HR Quarterly

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Contents

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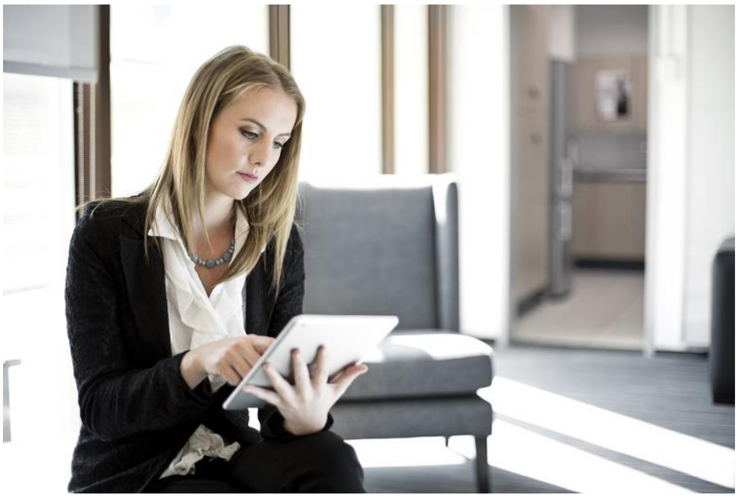
From engagement to outcomes

Employees who are more engaged produce higher quality work and are less likely to be absent or quit the organisation. This seems like a cliché but research confirms that highly engaged employees make a significant difference to the bottom line.

Over the past decade, employee engagement has become ingrained as an approach to help organisations create a positive work experience for their people. In turn this can influence business outcomes such as turnover, customer satisfaction and financial growth. Yet, despite the efforts many organisations are making to improve employee engagement our study indicates that many still fall short of their goals. High performing organisations and those that conduct regular engagement surveys (and take action on them) reveal significantly higher performance on a number of measures than their competitors. These findings suggest that when done right, employees feel excitement about their companies' future, their part in creating that success, and a genuine connection to their leaders, managers and the work itself. But not all engagement or disengagement is the same, or should be managed in the same way.



The main objective of measuring employee engagement is to assess the extent to which employees are motivated to contribute to business success and are willing to apply discretionary effort to accomplish tasks important to the achievement of business goals. It represents an emotional commitment that people have in their work that motivates them to put in extra effort to help the organisation achieve its goals and objectives. Interestingly our studies indicate that engagement levels are approximately 20% higher at companies who regularly conduct employee engagement studies.

Measuring employees' perceptions and attitudes about the work environment is important because research links engagement with quality of work performance and business outcomes. The engagement landscape provided in PwC's 2015 Employee Engagement Landscape study provides the differentiation between the various levels of engagement, the potential impact engagement can have on the business, and how each group can be best managed. A copy of the research is available on request.

At the end of yet another very difficult economic year for many businesses in South Africa, high levels of productivity and employee engagement is becoming a business imperative for long term sustainability.

Thank you for your continued support over the past year, we look forward to 2016 and providing you with quality information and solutions to your people challenges.

We wish you and your loved ones a blessed and safe festive season and we trust that 2016 will be a prosperous and engaging year.

The PwC People and Organisation team

The virtual working environment – is it viable and sustainable?

Over the past few years much has been said about flexible work arrangements. Some organisations have been able to implement flexibility programmes but very few have been able to capitalise on the benefits of a fully virtual environment. The virtual environment certainly reduces costs and increases productivity.

At one stage it was unheard of to have a sustainable business without office space. As technology developed and costs climbed more businesses investigated the possibility of working in a truly virtual environment. The world has changed and an “office” is a concept ready for disruption. Some of the benefits of a virtual environment are:

Lower office costs: Quite evident that you need less office space, but this is not the only expense. The costs associated with electricity, communications, cleaning and maintenance can add up to a significant amount of money per employee.

With a global team you can operate your business on a 24 hour schedule with shifts in different countries. It certainly provides you with a competitive edge if your competitors are not operating on this basis.

Greater availability of talent: If you hire locally you are greatly limiting the accessible talent pool that you can draw upon. You can also use the cost savings from virtual teams to pay more to your team members. The combination of being able to hire from anywhere, and potentially pay more will significantly increase the level of talent that you can attract to your business.

Retention of employees: There are many people who would choose to work from home. In a truly effective virtual environment employees are trusted to deliver output and manage their workload effectively. The flexibility of this benefit does increase loyalty to the organisation and greater employee engagement.

The virtual working environment – is it viable and sustainable? (cont)

Less unnecessary meetings: Fruitless meetings are a common office problem. Increased meeting time leaves less time to do the work! How many of your employees work from home after hours in any case due to the amount of time that they spend in meetings? In a virtual environment you create a platform to get rid of this problem. You can still meet virtually utilising technology but there is less enticement for instant and potentially unproductive meetings.

Reduced travel time: This is a substantial benefit for staff who do not need to travel to work each day. In the South African context many employees spend a minimum of 2 hours a day travelling to and from work. Reducing the travel time increases productivity and ensures that employees can effectively manage work and life.

Increased productivity: Team members working from home can increase their productivity significantly by eliminating time wasting activities. A Stanford study showed a 13% productivity increase when employees worked remotely.

A 24-hour work day: With a global team you can operate your business on a 24 hour schedule with shifts in different countries. This speeds up your implementation and time to market. It certainly provides you with a competitive edge if your competitors are not operating on this basis.

Even though the advantages and benefits of disseminated teams are many, virtual teams face some challenges that must be dealt with to ensure that certain employees are not holding back the work process. Some of the most common challenges are:

Physical distance: Without regular face to face contact and interaction between staff members you could be facing some risks as employees become isolated. It is also advisable to monitor the team members and to implement strategies that will assist with "humanising" the virtual media. Critical to creating a team spirit would be to arrange team building events, albeit at different times and specific regions.

Routine: As in all work, one of the main disrupters of motivation is routine, and this is a major risk in the virtual environment. Putting in long hours in front of a computer can lead to exhaustion, stress and routine. The team needs to have a source of positive motivation to keep this aspect from affecting its work.

Personal life and work life imbalance: As it involves work being done in the same physical space as where most people typically go about their personal lives, it is probable that work will be invasive in the personal life. It requires a great deal of discipline to maintain harmony between work and life.

Diverse multicultural teams: Virtual teams can be made up of diverse cultures, each of which have their own customs, beliefs and work habits. This becomes a challenge for leadership and management if each person follows their own way of working. A common "language" and specific processes need to be developed to create a unified way of working.

Of course not all teams can operate in a virtual environment as it is entirely dependent on the type of business that you are in. This being said a truly virtual environment creates a unique employee value proposition and a trust relationship that overcomes most of the challenges referred to. It does however require a mature approach from management and leadership. Leadership should also encourage employees to be aware of each other's contributions to help build trust. Continuous recognition of achievements albeit through a work "social media" cements the team's ability to work towards a common goal. If the team members believes that their colleagues are competent and contributing equally they are less likely to abuse the virtual environment.

A workplace culture defined by women

As women, if we won't emulate male behaviour to succeed in what has traditionally been a predominately male environment, how will we shape the workplaces of tomorrow?

The workplace of today is geared towards male employees. Over the years, male-dominated workplaces have resulted in the success of high-performing individuals who have handled complexity by being technically strong. Within these highly competitive workplaces, high degrees of specialism are prized and an employee's success is defined by how they have performed relative to their colleagues. We propose that these defining characteristics are a result of traits which are inherently 'male'. Below we set out a thought experiment which aims to workshop what a female-dominated workplace could be like.

Let us suspend disbelief for a moment and reverse roles – imagining a corporate world which is dominated by females, and where female traits characterise the workplace. Let us also go one step further, and imagine a world in which males emulate female behaviour in order to be successful.

What characteristics would typify workplaces in such a world? These would arguably be informed by the purest female traits: ones which have not been tainted by centuries of females trying to contend with male success through accepting and exemplifying male values which are inherently foreign to them.

What would characterise successful women within these workplaces?

Female characteristics have to be hidden or disguised to guarantee success in a male world; a radical view, but worth considering. A quick glance at successful female leaders in the corporate world often reveals women who are resilient but unyielding, high-performing but unsympathetic. In other words, these women have embodied a style of leadership which may seem to be at odds with what we would consider to be female nature.

The combination of workplaces which are rapidly becoming more female-dominated, together with the rise of leaders from the troops of millennials is resulting in a rapidly changing environment. Female millennials are increasingly rejecting the notion of emulating males to rise to the top, and armed with a copy of Sheryl Sandberg's "Lean In" [1] are rediscovering their 'niceness', whilst insisting on their success.

In such a world, work may be more synergistic, as women's natural tendencies towards collaboration, kindness, and socialness forms the basis for the emergence of high-performing, efficient teams in which individuals work

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[1] ***Sandberg***, S. (2013). ***Lean in***: Women, work, and the will to lead (First edition.)

seamlessly together for the greater good of the organisation, moving away from silent silos and 'production line' teams. Workplaces would be characterised by relationships: women seeking out other strong individuals, allowing them to draw and multiply exponentially upon common strengths to result in a sum which is greater than its parts. In such a world, high-performing teams would handle complexity through the participation of many minds – with every individual bringing their unique viewpoints and abilities to the table.

Thinking about reward propositions within the traditional, male-dominated workplaces leads to a consideration of what corresponding practices within female-dominated workplaces would be. We set out some possible characteristics of these workplaces below, ignoring legacy and historical issues which may exist in reality, to present a theoretical view. Of course, any proposition also has its downsides, and we have attempted to consider these objectively.

<table>
<tr><th>Male dominated workplace</th><th>Female dominated workplace</th></tr>
<tr><td>Characteristics/guiding principles

High pay for higher-ranking individuals in return for consistently demonstrated technical expertise with recognition given at milestones.
Benefits are tangible and affect the back pocket.
Career progression is often dependent on spaces being vacated.
Succession is based on a 'best fit' – with both internal / external candidates considered.
Performance management forms a cornerstone of reward practices, attempts to be objective, 'ratings' are individual, and rankings are relative.
Leadership is autocratic or transactional in nature, with leaders taking decisions often without seeking the input of employees, and holding the power to demand performance and reward accordingly.
</td>
<td>Characteristics / guiding principles

Competitive pay for all team members who form an integral part of the high performing team, combined with adequate recognition and consistent feedback.
Benefits are more intangible, contain an element of choice, and may relate to flexibility.
Career progression is linked to talent management and progression opportunities are created through innovation and organic growth.
Succession is more internally focused with individual 'growth' as a priority.
Performance management is less formally structured and more conversational in nature, and 360 degree feedback is incorporated.
Leadership is participative and transformational in nature, with employees input being sought and considered, characterised by high levels of communication and all employees and leaders working together towards common goals.
</td></tr>
<tr><td>Risks/downsides

Certain sycophantic behaviours end up being rewarded – resulting in high pay for more forceful personality types (those who shout the loudest).
Has the potential to stifle creativity and innovation due to rewarding performance above innovation.
Employees, particularly women, operating within this workplace may feel that the leaders do not know them / take an interest in them personally.
</td>
<td>Risks/downsides

Does not guarantee high-performing teams; only as strong as your weakest link.
Potential for bias from leadership due to stronger relationships with employees.
High performers may not feel recognised due to the lack of differentiation.
Weak / poor performers may become dead weight, but may not be encouraged to leave (through, for instance, the performance management system).
</td></tr>
</table>

A workplace culture defined by women (cont)

The modern corporate world is characterised by complexity, and as the rate of innovation and technological development becomes infinitely faster and more frequent, the world is changing more rapidly than human minds can keep up with. With many forces shaping the workplaces of tomorrow, we must consider crafting and designing new workplaces which recognise a present which is far removed from the era in which our workplaces were designed and created. Possibly, the only unique edge which humans may retain, when faced with workplaces dominated by technology which can emulate experienced human technical specialists, is our innovation.

Shift in leadership towards more participative and transformational styles

It is possible that the innovation which is needed could be encouraged by a workplace which embodies more of the female workplace 'characteristics', rather than the traditional male ones. This is not least because there are more women within the workplaces of today, and the gender pay gap has become a topical issue of international significance. It is also because through a shift in leadership towards more participative and transformational styles, which women are more inclined towards, the most creative and innovative imaginations within the workplace can be identified and their power harnessed for the greater good of the organisation. This in turn will lead to organisations which move away from rewarding only specialism to rewarding innovation, defining a new concept of 'success'.

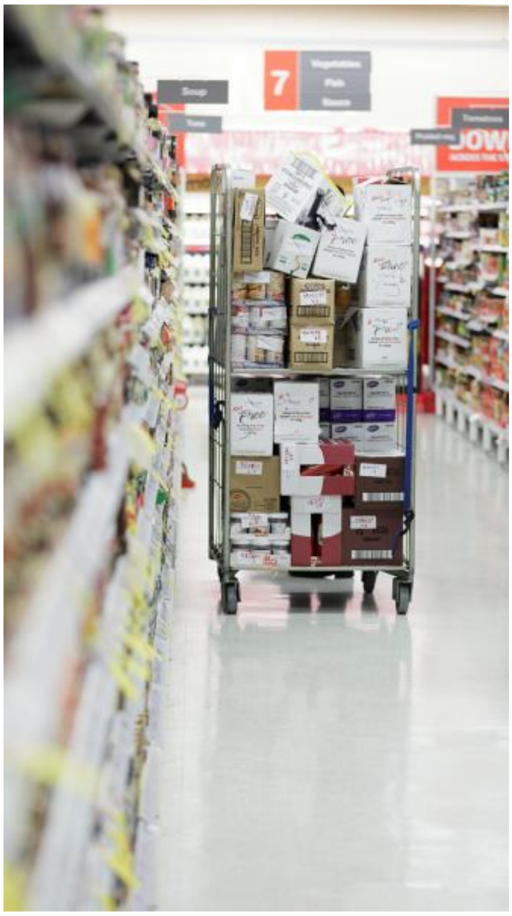
Ultimately, these two workplace scenarios should be seen as different sides of the same coin – where one is not better than the other. These are different working worlds from which the best characteristics should be drawn and implemented to create the ultimate working environment for innovative, forward-thinking organisations of the future.

Article written by Leila Ebrahimi and Yoliswa Mqoboli

Economic outlook for 2016 and the impact on salary increases

According to the Bureau for Economic Research the consumer inflation (CPI) forecast is largely unchanged despite the weaker rand outlook. It is evident that lower fuel costs have improved the short term CPI view. For 2016, consumer inflation is forecast to accelerate to 6.2 on average.

The next 18 months are set to remain a difficult period for emerging markets, owing to low global commodity prices, the start of the global monetary policy tightening cycle, weak exports and unavoidable domestic economic reforms. In its latest World Economic Outlook publication, the IMF has downgraded its forecast for emerging market growth for both 2015 and 2016. Economic conditions locally remains extremely tough and organisations are cutting costs to the bone to ensure future sustainability.

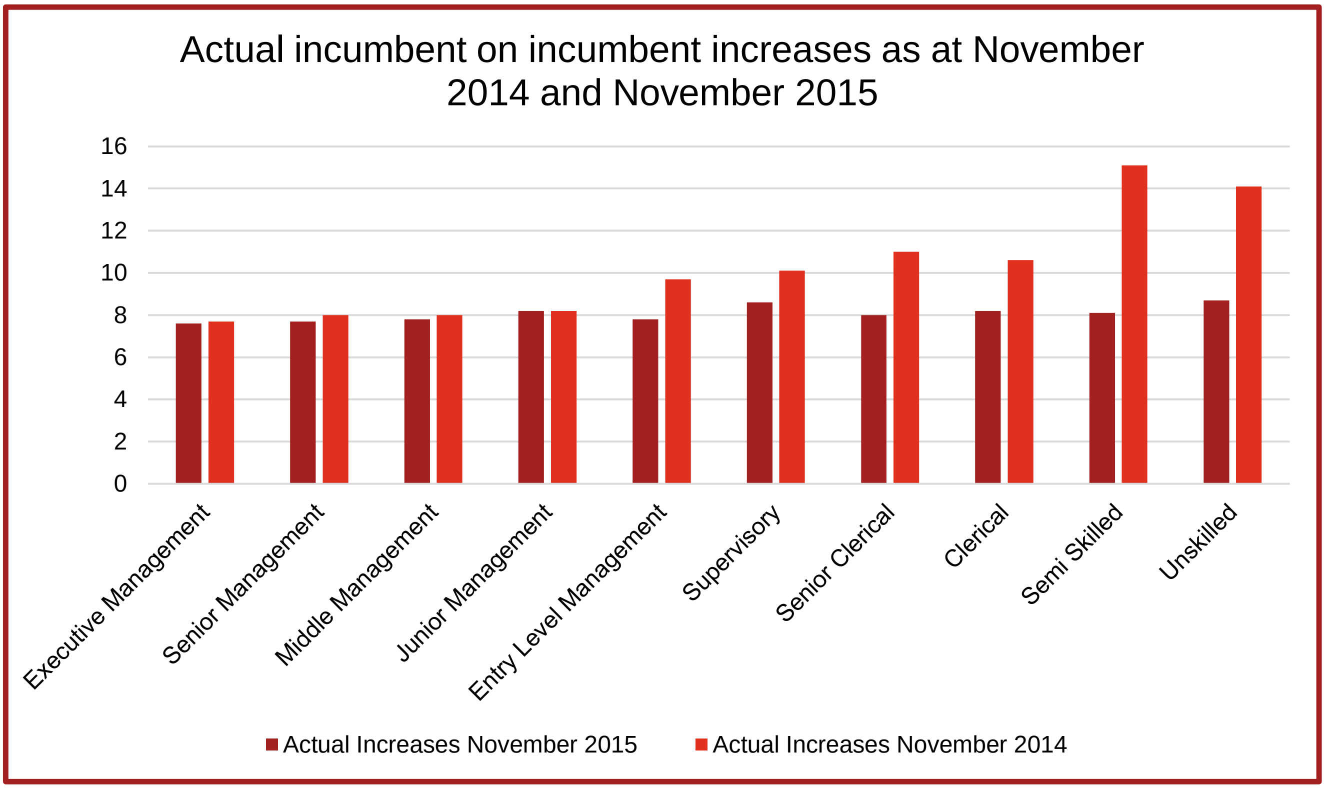


On the other hand the war for exceptional high performing talent is continuing and the focus on increasing productivity of current talent has become a business imperative. This does however mean that many organisations are reviewing organisational structures to increase efficiencies and in the process employee morale is affected negatively. The salary and wage bill remains the largest expense in any organisation and the return on investment in human capital must be optimised in the current economic climate.

In the September 2015 Salary and Wage Movement survey the participants forecasted salary increases ranging between 4% and 8% but the average remains in line with excepted CPI figures for the next 12 months as can be seen from the table below. There are however a number of clients who have indicated increases as low as 3% or even freezing increases in cases where the organisation survival is under threat.

Anticipated total package increments for the next twelve month period – September 2015

Employee category	25th percentile	50th percentile	75th percentile	Average
Executives	6.0%	6.5%	7.0%	6.2%
Management	6.0%	6.5%	7.0%	6.5%
General staff	6.0%	7.0%	7.0%	6.6%
Unionised staff	6.0%	6.5%	7.2%	6.8%
Total lift to payroll	6.0%	6.5%	7.0%	6.4%



The outlook for consumer spending remains a concern amid weak private sector employment, low consumer confidence, a rising inflation profile and possible further monetary and fiscal policy tightening. The view for private fixed investment is not much better, with low business confidence and a subdued growth outlook weighing on investment growth. So how will this affect salary increases in the next few months? What is evident from the above graphical illustration is that year on year increases based on actual incumbents in the REMchannel® database as at November 2015 has declined at the general staff levels whilst remaining fairly static at the executive levels. Actual average increases have declined with 2.18 percentage point's year on year but were still higher than the predicted salary increases as at September 2013.

With the announcement of some kind of minimum wage almost certainly scheduled for next year's state of the nation address, more and more sophisticated research about what it might actually achieve is being conducted by various stakeholders. One such centre dedicating time to this research is the Corporate Strategy and Industrial Development

Economic outlook for 2016 and the impact on salary increases (cont)

centre at Wits University. Researchers remain divided on the quantum and implementation of a minimum wage and it is sparking healthy debate. There is of course a difference between an imposed minimum wage and a living wage and even these concepts are leading to vigorous discussions. Although it seems as if all parties agree that there will be some job losses if a minimum wage is implemented, the full economic impact is still being researched.

The participants in the September 2015 Salary and Wage Movement Survey provided an indication of the anticipated minimum wages per month for the next 12 months as indicated in the table below.

Traditionally the minimum wage is based on the basic salary and of course the full cost of employment is not widely publicised. On the assumption that benefits constitute approximately 30% of package the anticipated median cost of employment will be R9 490 per month.

Anticipated minimum wages per month

	Lower quartile	Median	Upper quartile	Average
Next 12 months: Anticipated minimum wage	R 6 365	R 7 300	R 9 862	R 7 178

To assess the impact of the economic climate and the anticipated minimum wages per month, PwC will again publish the Salary and Wage Movement Survey in April 2016. Data collection will commence in February and will provide valuable information to inform your decision making in terms of salary increases. To participate in the survey please contact Theresa Kite at theresa.kite@za.pwc.com or Margie Manners at margie.manners@za.pwc.com.

Implications of retirement reform

The much anticipated and long awaited retirement reform has finally been approved by Parliament and is expected to be promulgated in the Taxation Laws Amendment Act of 2015. Once promulgated, the retirement reform changes will be effective from 1 March 2016.

Currently pension funds, provident funds and retirement annuity funds (collectively referred to as retirement funds) are all treated differently for tax purposes. However, National Treasury and the South African Revenue Service (SARS) will simplify this by introducing the same tax treatment for contributions to retirement funds as well as the payment of lump sums from these funds.

Tax treatment of contributions

Currently the treatment of contributions by both employers and employees to the various types of retirement funds are not aligned and, in fact, are treated very differently for tax purposes.

Employer contributions

Currently employer contributions to retirement funds are tax exempt in the hands of the employee. Furthermore, the employer is able to claim a tax deduction, up to a limit of 20% of an employee's "approved remuneration", in respect of their contributions to a pension fund, provident fund or benefit fund.

However, effective 1 March 2016, employer contributions to retirement funds will be regarded as a taxable fringe benefit in the hands of the employees. It should be noted that the employer will still be able to claim a tax deduction in respect of their contributions to pension funds, provident funds and benefit funds.

Employee contributions

Currently employee contributions to the three types of retirement funds are treated very differently for tax purposes.

The new retirement reform regime, however, aims to align the tax treatment of contributions to the various types of retirement funds. Effective 1 March 2016, all contributions to retirement funds will be subject to the same tax treatment and will take effect as follows:

- The employer contribution which was included as a taxable fringe benefit (discussed above) will be deemed to be a contribution made by the employee;
- The employee will be able to claim a deduction, in respect of their contributions and their deemed contribution (including personal retirement annuity fund contributions), of up to 27.5% of the higher of taxable income or remuneration;
- The deduction that the employee can claim, however, is limited to an absolute maximum of R350 000 per year.

As far as employees who are currently making after-tax contributions to a provident fund are concerned, they will now be entitled to a tax deduction for these contributions (subject to the limits above) and they should, therefore, be positively affected by this element of the changes.

Annuitisation of provident fund benefits

In addition to the amendments regarding employer and employee contributions to retirement funds, some amendments will also be made to the manner in which provident

Implications of retirement reform (cont)

funds pay out. Historically, a provident fund could pay the full fund credit as a lump sum whereas a pension fund, including retirement annuity funds, could only pay out one third as a lump sum and the remaining two thirds as an annuity unless the fund credit is R75,000 or less, in which case the full amount could be paid out as a lump sum. However, from 1 March 2016 all retirement funds, including provident funds, will pay out in the same manner.

The retirement funds will pay out one third lump sum and the remaining two thirds should be used to purchase an annuity. Where, however, the fund credit does not exceed R247,500 (currently R75,000) the full fund credit can nevertheless be withdrawn as a lump sum and the annuitisation provision will not apply.

For members under the age of 55 at 1 March 2016, the proposed legislation provides that the member's vested rights will be protected. Effectively all contributions to the provident fund prior to 1 March 2016 and the growth on these contributions will remain fully accessible at retirement (i.e. can be paid as a full lump sum). Any contributions post 1 March 2016 and growth on these contributions will be subject to the new annuity alignment legislation.

For members aged 55 and over on 1 March 2016, this annuitisation legislation will not be applicable unless they transfer to another fund of which they become a member after 1 March 2016. Therefore, provided they do not transfer to another fund after 1 March 2016, these members (55 years of age or older at 1 March 2016), should still be able to receive the full fund lump sum on retirement (if the retirement fund is a provident fund).

Suggested action points

Taking the above legislative changes into account, there are a number of action points that employers should consider to ensure that they are ready for the legislative changes and are able to utilise any potential benefits that may arise from these legislative changes.

Retirement reform has effectively ended the tax benefit of employees being employed on a Cost to Company structure where provident fund contributions have typically been structured as employer only contributions. However, the Cost to Company structure may well have other beneficial points to consider which could include, but are not limited to, administration, pensionable earnings calculations and bonus allocation calculations as well as for salary benchmarking purposes.

In respect of the limitation placed on the employee's contribution to retirement funds, we recommend employers determine the number of employees whose contributions will be in excess of the R350 000 limit. If employers have employees that will be impacted by this limitation, they should make them aware of the adverse tax implications that they may face.

From 1 March 2016, there will be no tax benefit for employees in respect of employers making contributions to retirement funds and all employer contributions will result in a taxable fringe benefit. Therefore, for administrative ease, we recommend that employers consider whether the fund rules should be amended to provide for an employee only contribution for ease of administration.

Furthermore, we recommend that employers review their fund rules to determine the flexibility of the fund rules in respect of employee contributions to the funds. With the new legislation, some employees may wish to contribute at higher or lower rates than they currently do and the fund rules should allow for this.

Implications of retirement reform (cont)

We strongly recommend that employers embark on a communication exercise in which the new retirement reform changes are socialised with employees. It is crucial that they understand the tax effects of the new legislation and the new position that they would be in after 1 March 2016 as well as what their options are should they wish to change anything.

If you require assistance with the suggested action points please contact Barry Knoetze at barry.knoetze@za.pwc.com

Managing passwords and access to REMchannel® and REMeasure®

It is crucial for our clients to understand the risks associated with sharing passwords and information from REMchannel and REMeasure.

The subscriptions to our products and reports are governed by a subscriber agreement and contractual documentation such as Letters of Engagement and Assignment Confirmation letters. The content has been specifically considered to protect all parties to these agreements. The utilisation and protection of passwords remains the responsibility of our clients and sharing these would expose PwC and our clients to risk.

Consider the following scenario: A designated licence holder leaves the organisation and the licence is not transferred to a new employee. In addition the licence holder shared the passwords with other employees in the HR department without advising anyone. The employee joins a new organisation and continues to access their previous employer's information. The individual extracts your confidential data and could potentially share it with the new employer. In addition the information provides them with the opportunity to target your high performing employees. Worst case scenario the information could be distributed to a much wider base with significant repercussions.

On the other hand sharing passwords internally may give employees access to information that they would not normally have. If this is the case information extracted and not interpreted correctly can cause significant damage to various stakeholder relations, including organised labour.

The protection of personal information is critical and needs to be considered by every REMchannel and REMeasure subscriber. The fact remains that PwC must also protect its own intellectual property and therefore it is imperative that our clients adhere to stringent security measures. Contravention of the terms of the contractual agreements will mean that you are in breach and the severity of the breach could expose you to financial and reputational risk.

Should you have any questions relating to the use of passwords or information extracted from our systems please contact your designated Key Account Manager for clarity.

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 Theresa Kite at theresa.kite@za.pwc.com or Margie Manners at margie.manners@za.pwc.com.

Thought Leadership

- Gambling Outlook: 2015-2019, the 4th edition in this series (published November 2015)
- Africa Risk Review 2015: (published November 2015)
- Annual South African Non-executive Director's Survey: January 2016
- Annual South African executive Director's Survey: July 2016
- 19th Annual Global CEO Survey: January 2016

Surveys

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