HR Quarterly

December 2014

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

pwc

Contents

Human Capital trends in a recovering economy....3
Guaranteed bonuses alive and well in South Africa....4
The change trifecta....5
Back to basics – improving productivity in the mining industry sector....7
Current and forthcoming attractions.... 8

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

Tumi Seaketso
+27 82 464 8126

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

Yvonne Dam
+27 (72) 390 7207

Eastern Cape

Shirley Thomas
+27 (82) 735 8240

Yvonne Ducie
+27 (84) 605 6332

Human Capital trends in a recovering economy

Good business leaders create a vision, articulate the vision, passionately own the vision, and relentlessly drive it to completion, Jack Welsh.

Two years ago, our fifth edition of Global Trends in Human Capital told the story of a downturn with a very noticeable human capital impact – those that had survived some harsh workforce cuts were left disengaged, with the youngest generation of workers suffering the most.

Today, the story is very different. The regions hit hardest are accelerating out of recession and organisations are focused again on growth. But the recovery has brought with it some familiar problems – low employee engagement, wage inflation in some markets and most importantly, skills shortages.

Many business leaders will say they've walked this road before – that the race to recruit as the recovery takes hold is what organisations need to do. But this recovery is unlike any other. The rules have changed. That means that you need to think again about what you think you know – about the behaviour of organisations during a recovery, about the nature of emerging markets, about workforce management and the role played by diversity and trust, even about the impact of HR itself. The world has changed and continues to change – and that means that the same arguments and approaches no longer apply.

The following key trends emerged from our 2014 research:

Break the recovery habit

As developed countries emerge from recession, organisations are following habitual patterns – when growth returns they rush to recruit. PwC Saratoga data confirms that external recruitment rates are already rising sharply and competition for talent is increasing. We could all sit back and watch another talent war unfold, or we could choose another path – smart growth. This means taking a more strategic approach to recruitment, while maximising productivity among existing staff. Do more with the same, then more with more to maximise the return on investment in human capital.

Think again about emerging markets

The temptation for years has been for multinational organisations to think about emerging markets as a single group to which a collective workforce strategy can be applied. The reality, though, is that not all emerging markets have the same workforce concerns. Demographic forces, and the need to find new ways of competing as the wage gap between developed and emerging markets narrows, are creating contrasting priorities. A workforce strategy that works in Asia won't necessarily work in Africa. Knowledge, in the form of analytics, will be power.

The real value of diversity

Demographic changes mean that workforce diversity will become a necessity rather than an objective over the next few decades. It's widely accepted that diversity brings value – but there's a vast difference between being a diverse organisation and making diversity work. The real value of diversity goes far beyond accessing greater talent supply; it comes from harnessing a wider range of perspectives. That means thinking beyond gender, age and ethnic origin, and opening the corporate mind to new ideas.

The changing nature of trust

CEOs agree that trust between employer and employee is critical in building workforce value; rebuilding trust has been a priority in recent years. The real value in trust comes when it encourages greater innovation – where ideas can be tested without fear of failure. What we understand as 'trust', though, is changing. Portfolio careers, far greater flexibility at work and our new-found ability to access everything we need to know (and everything that others know) about organisations through social media has changed its very nature. Today, you can't build trust without transparency.

At this time we would like to wish you and your loved ones a *visionary* festive season. Enjoy quality time with family and friends and travel safely if you're driving.

The PwC Reward team

Guaranteed bonuses alive and well in South Africa

What is critical to sustainability is to make sure that employees think and act like owners. Employees who understand their contribution to the sustainability and the growth of the organisation will feel empowered to act and make the right choices.

Traditional 13th cheque still used by companies throughout South Africa - *PwC Research Services*

The traditional guaranteed 13th cheque used as an employment benefit for senior management and other employees is still alive and used throughout many organisations in South Africa in addition to performance bonuses. This is supported by data from the recent REMchannel® on line survey where 72% of the general staff category employees which represent in excess of 500 000 employees reported that they receive a guaranteed bonus 13th cheque as a benefit. This means that employees do not have to meet any performance conditions to receive the guaranteed bonus. Translating this to rand and cents, it costs South African employers in the REMchannel® survey about R5 billion to pay these employees a guaranteed cheque.

It is interesting to note that in the same category of staff, 63% of the incumbents also receive a short term incentive or performance bonus. At managerial level the survey shows that 29% of respondents receive a 13th guaranteed cheque, whilst 76% received a performance bonus in the past 12 months. At executive levels the opposite trends are reported – 16% of executives received a guaranteed 13th cheque, whilst 80% received performance bonuses.

It is important to understand that the prevalence of paying a 13th cheque is not the norm across industry sectors. There is no requirement in the South African labour laws for companies to pay bonuses of any sort. It is a contractual matter or company policy, usually based on historical practices.

In the pharmaceutical and chemical industries, 83% of respondents received a guaranteed 13th cheque. In the construction and engineering sectors 63% of incumbents received a 13th cheque, followed by 30% of incumbents in the financial services sector. Performance bonuses or short term incentives are defined as a form of additional compensation paid to an employee or department as a reward for achieving specific goals or hitting predetermined targets. A performance bonus is compensation beyond normal wages and it is typically awarded after performance appraisal and analysis of projects completed by the employee over a specific period of time.

What we do know is that employees tend to rise to a standard set for them. The more you expect the more they will achieve but it is important to maintain the balance which will energise the human capital in your organisation and set the framework for greater achievement and performance.

For performance targets to be meaningful and effective in motivating employees it must be linked to the overall organisation's strategy. Employees who don't understand their roles in the organisation's success are more likely to become disengaged.

The change trifecta

Measuring return on investment to maximize change effectiveness, can it be done?

You are a leader guiding your organisation through large-scale transformation. No doubt you will want the most direct path to measure your return on investment (ROI) as you progress through the transformation. Even more, you want the most effective means to maximize that ROI. We know that change management is a factor that helps you maximize that ROI. The challenge is to determine how much change management contributes to that transformation ROI.

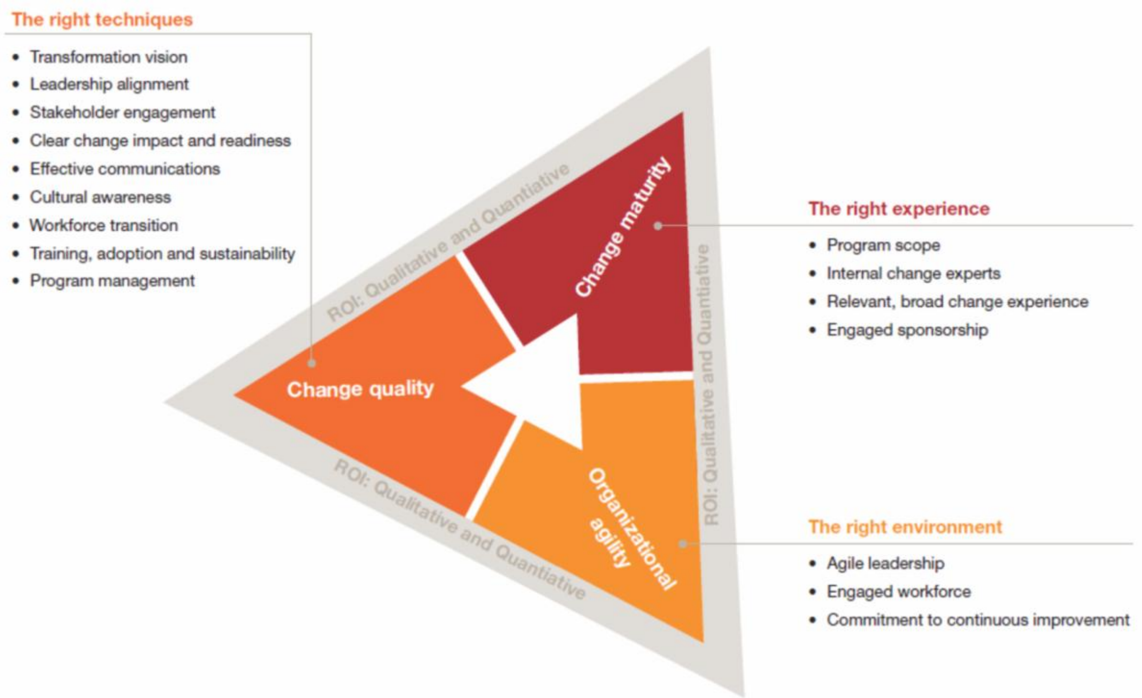
Every organisation faces this challenge as it seeks to understand and rationalize the cost of managing people through the process of adopting and embracing change, and making that change "stick." Spending on change management is a critical element of the business case and the return on investment. There is a considerable need to identify the right level of spend, especially on change-related consulting services. The challenge becomes even more complicated when you add in variables such as scale and complexity. And because all of this seems challenging and complicated, ROI for change is rarely captured or measured.

There is no single approach or framework to measure the ROI for change. However, there are commonalities inherent in these four approaches. In the first two scenarios, investment in change is viewed as a cost to be justified. In the second two, change is viewed as a potential benefit to be realized. Either way, the research is clear; change is a multiplier for realizing financial benefits, value or return. But the investment in change also produces unanticipated benefits that extend beyond the immediate initiative and prepare the organisation for future success.

Our extensive experience in delivering value through change management programs suggest that successful transformation takes place in an organisation that is characterized by:

- High-quality change management practices
- A mature program management framework
- An agile organisation

These three characteristics are often viewed independent of each other, and each characteristic contributes its own value. But we suggest that change management produces



The change trifecta

the greatest ROI when all three coexist and are at work concurrently. Collectively, they create strategic advantage—not only for the current change initiative—but also for future efforts.

We call this synergy the Change Trifecta. When properly executed, your investment in change transforms from a mere cost to an enduring benefit.

Quality, maturity, and agility contribute to robust ROI while building enduring change capability for future initiatives. Here's a closer look at each characteristic:

Quality

The quality of change management is determined by the breadth and depth to which an organisation addresses any large scale transformation. Despite near universal recognition that change is inevitable and often indispensable, some 75% of change initiatives fail, often because the people aspect is overlooked or mismanaged. The fact that change management quality drives successful change is raised repeatedly throughout research literature. McKinsey's 2002 study of 40 large-scale industrial change projects found that the ROI of such projects was 143% when paired with an "excellent" change management program while only 35% when there was either no program at all or a "poor" change program. Well managed change, in the context of effective program management, supports realisation of program objectives, which in turn, indirectly maximises ROI.

Maturity

Change can be delivered with greater impact by experienced teams in organisations that have built and evolved change capability through past efforts. The knowledge gained through experiencing organisation transformation will not, itself, prepare an organisation for every form of future change. But research indicates that organisations that have experienced managed change and instituted the lessons learned from those efforts, have a better chance to realize richer ROI.

Agility

A strong foundation in change management helps cultivate an agile organisation. An agile organisation, in turn, generates value above and beyond any single project or program. At the start, an agile organisation invests in change, viewing the investment merely as a cost. But over time, the investment is transformed—through deep attention to building change capability—into an organisational competency that delivers significant return over time.

As early as 2010, a global survey found that 50 percent of 674 executives surveyed "do not believe their culture is adaptive enough to respond positively to change." An agile organisation is better able to adapt to threats to its health as well as better able to take advantage of opportunities that present themselves. In other words, an agile organisation is predisposed to a successful future. Agility is less a matter of changing one's direction, but being open to different ways of achieving the direction. Agility fosters willingness to adapt quickly to achieve transformation objectives. Adaptability requires flexibility, a bias for taking action to correct a course of action, and openness to self-assessment.

This kind of agility promotes enduring economic value. Change management can be a lever for strategic business transformation; one that generates untapped value. An agile organisation that effectively applies change principles can become a force in an economy that increasingly relies on the power of its people to achieve success.

Although the research quoted in this article is already two years old it remains very relevant in our economic climate. Should you wish to obtain a copy, please contact René Richter at rene.richter@za.pwc.com.

Back to basics – improving productivity in the mining industry sector

The one thing that is sometimes neglected when mining labour trends are considered is the comparatively poor productivity performance of the sector.

The South African labour market hit international headlines in 2012 with the Marikana incident, rocking the mining sector in August of that year. Although there was much finger pointing and a multitude of causes for the tragic loss of lives, it marked a day where the mining industry realised that the future will look markedly different to the past.

Looking at the ranking of the South African workforce in 2012, most mining companies are negative in relation to the calculation of operating cash flow per worker (after the contribution of capital in the production process is accounted for). According to a recent Productivity SA report, the CEO of the National Employers Association of South Africa indicated that wage increases without accompanying productivity increases are just not sustainable and that in the long run, it could lead to more job losses. This is also echoed by the Adcorp group, stating that the labour marginal productivity is at the lowest mark in more than 40 years.

Best practice and trends around productivity improvement

The world of work changed dramatically in the past 2 to 4 years and recent global economic trends and events had major impact on how the executives and employees of companies perceive their careers and the relationship between themselves and their employer. This is also relevant for the mining industry and we see substantial changes planned for some existing mines, while new mines are designed and implemented to be less dependent on labour.

According to Forbes, the long-term interest in productivity improvement has led to two obvious and practical questions:

(1) What is it that leaders do to create a climate in which people go the extra mile and perform at remarkably high levels? And

(2) What causes people to put forth extraordinary discretionary effort?

In relation to these questions Forbes research identified several important elements:

Back to basics – improving productivity in the mining industry sector

Redefine work. You often hear people say, “I’m going to work,” as if work was a destination. One way of obtaining higher performance from people is to move from viewing work as a “place” to instead viewing it as results that need to be accomplished, and for which someone is responsible. The Best Buy organisation has found that productivity increases by approximately 35% when you take this approach of holding people accountable for outcomes, not merely to be “at work” for a certain number of hours.

In the mining sector output is something that can be measured and monitored

Make the targets highly visible and clear. Nothing confuses people more and reduces productivity to a greater degree than murkiness about the objectives being sought. The simple process of reminding everyone of the target and asking team members to describe to each other their interpretation of the big goal is extremely powerful.

The visibility and management of targets for teams on shifts in the sector is an ideal way of increasing productivity and related rewards.

Emphasize continuous improvement. Everyone in the organisation needs to know that the organisation aspires to continuously improve and to reach ever higher levels of performance. Adopt new technologies that enhance productivity.

Focus on new ways of work and allow the lower level workers to become part of crafting solutions for improving the productivity – do that within teams

Convey infectious enthusiasm about projects. Emotions are highly contagious. A leader’s upbeat enthusiasm for a project causes others to put forth extra effort on its behalf. If the leader’s goal is to increase discretionary effort, then the organisation needs to feel enthusiasm emanating from their leaders.

Use the supervisors or team leaders to generate excitement amongst their teams and create a new wave of teams aiming for performing at a higher level

Treat colleagues at work with great respect. The leader who poses important questions to subordinates and who listens to the answers will obtain higher levels of productivity than one who doesn’t. The leader who invariably seeks a subordinate’s opinion before expressing his or her own is far more likely to have high productivity from that individual.

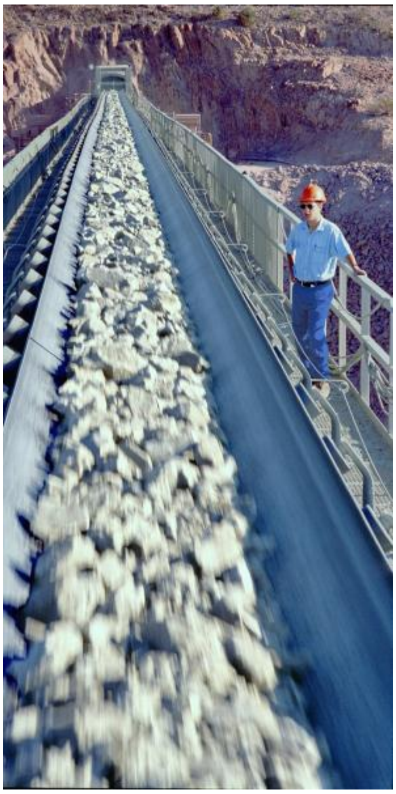
Create a new focus on the teams and give the team leaders the necessary development to improve themselves and eventually their teams

Express appreciation and provide recognition. These simple acts take small bits of time, yet pay huge dividends. Frequent expressions of sincere appreciation from a leader create a positive work environment and have been shown to have a direct link to greater productivity.

By doing this in a shift – or a team context, a new culture may develop that will assist with the general productivity improvement issue on the mines

Take an active role in the development of subordinates. Carving out time for ongoing coaching is highly correlated with the highest levels of employee productivity.

The importance of practical support is very often ignored and business coaching initiative for supervisors/shift leaders can change the entire industry



Getting back to the basics

Organisation Development and Leadership Training usually have two focus areas:

- Junior employees with potential and
- Executive Leadership or Senior Management programmes.

The neglected environment is always the middle management or supervisory level. In the mining context we are talking about the shift leaders or team supervisors. A recent project that we were involved in showed clearly that this level of management in the mines is overwhelmed and unprepared for what they are required to achieve. On a daily basis, they are under constant pressure to deal with:

- Managing the production cycle
- Leading the teams
- Represent Executive team on the floor
- Daily administration
- Occupational Health and Safety
- Act as Compliance officer

We help clients to uniquely assist our clients and their workforce to deal with the productivity dilemma. The focus of the offering is on the production areas of the mine where the actual productivity is managed. The most neglected skillset in most of the mines are supervisors and shift leaders. We have a program that deals with the gap in the armour of supervisors to deal with the challenges of being responsible for production, strategy execution and teams.

The program involves individual assessments, role profiling, competency management, individual coaching and shadowing and designing short term performance targets that enable the achievement of productivity levels on a daily, weekly, monthly, quarterly and annual basis.

This process drives the basic behaviour and deals with the individuals who are actually delivering the productivity numbers for the mines. The only way for them to perform is to be empowered and to be rewarded appropriately for real productivity improvement. Getting the balance between active supervision, passive supervision, administration, training, manual work and lost time is something that most individuals cannot manage on their own. This can however be resolved with some individual focus and attention. For more information contact Michael Ferreira at michael.ferreira@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 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.

Thought Leadership

- Annual South African Non-Executive Director's Survey: January 2015
- Annual South African Executive Director's Survey: July 2015

Surveys

- Salary and Wage Movement Survey: March 2015
- Short Term Incentive Scheme Survey: July 2015
- South African Employee Benefits Guide: October 2015

© 2014 PwC. All rights reserved. Not for further distribution without the permission of PwC. "PwC" refers to the network of member firms of PricewaterhouseCoopers International Limited (PwCIL), or, as the context requires, individual member firms of the PwC network. Each member firm is a separate legal entity and does not act as agent of PwCIL or any other member firm. PwCIL does not provide any services to clients. PwCIL is not responsible or liable for the acts or omissions of any of its member firms nor can it control the exercise of their professional judgment or bind them in any way. No member firm is responsible or liable for the acts or omissions of any other member firm nor can it control the exercise of another member firm's professional judgment or bind another member firm or PwCIL in any way.