HR Quarterly

September 2011

A quarterly journal published by PwC Remchannel South Africa providing informed commentary on current developments in the Reward arena both locally and internationally.

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From the team

Talent - your biggest asset in turbulent times

In the past few months the global economy and particularly industrial action in South Africa has contributed to a feeling of apprehension for reward professionals. As world markets continue to plummet, global economic fears continue to build and create a climate of uncertainty.

Getting the best from people at every level when there is constant "adjusting of the sails" is the key to sustainable competitive advantage. Solid strategies, processes and technology alone do not deliver results. It takes people to accept, adopt, drive, and sustain the change to realise tangible impact. Success in business hinges on strategic agility and the ability to execute.

The PwC Remchannel Team

We cannot direct the wind but we can adjust the sails

Keeping your best employees amid marketplace demand

Despite significant challenges leading to widespread workforce reductions, the attraction, retention, motivation, and development of top talent remain critical issues for the long-term success of any organisation.

Reducing voluntary turnover and improving the quality of new hires is directly tied to your Employee Value Proposition — those attributes that current and potential employees perceive as the value they gain through employment in your organization versus that of a competitor.

The Employee Value Proposition extends far beyond the numbers on a pay check. It includes:

- Reward and recognition (e.g., pay and benefits)
- Career development (e.g., training and advancement opportunities)
- Work environment (e.g., culture and communication)
- Work-life balance (e.g., flexible hours, including work-at home opportunities)

Successfully competing to attract and retain the best talent in today's marketplace requires that a company does more than just pay competitive current cash, though this appears to be a prerequisite. A broad definition of pay ("Total Rewards") must be adopted and communicated. In addition to salary, annual and long-term incentives and benefits, "non-monetary" rewards:

- work-life balance,
- work environment,
- and career opportunity,

often emerge as the most critical differentiators for successful talent acquisition and retention.

Performance management is another often overlooked aspect of an employees' work experience — one that has critical importance to high performers. This group tends to seek out and thrive in pay-for-performance environments and to leave organizations that fail to adequately recognize their greater contributions relative to average performers.

Finally, generational differences need to be considered. One generation's "hot buttons" will not necessarily resonate with others. Whereas Baby Boomers may place a much greater emphasis on current compensation and benefits and building retirement income, those in Generations X and Y are more likely to be concerned with work-life balance and working for a "green" company.

To obtain a copy of the *PwC Saratoga 2011/2012 US Human Capital Effectiveness* publication please contact René Richter at rene.richter@za.pwc.com.

Executive remuneration – continued focus on whether it's justified

SA directors' wages rise as European directors' fall

*The average remuneration of European board directors dropped by 4% last year, the first decline in 12 years (*Business Day *2011/09/06) according to a report from leadership consulting services Heidrich & Struggles.*

The trend contrasts with a survey last week which showed that South African company directors received remuneration increases of 7% in the past 12 months. The PwC survey also showed that remuneration for the directors of Britain's FTSE 100 companies rose by just 1% over the past year.

Hefty executive pay increases have become a controversial issue in SA, where the economy is still shedding jobs. The Heidrich & Struggles report, which covers boards of directors of the JSE's top 40 companies, did not publish local remuneration figures. But it showed that South African boards were ahead of their European counterparts in gender equality — 14,5%, were women versus 12,1% in Europe. One third of all South African boards of directors comprised of at least 20% women.

The report found that local boards of directors met less often than their European counterparts — 6,8 times a year compared with a European average of 9,4 times a year. But South African boards held an average of 19 committee meetings a year, suggesting more operational board business was being conducted at that level. There was no comparison to Europe in this category.

South African directors tended to be slightly less available than their European counterparts, the report said. Directors' tenure was in line with the European average — 2,9 years versus 3,1 years. Local companies also had more independent directors than those in Europe. But there was less diversity in nationalities, seen as an indicator for global expansion.

The report found "substantial progress" in board evaluations in SA — 82% conducted evaluations, up from 68% in 2009 and above the European average of 75%. It focused on six key factors — availability, independence, diversity of experience, evaluation, competitiveness of remuneration and transparency.

What are we expecting to happen in the executive remuneration field during 2011 and early 2012? With the economy improving, albeit slowly, it is unlikely that executive remuneration levels will fall in South Africa. However with executive remuneration being subjected to more and more scrutiny and shareholders being afforded a bigger say on remuneration, companies should expect to receive more challenge around what is being paid to executive directors.

From the latest REMchannel on-line survey publication it is also evident that most industry sectors have taken a conscious decision to start reducing the wage gap. This is evident from the actual increases granted in some industries between July 2010 and August 2011 as indicated in the table below.

For more information or to obtain a copy of the 2011 Executive Directors Remuneration report, please contact René Richter at rene.richter@za.pwc.com or on 082 460 4348.

Hierarchical Categories	National	FMCG	Financial Services	ICT	Manufac-turing	Mining
Executive Management	9.1	9.4	7.8	8.6	6.8	9.3
Senior Management	8.9	7.1	8.7	8.3	8	7.2
Middle Management	8.3	7.1	8.2	8	7.6	6.2
Junior Management	8.1	9.4	8.2	8.8	8	7.7
Entry Level Management	8.7	7	8.5	7.9	8.6	8.9
Supervisory	8.7	8.4	8.2	8.2	9.4	7.9
Senior Clerical	9	8.2	8.3	8.3	8.4	9.9
Clerical	8.2	10	7.2	8.2	9.7	8.8
Semi Skilled	9.1	9.2	9.8	9.3	10.3	9.6

The Remuneration Report Award

PwC encourages and supports good governance. Which is why we believe excellence in reporting on remuneration issues, to promote trust and transparency in the area of remuneration, should be recognized. As reported in our last issue, we are sponsoring The Remuneration Report Award - to be presented at the 2011 SARA Reward Awards.

The finalists are:

Anglogold Ashanti;
Nedbank;
Netcare;
Sappi; and
Vodacom.

On Saturday 29 October, at Gallagher Estate, the winners of this prestigious award will be announced. To book your places for this event please visit the SARA website at www.sara.co.za.

REMeasure® becoming the Job Evaluation System of choice

The REMeasure job evaluation system is gaining popularity based on the ease of use and the accuracy of the system.

REMeasure was originally designed to assist the consulting practice and provide a web-based tool for medium sized companies to determine the job worth in their organisations.

The tool has now been tried and tested by a number of discerning REMchannel clients with great success. We would like to welcome our most recent REMeasure® clients:

Ampath Trust

Bokomo Botswana

Coca Cola Shanduka Beverages

Gold Fields

Henwood Foundation

HL Hall and Sons Ltd

Kwazulu-Natal Research Institute for Tuberculosis & HIV

Medshield Medical Scheme

Metorex

Mcel

RCS Financial Services

The Unlimited World

Thyssenkrupp PDNA Engineering (Pty) Ltd

Tracker

Unitrans Freight & Logistics

Vereeniging Refractories

If you would like to see REMeasure in action please contact Minda Botha at 0861 SALARY or at minda.botha@za.pwc.com.

PwC Remchannel Surveys

Welcome aboard new REMchannel® participants

We extend a warm welcome to the following companies who have joined our list of discerning South African survey participants since May 2011.

Adcorp Holdings

AEL Mining Services Ltd

Barclays Africa

Black Ginger 461 (Pty) Ltd

Buildmax Management Services (Pty) Ltd

Citibank

Cross-Border Road Transport Agency

Deloitte & Touche Namibia

DHL Supply Chain (Pty) Ltd

ENRC Management SA (Pty) Ltd

Forbes and Manhattan Coal Corporation

Jindal Mining (SA) (Pty) Ltd

Johannesburg Stock Exchange

Lanxess Mining (Pty) Ltd

Medical Research Council

Medshield Medical Scheme

Mineayoba Mining (Pty) Ltd

Mobile Telecommunications Ltd - Namibia

Namibia Institute of Pathology

National Bargaining Council for the Road Freight and Logistics Industry

Osiris Trading

Pioneer Foods

Procter & Gamble SA Manufacturing

PSG Group

Rainbow Farms

SSAB South Africa (Pty) Ltd

SSP Consultants & Project Managers CC

Teal Management Corporation

The Rand Mutual Assurance Company Ltd

The Spar Group Limited

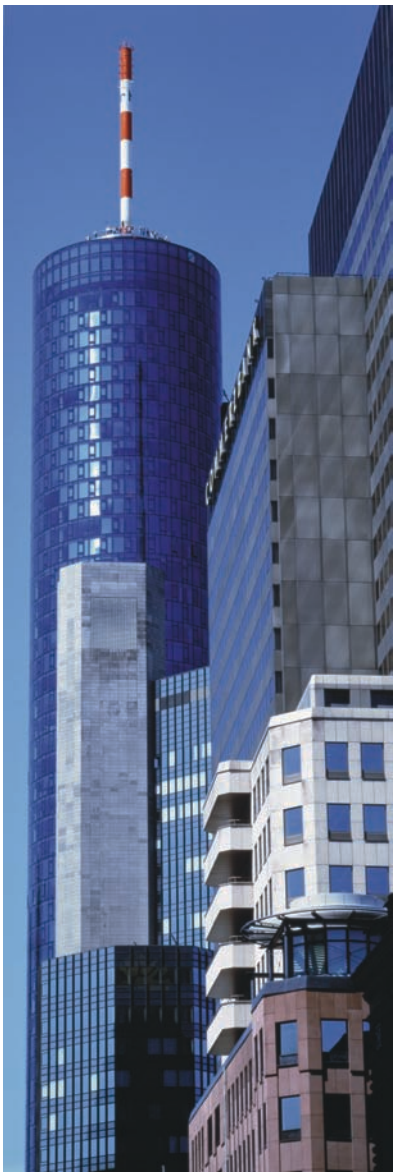
ThyssenKrupp PDNA Engineering (Pty) Ltd

Westdawn Investments (Pty) Ltd t/a JIC Mining Services

Witwatersrand Consolidated Gold Resources Ltd

WorleyParsons RSA (Pty) Ltd

Xstrata (Schweiz) AG



If you would like to obtain an updated client and Key Account Manager list please contact Margie Manners at 0861 SALARY or +27 11 468 2639. You can also extract the participant list from the PwC Remchannel system if you subscribe to the on-line survey or alternatively download the client list from www.remchannel.co.za.

Talking about the people side of mergers and acquisitions

The people aspects of merger integration cannot be handled in a silo, away from the rest of the effort. Human capital issues are critical to every work stream and must be managed with the same focus and discipline as issues of finance, operations, or information technology.

The integration of two organisations is often the real-world test of a successful merger or acquisition. For the newly combined company, it can mean the difference between ongoing financial success and eventual failure. But, as PwC roundtable participants admitted, it's never an easy task - and it should always include Human Resources.

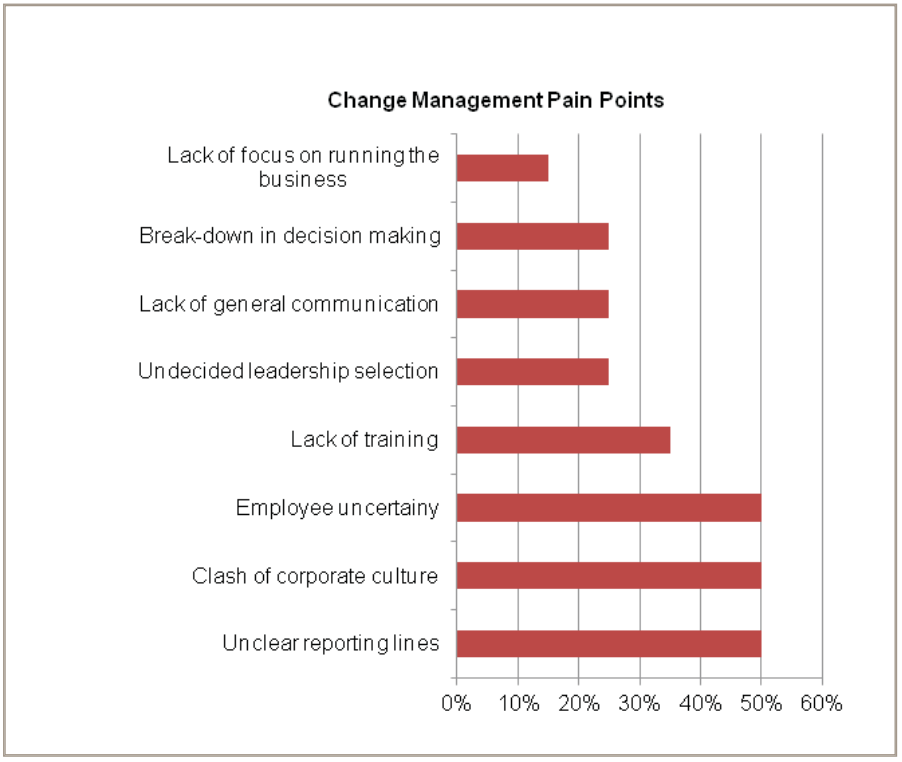
In every M&A integration, effective program management and change management are essential to aligning people with - and organizing them around business strategies. To accomplish that, it's critical to establish an integration management function that focuses exclusively on optimisation of human capital during the merger or acquisition.

The change management pain points reported by respondents have been illustrated below. These can have a serious impact on the success of the merger, or lack thereof:

The integration management office will drive long-term integration, staffing and selection, employee retention, cultural alignment, and succession planning, among other elements. The integration management team will set the course for the integration by:

- Articulating the strategy of the combined company
- Determining the degree of integration and non-negotiable elements
- Identifying and protecting core operations outside the scope of integration
- Customising the integration structure and approach
- Designating integration leaders at all levels
- Developing communication plans and executing early communications.

The core deal team must implement the fundamentals of integration as early as possible in the deal process. A disciplined implementation should start during due diligence and extend through a 100-day post close review of the deal strategy - and beyond.



M&A can be a great source of growth in any economy, but particularly in one that's relatively stagnant and mired in deep uncertainty. These days there's much to be gained from so-called mergers of productivity and ones that strategically position organisations for future opportunities. But doing deals right - and, in particular, integrating two or more operations post close - can present a serious challenge, especially when it comes to the people side of the business and the operating units responsible for sustaining performance.

If you have just executed a merger and would like a copy of the thought leaderhip "Talking about the people side of M&A" please email René Richter at rene.richter@za.pwc.com.

What does the future hold for salary and wage trends?

South Africa's leading economic indicators also edged downward during the 1st and 2nd quarters of 2011. This just confirmed that we are not immune to the global economic downturn of the advanced world (*Bureau for Economic Research – Trends Second Quarter 2011*).

Consumer inflation is still rising at a faster rate than initially anticipated and the biggest contributor is energy prices, especially petrol and electricity. The Reserve Bank anticipates consumer inflation to rise above the 6% ceiling by the end of the last quarter of 2011. It is evident that the low interest rate is no longer able to stimulate acceleration in credit extension to the private sector. The table below contains the anticipated mandated increases for all categories of staff as reported in the August 2011 publication of REMchannel®.

Remuneration Structure	Executives	
	Next 12 Months	
	Mean	Median
Basic Cash	7.1	7
Total Package	6.8	7
Remuneration Structure	**Management**	
	Next 12 Months	
	Mean	Median
Basic Cash	7.2	7
Total Package	6.9	7
Remuneration Structure	**General Staff**	
	Next 12 Months	
	Mean	Median
Basic Cash	7.3	7
Total Package	7	7
Remuneration Structure	**Unionised Staff**	
	Next 12 Months	
	Mean	Median
Basic Cash	7.3	7.5
Total Package	7.1	7

It should be *noted* that Remchannel is a rolling database and the data reported in this table was collected over the past 12 months.

The remuneration basis will of course differ from industry to industry. This may also have a significant impact on the salary and wage movements of organisations. Another interesting statistic is the pensionable salary differentiation in the different industries and employee categories. Although the company contribution in some industries may be higher than others, the basis for calculation can vary with between 3 and 10 percentage points for different employee categories. Based on the statistics indicated below, it is evident that executives will be able to retire more comfortably than other categories of staff, not just based on the salary differential but also the differential in the basis for calculation of retirement funding.

Benefit Items	National	Financial Services	Manufacturing	Mining
Executives				
Basic Cash	80.8	83.4	75.6	78.7
Pensionable Emoluments	78.5	82.7	80.8	76.7
Management				
Basic Cash	78.5	82.7	72.7	74.7
Pensionable Emoluments	73	75.6	76.6	70.6
General Staff				
Basic Cash	72.9	80.6	70.6	66.8
Pensionable Emoluments	71.8	78.7	70	65.9

PwC is also currently conducting the Salary and Wage Movement Survey which will be published in October 2011. For more information, please contact Louna Robbertse at louna.robbertse@za.pwc.com. Please note that terms and conditions apply.

Challenging the existing executive remuneration model by looking at the psychology of incentives

There is no doubt remuneration and incentive-based packages attract and retain the best talent and underpin a company's performance. However, in light of the global financial crisis, underlying incentive models are ineffective.

The underlying model aims to drive shareholder value through greater alignment of managers' interests while shareholder expectations rely heavily on the use of incentives. The model is based on the principle that a conflict exists between managers and shareholders and that the role of the incentive is to create more of a long-term view among managers, aligning the decision-making behaviour with the objectives of the shareholder.

However, if we look at these reward mixes where there is a fixed salary and a variable portion, you would find the variable portion relates to a company's and employees' performance and is based on complex models, says Karen Crous, Associate Director at PwC. As changes in accounting policies and increased transparency requirements from shareholders influence remuneration models, current structures and models, which are difficult to understand and complex, detract from the common-sense perspective. King III advocates transparency and simplicity, but current models are the opposite of these guidelines.

The model must change to allow fairness and achieve a balance between employees and shareholders. As a solution, PwC have a number of alternative models, one of which includes a significant increase in the employee's salary with a requirement to use the increase to purchase shares rather than receiving options. This long-term incentive is aligned to the objectives of shareholders and the employee. If market conditions have to impact shares, when economies recover and bulls enter the markets again, the employee's performance will be rewarded by the value of shares over a number of years.

If the share price of that company moves from R30 to R100 over a few years, the employee benefits. In addition, the remuneration structure is transparent and shareholders can have the comfort of knowing their objectives are aligned to those of employees.

However, a number of companies in the mining sector have adopted another model where a bonus is paid in shares and cash. The shares are vested for three years and the cash is received at the end of the financial year. The criticism here is that employees will focus on the short-term performance and reward of a bonus at the end of the year.

A third option is a bonus bank, where employees defer their bonus over a number of years into a bank, which they can subsequently claw back a bonus from. If a company's strong financial performance over a number of years is followed by one year of losses, employees have the opportunity of ensuring they can still receive a bonus from the years where the company performed well. However, the criticism here is that the longer people wait to get their bonus, the more it gets diluted.

Even though the principles of King III advocate transparency and simplicity, it's not a one-size-fits-all approach. Remuneration committees need to be practical and offer models that make sense in their industry. The key is to understand that complexity and ambiguity destroy value.

Forthcoming attractions

The following thought leadership and survey publications will be released in the coming months. For more information, contact René Richter (+27 82 460 4348) or Gerald Seegers (+27 82 655 7097).

Salary and Wage Movement Survey (October 2011)

Employee Benefits Survey (December 2011)

Also keep a close eye on our website, some interesting developments coming soon!