important to be an afterthought. These are new challenges for existing leaders but also demand a new set of skills for future leaders. HR should be addressing leadership development to make sure that they are creating the leaders they need, with the skills to excel in open-source leadership.

People

The most extraordinary technology of all



For a full copy of this report contact René Richter at rene.richter@za.pwc.com

Accessing ideas

People, not technology, have ideas. What digital technology does is make those ideas more visible and accessible than before. The success of a company depends on the ability of its leaders to organise the workplace in such a way that its collective intelligence is maximised. The biggest tech companies already have a strong track record in encouraging innovation among their employees – Google’s experiment with ‘20% time’, which allowed employees a day a week to follow their own passions, was the best known but not the earliest example. Crowdsourcing and similar initiatives are enormously effective in terms of generating ideas – good and bad – but once again, what sets successful companies apart is their ability to identify the best ideas, and then follow them. And that decision, today at least, is a human one. Leaders must be able to spot the best ideas and filter out the noise and irrelevancies – they must also be able, and willing, to take an educated leap in the dark.

Economy continues to contract – what does this mean for salary increases?

Over the past 5 years this subject has been on the lips of every CEO, CFO and HR Director. Profits are plunging, share prices continue to be under pressure and of course shareholders want a higher return on their investment. At the same time employees are continuously faced with increases in cost of living and less take home pay. The contraction of retail sales, infrastructure expenditure and the down turn in new vehicle sales sketches quite a grim picture.

In the March 2016 Salary and Wage Movement survey we reported the minimum and maximum projected total guaranteed package increases. For the first time it became evident that a number of companies were not considering granting any increases across all employee levels.

Minimum and maximum total package increments for the next twelve month period

Employee category	Minimum	Maximum
Executives	0.0%	8.0%
Management	0.0%	8.0%
General staff	0.0%	8.0%
Unionised staff	0.0%	9.0%
Total lift to payroll	0.0%	8.0%

Pay remains an emotive issue.
 The employer wants to see growth in profits whilst the employees increasingly need more money to maintain their standard of living.

Average reported increases:

6.1%

To participate in the upcoming Salary and Wage Movement survey contact Theresa Kite at theresa.kite@za.pwc.com or Margie Manners at margie.manners@za.pwc.com

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 review the available thought leadership publications please go to our website

www.pwc.co.za

For enquiries regarding survey publications, please contact Theresa Kite at theresa.kite@za.pwc.com or Margie Manners at margie.manners@za.pwc.com.

Thought leadership:

- Africa Agribusiness Insights: Published 2016
- AfriTax - Issue 28: Published March 2016

Surveys:

- Executive Directors' Remuneration Survey: July 2016
- Salary and Wage Movement Survey: October 2016

By joining us for a highly interactive session, you'll gain a deeper understanding of the challenges that face organisations due to the changes in legislation.

Cape Town

19 July 2016
Crystal Towers Hotel,
Century City,
Cape Town

Johannesburg

21 July 2016
The Pivot, Montecasino,
Sandton

Durban

28 July 2016
The Square Boutique
Hotel, Umhlanga Rocks

Save the date

Possibly one of the most noteworthy additions that was made in 2014 to the amended Employment Equity Act was the introduction of the right to 'equal pay for work of equal value'. *Whilst organisations are grappling with the consequences of these changes, the guidelines as published on the 1st July 2015 makes clear reference to the objective assessment of jobs in terms of similarity. This sounds fairly simple, but is it really? Most organisations are faced with the dilemma of outdated job descriptions either due to historical reasons or simply the amount of time that needs to be spent to update or even start the job profiling and analysis process from a zero base.*

We'll also be showcasing a new tool that will revolutionise the job analysis process.

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