

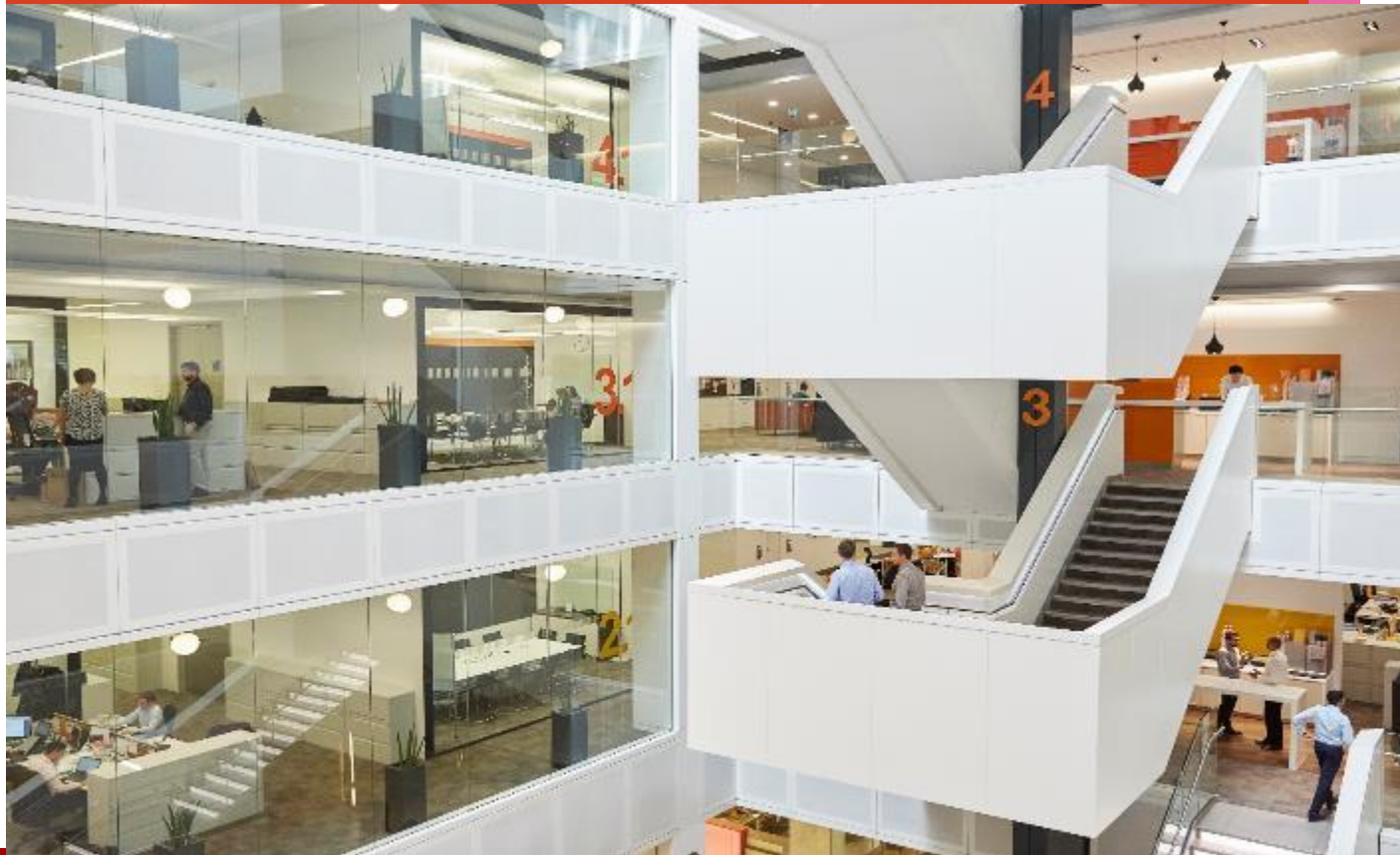
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# *HR Quarterly*

## 1st Edition March 2017

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

March 2017



**pwc**

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*There will be a major shift away from the thinking that we learn one profession, have one job and stay in it for decades.*

## *The future of work*

At the beginning of another year we are increasingly aware of the continued challenges to remain relevant in a changing world. Survival seems to be the key word for many organisations but at the same time strategies need to be devised to ensure future growth.

New technologies, data analytics and social networks are having a huge impact on how people communicate, collaborate and work. As generations collide, workforces become more diverse and people work longer; traditional career models may soon be a thing of the past.

Many of the roles and job titles of tomorrow will be ones we've not even thought of yet. So how are these developments going to affect the talent your business needs? How can you attract, retain and motivate them? How is HR going to change as a result?

No exploration of the future of work could ever be definitive. Indeed, one of the defining characteristics of our age is its ability to surprise and confound. However, while things happen that we cannot predict, we can still be prepared.

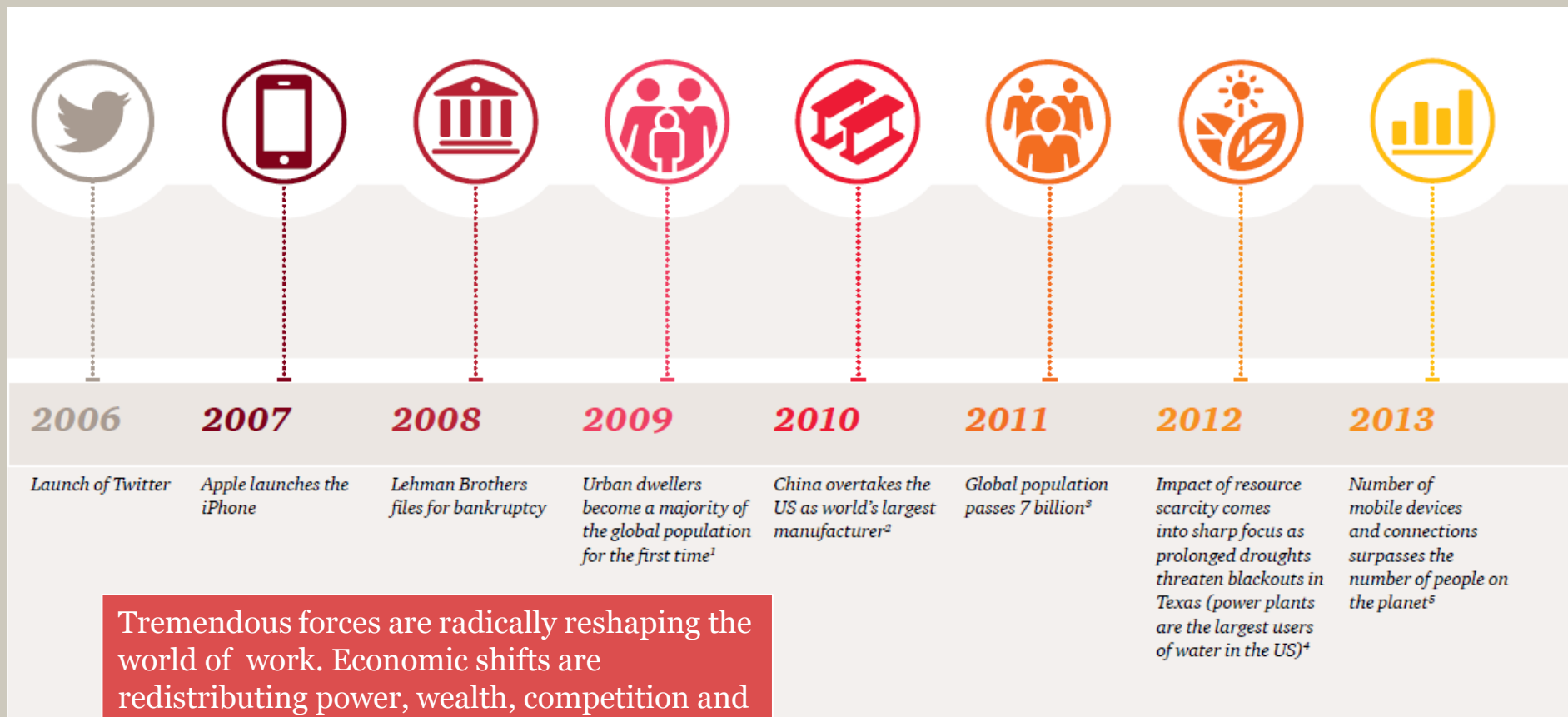
We trust that the first edition of the 2017 HR Quarterly will provide you with insight into our changing world and with food for thought in the coming year.

### *The People and Organisation Team*



***Organisations will have to be prepared to undergo new learning cycles and adapt themselves to these new challenges, not only to survive, but to succeed.***

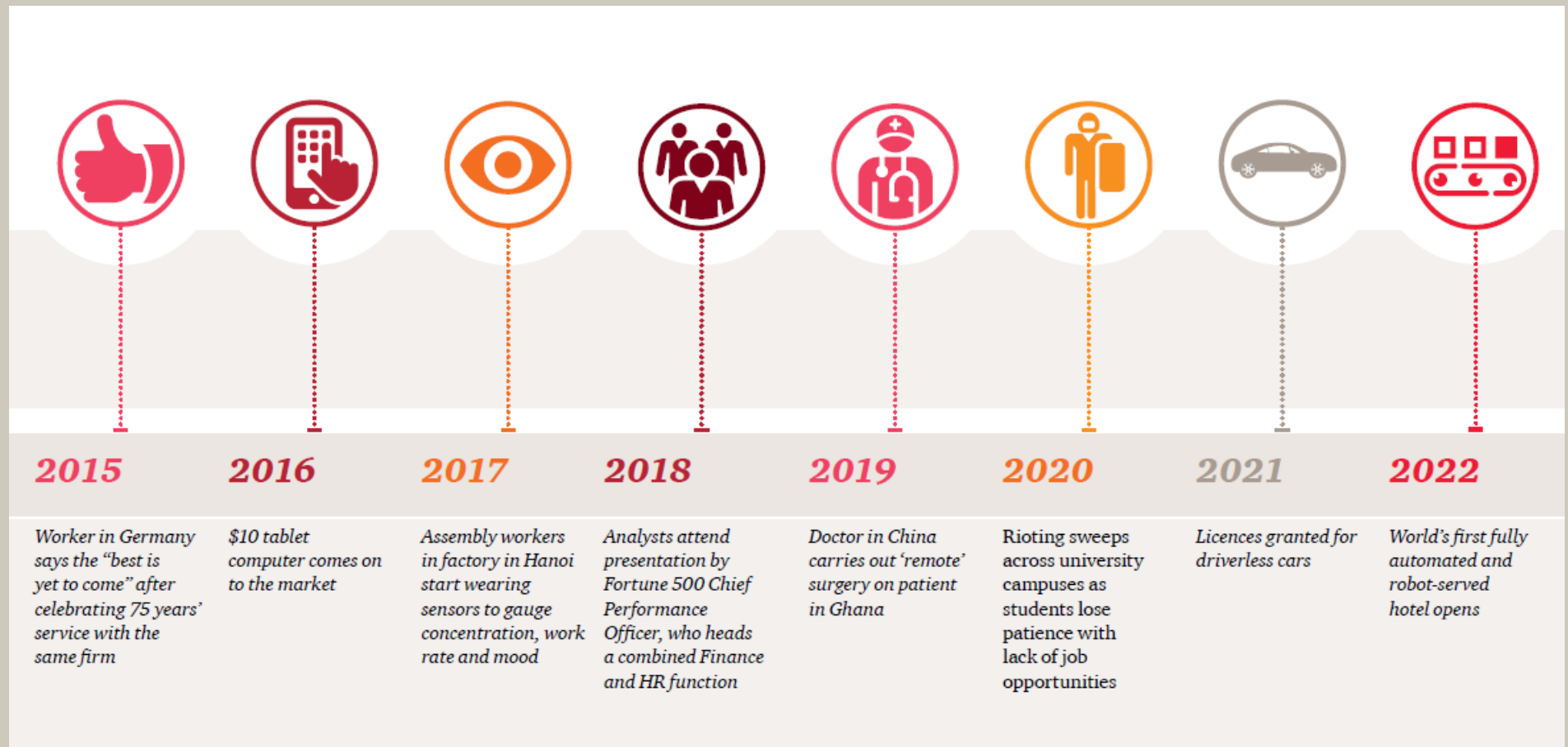
# A journey to 2022.....



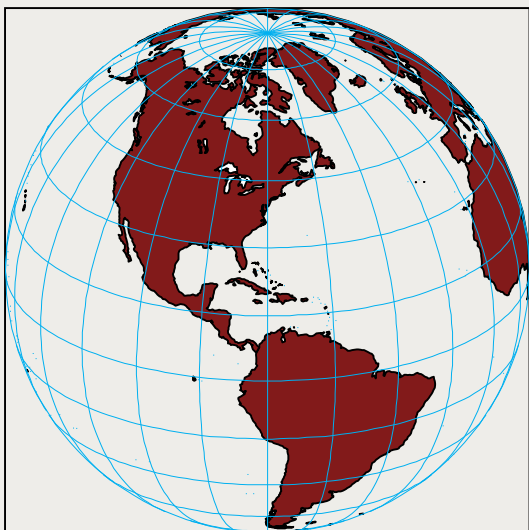
Tremendous forces are radically reshaping the world of work. Economic shifts are redistributing power, wealth, competition and opportunity around the globe. Disruptive innovations, radical thinking, new business models and resource scarcity are impacting every sector.



# What does the future hold for HR and Reward?

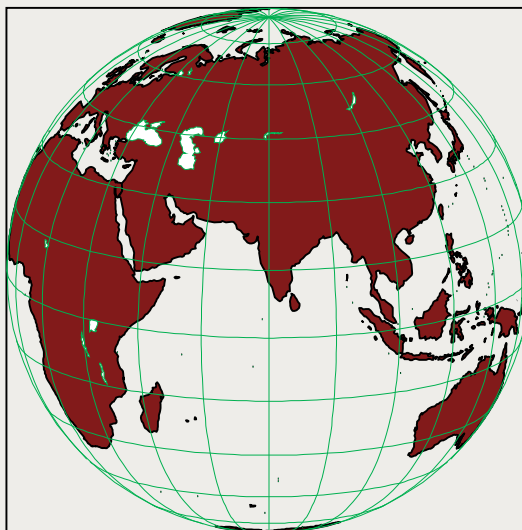


**Businesses across the world are beginning to understand that they need a clear and meaningful purpose, and mandate for the decade ahead if they are to attract and retain employees, customers and partners.**



## Corporate is King

*Big company capitalism rules as organisations continue to grow bigger and individual preferences trump beliefs about social responsibility*



## Companies Care

*Social responsibility dominates the corporate agenda with concerns about changes in climate and demographics, and embedding sustainability becoming the key drivers of business*



## Small is beautiful

*Companies begin to break down into collaboration networks of smaller organisations; specialisation dominates the world economy*

# *The three worlds of work, blue, orange and green*

## *Competing forces*

What cuts across these developments are the push and pull of individualism versus collectivism and corporate integration versus business fragmentation. The competition between these forces is creating what we've identified as three scenarios ('worlds') for the future of work:

- Large corporates turning into mini states and taking on a prominent role in society.
- Specialisation creating the rise of collaborative networks.
- The social and environmental agenda forcing fundamental changes to business strategy.

Most organisations are likely to be a mix of all three worlds of work. It's therefore useful to think about where your organisation might be positioned within these scenarios, the trade-offs this entails and what implications this has for your people management strategy.

## *Evolving priorities*

The emergence of these three worlds is going to create fresh challenges for HR. Organisations currently grapple with the realities of skills shortages, managing people through change and creating an effective workforce. By 2022, the radical change in business models will mean that companies will be facing further issues such as:

- The need to create ever more sophisticated people measurement techniques to monitor and control performance and productivity.
- Increasing importance of social capital and relationships as the drivers of business success.
- The boundary between work and personal life disappearing as companies assume greater responsibility for the social welfare of their employees.

**To obtain a copy of the full publication please contact René Richter at [rene.richter@pwc.com](mailto:rene.richter@pwc.com)**

## *Changing role of HR*

HR has been perceived by many as a passive, service-oriented function. But given the demands of tomorrow's workplace and business environment, we believe HR is at a crossroads and will go one of three ways:

- With a proactive mind-set and focused on business strategy, HR will take on a new wider people remit incorporating and influencing many other aspects of the business.
- The function will become the driver of the corporate social responsibility agenda within the organisation.
- The function will be seen as transactional and almost entirely outsourced.

# The great wage debate continues

## The Minimum Wage Defined

The on-going debate around the minimum wage within the South African context, has required all stakeholders to commit to tangible actions. The National Minimum Wage Report (the Report) has been implemented as a measure to begin addressing the wage gap.

The purpose of implementation of the Report is to protect vulnerable workers by ensuring that the wages that junior employees receive is at a level which starts to address the issue of the “working poor”. It is important to understand that minimum wage is not meant to be seen as a living wage, as a minimum wage is merely a wage floor below which no employee should be paid. In contrast the concept of a ‘living wage’ is one which allows the worker to maintain a frugal but dignified standard of living. The living wage is not only meant to provide employees with the means to meet their very basic living needs, to reduce the dependency ratio, and to instill a sense of value in the employees. This wage would apply to all employees working at a company, including contractors.

PwC “Executive directors; Practices and remuneration trends report 2016”, p35.

With the introduction of the King IV Report on Corporate Governance, organisations are now required to provide a high level overview on the organisation wide remuneration policy in order to ensure that remuneration of the executive management is fair and responsible in the context of overall employee remuneration. This recommendation now compels organisations to really consider the impact that the wage gap has on the economy and the vulnerable workers and endeavour to have measures, such as paying a living wage, in order to address the disparity. This is one of the solutions, in addition to the minimum wage, that if properly monitored can be an effective tool to address the wage gap. Large profitable organisations are in all likelihood able to afford to pay a living wage to their entry level employees. This positive step is crucial to improve employee engagement and will have the desired effects of contributing to social stability and alleviating poverty.

Currently, South Africa does not have an established national minimum wage, however the framework for the minimum wage is set by sector. The Report issued by the National Minimum Wage Panel (“the Panel”) sets out recommendations and research regarding the institution of a national minimum wage in South Africa. This draft Report has been well received as the implementation of this Report will assist in addressing the pertinent questions that are on the lips of many organisations, particularly on what forms part of the determination of the minimum wage, i.e. is it monetary based or would something as simple as housing allowance to lower level employees count towards the minimum wage.

King IV Report on Corporate Governance, Recommended Practice 29 (a).



### 3 Minimum wage defined

The national minimum wage proposed under the draft Report is approximately R20 per hour (which equals approximately R3500 per month). The draft Report further provides guidance on what should be included and / or excluded in the determination of the minimum wage. The Panel recommends that the current practices used in calculating minimum wages should be aligned with the Basic Conditions of Employment Act (BCEA) as well as the relevant schedule for the Calculation of Employee's Remuneration in terms of Section 35(5). Under this section "wages" is defined as *"the amount of money paid or payable to an employee in respect of ordinary hours of work"*.

Remuneration on the other hand is defined as *"any payment in money or in kind, or both in money and in kind, made or owing to any person in return for that person working for any other person"*.

Based on these definitions it is evident that national minimum wage should in the strict sense of the word only refer to payments in the form of cash if we consider the definition of "wages". Although the Panel recognises that employees may receive remuneration in kind, in the form of accommodation for example, the Panel maintains the view that "if the minimum wage is really to offer social protection to workers and their families, it is necessary to ensure that only benefits in kind that respond to their needs are included among the components of the minimum wage, that a reasonable value is attributed to them and that they are only taken into account up to a certain value".

Currently, Section 35 of the BCEA still determines the method within which wages are calculated. In terms of this section, the Minister of Labour may by notice in the Gazette determine whether a particular category of payment, whether in money or in kind, forms part of an employee's remuneration for the purposes of any calculation made in terms of the Act. As such, the following items (as gazetted by the Minister) should not form part of an employees' wages for the purposes of determining compliance with the national minimum wage rule:

- *"Any cash payment or payment in kind provided to enable the employee to work (for example, equipment, tool or similar allowance or the provision of transport or the payment for a transport allowance to enable the employee to travel to and from work;*
- *A relocation allowance;*
- *Gratuities (for example tips) and gifts from employer;*
- *Share incentive schemes;*
- *Discretionary payments not related to an employee's hours of work or performance (e.g. a discretionary profit-sharing scheme);*
- *An entertainment allowance; and*
- *An education or schooling allowance."*

# Objective of minimum wage

It is important to keep in mind that the objective of the introduction of the national minimum wage is to protect vulnerable workers against exploitation, therefore it is with good intention that the Panel recommends that any arrangement which would constitute 'payment in kind' and which would reduce the 'cash' portion of the employees' remuneration to a level below the national minimum wage should be limited and only be taken into account up to a certain value.

National Minimum Wage Panel Report to the Deputy President 'A National Minimum Wage for South Africa', p116.

Organisations have an ethical duty to ensure that they remain sensitive to the income disparity within the South African context by demonstrating their commitment to addressing the issue in ensuring that lower level employees are remunerated adequately to enable them to have a decent standard of living, and where possible aim to contribute to the overall wellbeing of the employee. It is therefore important that the remuneration paid to executive directors is fair and responsible in the context of overall remuneration. Remuneration committees have their hands full in determining how they can effectively address the wage challenge by treating the lower level employees fairly whilst ensuring that the top executives remain incentive and retained.

*Article written by Puseletso Senne. For more information contact her at [puseletso.senne@pwc.com](mailto:puseletso.senne@pwc.com)*



# *Short term incentive scheme trends*

*How has the  
quantum of  
incentive scheme  
payments changed?*

*Are clawbacks  
generally exercised in  
the case of non  
performance?*

*Are your short term  
incentives aligned to  
market? If not, do  
they need to be?*

*The complexity of short term incentives continues to grow exponentially with the structure needing much explanation detailing the drivers and their respective weightings as well as the associated thresholds, targets and stretch levels. The unstable economic environment further complicates matters as it becomes increasingly difficult to meet these targets and guarantee pay-outs as a key performance driver.*

*How will short term  
incentives change  
over the next 5 years?*

# Executive short term incentives by industry sector

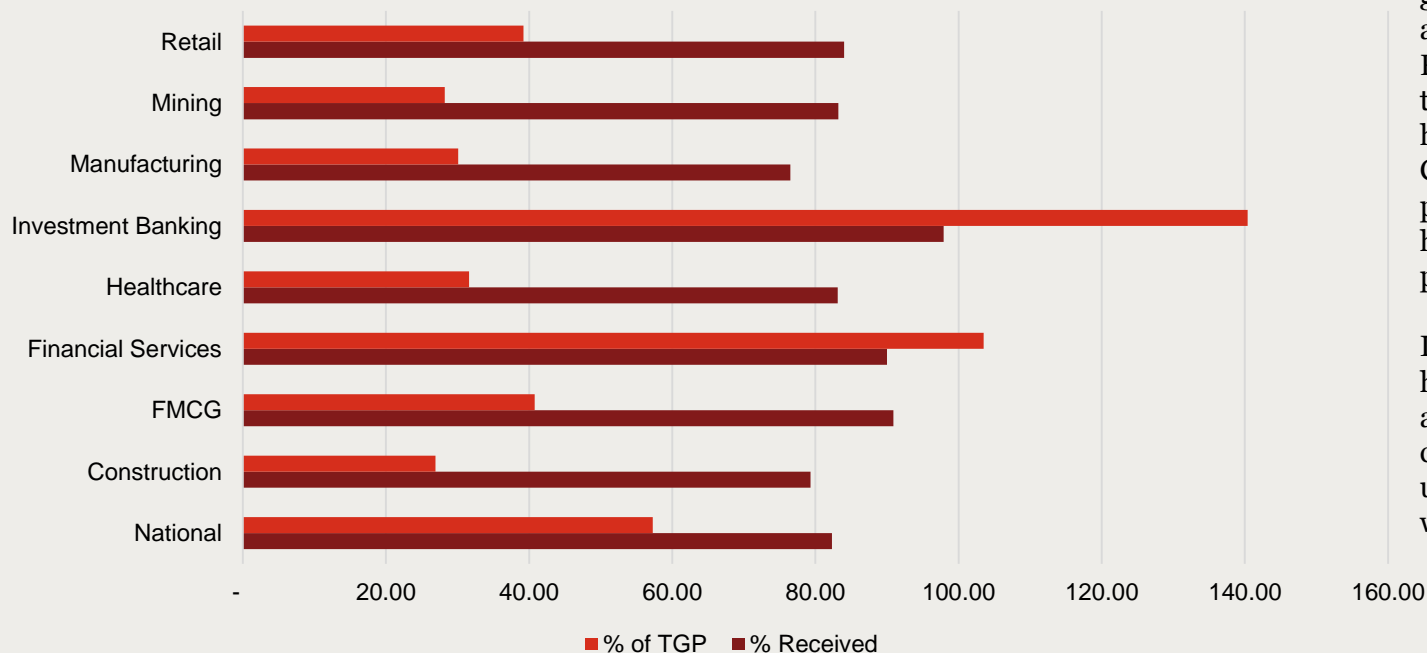
The movement of so-called "shareholder activism" is growing in South Africa. Concerns over mismanagement and governance are sparking new interest in executive pay and in a number of cases this has seen shareholders voting against proposed pay packages and bonuses for executives. In most cases the company's performance in the current economic climate forms the basis for the "no vote". It is evident that shareholders can, and do hold opinions and they are entitled to a voice. Five or ten years ago this would rarely have been the case and it is an indication that investors are actually scrutinising company results quite carefully.

## So is executive pay going to decline in real terms?

A comparison between executive guaranteed pay between 2008 and 2017 extracted from the REMchannel® survey indicates that the median guaranteed pay has increased with 68%. Considering that this spans a period of 9 years executive pay has increased on average with 7% per annum.

In contrast general staff salaries have increased with 8.8% per annum over the same corresponding period whilst unionised staff salaries increased with 9%.

Executive short term incentives by industry sector as reported in REMchannel® for the past 12 months

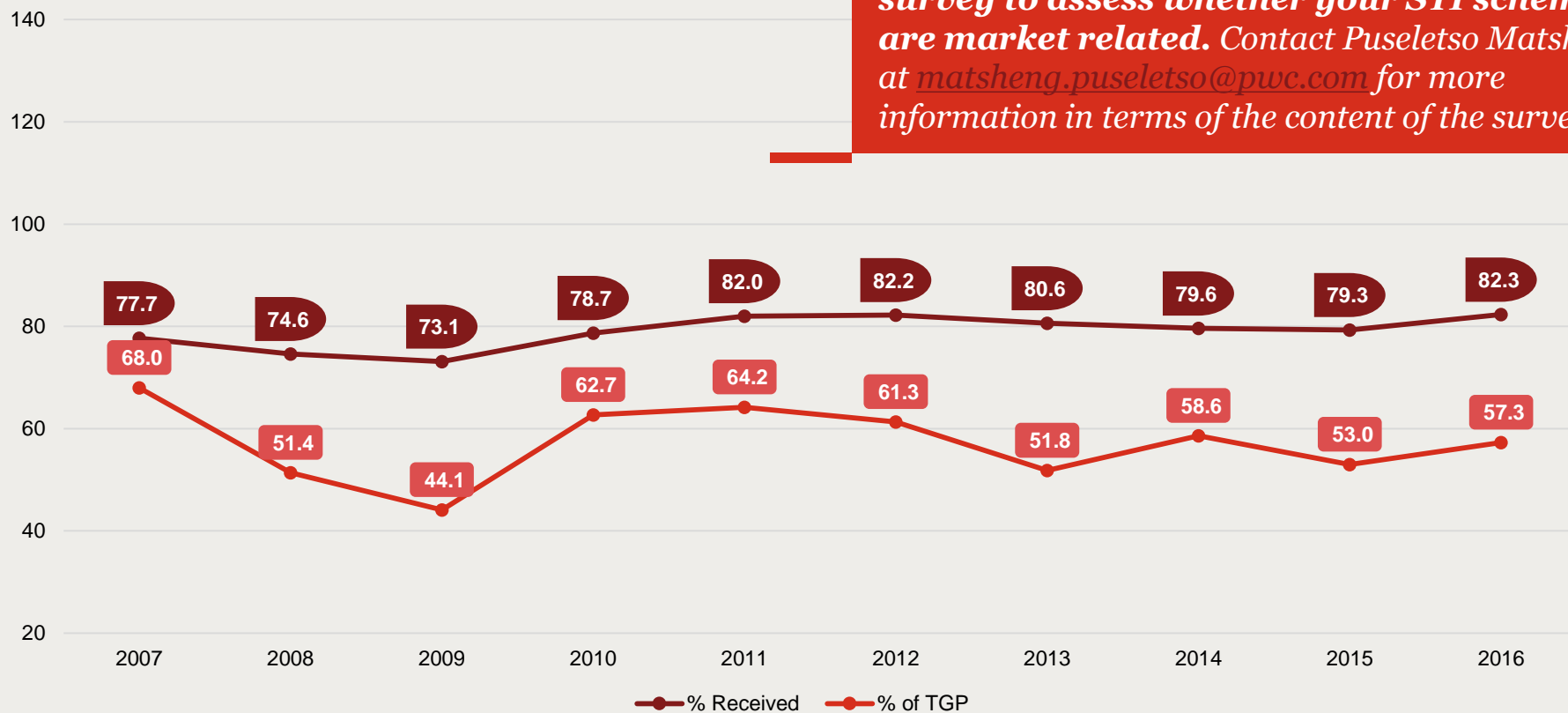




# Historical short term incentives

Over the past 10 years on average 79% of executives (Paterson E and F bands) received short term incentives annually. The question is whether these incentives declined in quantum over the same period due to the economic climate. From the graphical illustration below it is evident that the lowest quantum as a percentage of total guaranteed package awarded was in 2009, but that the short term incentives as a percentage of pay has not declined dramatically. Considering that the average annual guaranteed pay for executives at these levels was 1.9 million per annum the actual quantum of the short term incentives would have been 1.29 million in 2007. In 2016 the average annual guaranteed remuneration was 3.6 million and the quantum of the short term incentive would therefore have been 2.1 million.

*Participate in PwC's 2017 bi-ennial STI survey to assess whether your STI schemes are market related. Contact Puseletso Matsheng at [matsheng.puseletso@pwc.com](mailto:matsheng.puseletso@pwc.com) for more information in terms of the content of the survey.*



# Anticipated salary increases

Factors normally considered during the budgeting process are: CPI, company financial performance, business results and budget affordability; individual performance; external economic indicators; market and benchmark information and market position tracking; petrol price; industry related increases and comparisons; PwC Salary and Wage Movement Survey and other market research trends.

Predicted increases at the lower levels range between 6 and 9 percent for the next 12 months whilst increases for senior management and executive levels range between 3 and 6 percent for the next 12 months on a national all industry basis.

**To obtain a copy of PwC's April 2017 Salary and Wage movement survey contact Margie Manners at [margie.manners@pwc.com](mailto:margie.manners@pwc.com) or Lisa Tamkei at [lisa.tamkei@pwc.com](mailto:lisa.tamkei@pwc.com) for more information. Terms and conditions apply.**

*Industry sector cuts can be provided from this survey at an additional fee on the proviso that there is sufficient participation.*

National All Industries		2016 Budgeted increases	
Category	Remuneration Structure	Mean	Median
<b>Executive</b>			
	Basic Salary	5.6	6
	Flexible Package	4.2	5
	Total Package	6	6
<b>Management</b>			
	Basic Salary	6.1	6.5
	Flexible Package	5.8	5.8
	Total Package	6.2	6.5
<b>General staff</b>			
	Basic Salary	6.7	6.9
	Flexible Package	6	6.6
	Total Package	6.5	6.5
<b>Unionised</b>			
	Basic Salary	7.4	7.5
	Flexible Package	7	0
	Total Package	6.9	7

## *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](http://www.pwc.co.za)

For enquiries regarding survey publications, please contact Margie Manners at [margie.manners@pwc.com](mailto:margie.manners@pwc.com) or Lisa Tamkei at [lisa.tamkei@pwc.com](mailto:lisa.tamkei@pwc.com)

### ***Thought leadership:***

- Gambling outlook 2016 – 2020
- 2016 Africa Capital Markets Watch
  - SA Construction 4<sup>th</sup> Edition

### ***Surveys:***

- Non Executive Director's Survey: January 2017
- Salary and Wage Movement Survey: April 2017
- Executive Director's Remuneration Survey: July 2017
  - Short Term Incentive Trends Survey: July 2017
  - Salary and Wage Movement Survey: October 2017
    - Employee Benefits Guide: December 2017

## ***REMchannel and REMeasure launches in Europe!***

*We are excited to announce the arrival of REMchannel<sup>®</sup> and REMeasure<sup>®</sup> in Europe with PwC Luxembourg taking the lead.*

*Watch this space for more news on these exciting initiatives.*

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