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# *HR Quarterly*

## 4th Edition December 2017

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

*December 2017*



**pwc**

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Dear valued client

At the end of yet another year it is time to reflect and take stock of all the challenges we faced, rewarding achievements and accomplishment of many goals. Although the South African economy continues to put strain on most organisations, reward and human resources professionals do not lose sight of important short term and long term objectives that have been set at the beginning of the year. In this tough environment the wage gap and the ethics of pay remain one of the most topical issues locally and globally. In this final edition of the HR Quarterly we have provided insight into the subject from an executive perspective. The global survey conducted by PwC provides the views of executives with some interesting findings and challenging many perceptions.

We trust that you will enjoy the last publication of 2017 and would like to take this opportunity to wish you and your loved ones a peaceful, blessed and safe festive season.

**The People and Organisation Team**

**“The eye sees only what the mind is prepared to comprehend.” – Robertson Davies**



# *Fair pay in a just society*

## *What do executives think?*

*For some time now, societal concern about levels of executive pay has been on the rise. Executive pay has been a visible symptom of broader concerns about inequality and a ‘system rigged for the elite’ which has been the backdrop to a number of recent elections and referenda across the developed world. Books analysing the problem – most notably Thomas Pikety’s ‘Capital in the 21st Century’ – have been catapulted out of academic seminars to the top of best seller lists.*

Since the mid 1970s, real incomes in the bottom seven deciles of the global income distribution have risen by between 20% and 80% and the proportion of the world’s population living on less than the World Bank’s poverty line of \$2 a day has fallen from around 60% to 10%.

Globalisation and free trade have pulled extraordinary numbers of people out of poverty across the world but real incomes for the world’s middle and working classes have stagnated or fallen, and so the greatest wealth generation mechanism ever seen in human history is being called into question. This political context has led to a progressive tightening on the rules on executive pay. Say on pay is spreading rapidly around the world, tougher rules on deferral and clawback of bonus are spreading beyond just the banking sector, and publication of pay ratios is being used as a way to encourage boards to think more fully about the question of pay fairness. But the public’s concern about inequality in different countries is not correlated with the actual level of inequality, but rather with their view of their personal prospects. Making society more equal may not help progress the public’s concern if questions of security and income progression are not addressed.

Indeed a recent article in Nature set out the wide body of evidence that, in most people’s minds, more fair does not necessarily mean more equal. Can companies therefore ignore inequality and just get on with the business of generating wealth, leaving governments to deal with redistribution? Can they adopt the Milton Friedman stance that ‘the primary social responsibility of companies is to make profit’? Or should they consider themselves as social entities in their own right, where concerns of fairness and justice hold sway?

***There is a tricky balance to strike!***

# What is fair?

*“Fair” is a morally and politically loaded term which must be handled with care in a corporate context.*

Markets matter and companies that ignore the pay rates set by the market risk becoming uncompetitive in terms of cost or quality of talent. But at the same time, the licence to operate companies across the developed world is being challenged, and will become more so as automation takes its course. Inaction by companies will lead to the concept of “fairness” being hijacked and equated to that of “equality” as we have already seen with recent proposals to introduce pay ratio disclosure in the US and UK.

Moreover, the best companies know that fair treatment of employees, approached in a commercial way, is an important component in employee engagement and enhanced productivity. There is a positive agenda for companies to embrace here too. If companies are to play a role in ensuring pay fairness and a just distribution of income, they will need to figure out what on earth these concepts actually mean in tangible terms.

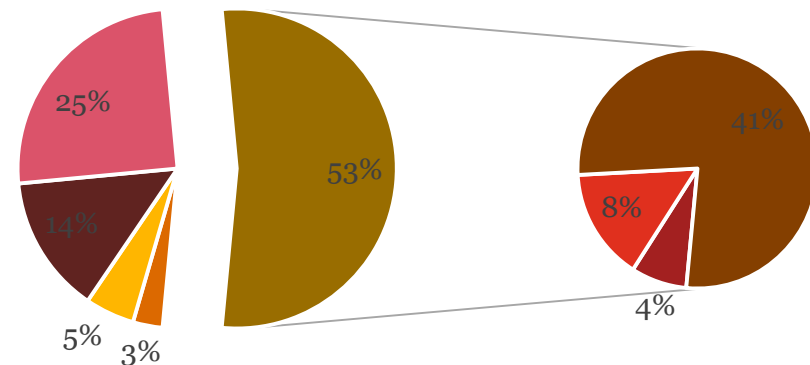
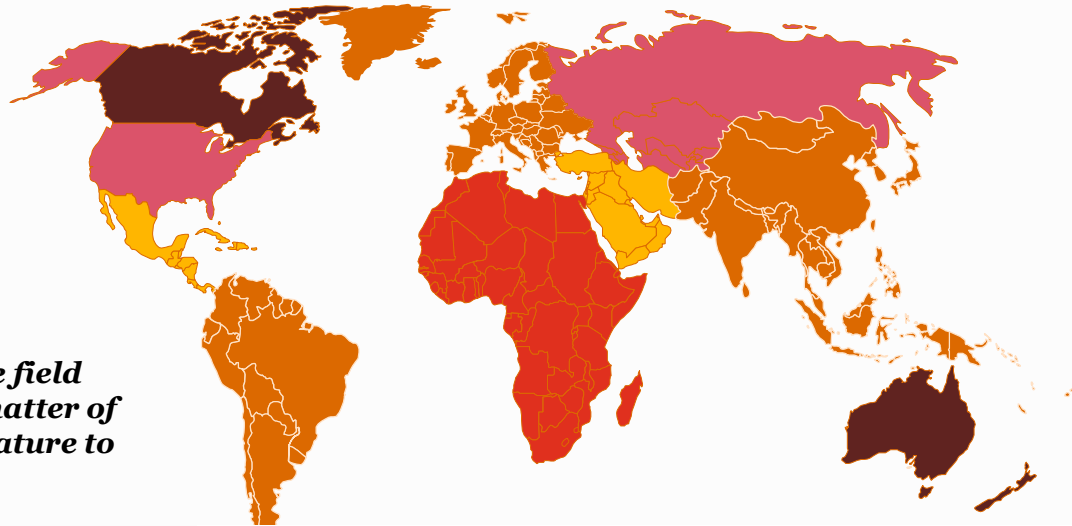
‘Fair’ is a morally and politically loaded term, which must be handled with care in a corporate context. It does not mean pushing companies towards some socialist utopia. But if more fair is not more equal, what is it? To better understand this question, we need to get to grips with some of the moral principles which underlie the concept. Fortunately, philosophers have been debating these questions for centuries and provide much material to draw on. So over the last year, in collaboration with Dr Alexander Pepper, Professor of Management Practice and Dr Susanne Burri, assistant Professor of Philosophy at the LSE, PwC has conducted a series of thought experiments with over 1,000 senior executives within large, multinational organisations on distributive justice: the principles by which institutions and governments distribute income among their constituents. We chose senior executives as our target audience for two reasons.

First, most research on attitudes to fairness focus on the general population. We wanted to see if business leaders have a fundamentally different view. But second, senior executives play a critical role in determining the culture of their business and its sense of purpose. Understanding their views on fairness is therefore central to understanding what can realistically be achieved within companies in this area. The approach builds on our highly successful study of a few years ago into the Psychology of Incentives, also carried out with the LSE. That study gave great insight to how executive pay should be designed to motivate executives. We hope that this study will play a part in helping companies develop a motivating reward strategy for the whole company. The research explores the attitudes to fairness and distributive justice in companies and society. As well as shedding light on current attitudes to fairness, our findings will help companies develop a new language to explore what they mean by ‘fair’. This will help them to engage with their employees as they build remuneration structures that are fair, just and meet employee as well as wider societal expectations. Developed economies face nothing less than a challenge to capitalism as we know it. To respond to this challenge, companies need to know what they mean by fair. We hope this research helps them to figure this out.

# Who were our respondents?

*There is a great wealth of literature in the field of political philosophy dealing with the matter of distributive justice. We drew on this literature to structure the thought experiments for participants around six key principles of distributive justice. These represent the span of theories, although are not comprehensive. To simplify the survey, we did not include some of the most extreme theories – for example complete equality of outcome.*

Survey respondents were taken through a series of thought experiments to evaluate their attitudes to, and prioritisation of, these principles of distributive justice in relation to their company and society; as it is, and as they would wish it to be.



- Senior Vice President
- Vice President
- C-level executive
- Director
- Owner or partner
- President/CEO
- Senior Management

# Principles of distributive justice

“Without falling into a socialist ideology, all the employees of a company contribute actively to its success, so too great a disparity in wages is unjust and counterproductive.”

Director, Manufacturing, Switzerland

The top positions are the think heads for any organization. It is very important that they are properly recruited and optimally paid.”

Senior Manager, financial services business, India



## 1. Entitlement

*All voluntary transactions are just*

With the late Robert Nozick as its most famous exponent, this theory turns the approach to distributive justice on its head: rather than asking, how can we justify a transfer of money from A to B, it instead asks, how can we justify interfering with this transfer in the first place? Any transfer between willing agents is just.



## 2. Efficiency

*The income distribution should lead to an efficient allocation of labour*

This theory ostensibly has no distributive principle, but its real one is this: that efficiency is to be put before any other distributive consideration. What the market decides is what is right, as this will create the greatest wealth for the greatest number.



## 3. Just desert

*People who achieve more deserve more*

The basis of desert theory is there ought to be a like-for-like relationship between one's work contribution and the reward one gets in return: what you put in is equal to what you get out. Moreover, those who are more productive but work less hard deserve more than those who work hard but are less productive.



## 4. Equal opportunity

*Outcomes are fair provided the starting point is*

This theory sees market competition as fair game, so long as there is a level playing field. Certain advantages which arise out of luck, such as what postcode someone was born in, or the school they went to, should have as little to do with their future economic opportunities as possible.



## 5. Sufficiency

*Guarantee a minimum standard of living for all*

Sufficiency has as its ethos the idea that any state or system whose constituents are not able to lead a dignified life is fundamentally immoral. Once this minimum quality of life is guaranteed for all, however, society has fulfilled its obligations towards distributive justice.



## 6. Maximin

*Distribute income to make the worst off in society as well-off as possible*

The brainchild of political Philosopher John Rawls, maximin states that inequality should only exist to the extent it makes the worse-off in society better off: a strong test. This is achieved by harnessing the productive capacity of the better off, through the preservation of some level of monetary incentive.



# Results

*All principles secured at least some support from half the respondents, although some were more favoured than others. Entitlement, which gives companies the freedom to pay their employees as they please, and imposes no obligation on society to intervene in wealth outcomes is least supported. In the same bracket is Maximin, which argues for allowing inequality only to the extent that it maximises the welfare of the least well-off. Doing nothing to help the least well-off is as unfavoured an idea as doing everything to help the least well-off.*

The four more moderate principles of Efficiency, Just Desert, Equal Opportunity, and Sufficiency, were the most favoured by a considerable margin. Respondents typically favoured three or more principles.

Respondents supported multiple principles simultaneously, even though, on the face of it, many of the principles are in conflict. This shows that attitudes to fairness are complex and multidimensional. A single principle cannot describe the richness of human attitudes in this area. Hence more fair does not mean more equal. To develop an outcome that is seen as just requires subtle trade-offs across many dimensions. Attitudes to fairness in companies and societies were strikingly similar.

The idea that companies create wealth and societies distribute it did not seem to hold water even amongst this senior population. Companies are viewed as social entities in their own right, a microcosm of the distributional challenges faced at the level of society.



# Salary reviews in 2017

*The most popular review months for all categories of staff remain concentrated during the first half of the year as can be seen from the table on the right.*

*Although this essentially means that the REMchannel® survey data should be fairly current, a large number of organisations did not settle in terms of union negotiations and more than 160 clients are still submitting data in November for the last publication of 2017. The next publication is scheduled for end January 2018.*

Review month	Executives % of Sample	Management % of Sample	General Staff % of Sample	Unionised Staff % of Sample
January	20.7	21.4	20.7	7.1
February	0.8	0.9	1.1	0.6
March	16.5	16.4	15.2	4.7
April	20.1	20.3	19.0	8.5
May	1.1	1.7	1.9	1.3
June	3.2	3.0	3.6	0.9
July	17.1	18.2	21.2	16.2
August	1.9	1.9	1.9	0.8
September	3.4	4.0	4.0	1.5
October	6.4	5.8	5.1	2.4
November	0.8	0.8	0.2	0.0
December	1.5	1.5	1.5	0.2
Anniversary Date	0.4	0.4	0.4	0.0
More than once per annum	0.0	0.2	0.2	0.0
Irregular intervals	0.2	0.0	0.0	0.0



# Economic climate and impact on pay

## Economic overview and global growth trends

The GDP growth outlook and business sector confidence will remain depressed in the remaining quarters of 2017 and could well reach into 2018. There are varying views on how the ANC's elective conference in December will influence business confidence levels in the year ahead. For now, the BER's view is that "whereas the outcome may on the margin influence confidence levels, irrespective of who is elected as the new ANC President, the general political environment is likely to remain constrained on fixed investment through 2018".

Against the bleak economic back-drop domestically, there seems to be a balance in the global economy. A solid global growth has been observed as major emerging markets such as Russia and Brazil exited recession while the Eurozone has shown an upturn in their economic growth. Caution remains around Brazil as the renewed political turmoil could potentially derail the tentative economic recovery. Recent analysis from Japan has been positive which means less of a burden will be on the US and China to carry the global economy forward.

### Global growth outlook - y-o-y % change

	2016	2017	2018
<b>World</b>	3.1	3.6	3.5
<b>Advanced countries</b>	1.6	2.1	1.8
<b>US</b>	1.6	2.2	1.8
<b>Euro area</b>	1.7	2.1	2
<b>United Kingdom</b>	1.8	1.6	1.6
<b>Japan</b>	1	1.5	0.8
<b>Developing countries</b>	4.1	4.7	4.7
<b>China</b>	6.7	6.7	6.4
<b>India</b>	7.1	7.2	7.4
<b>Brazil</b>	-3.6	0	1.8
<b>Russia</b>	-0.2	1.4	1.4

Source: JP Morgan Global Data Watch, 7 July 2017

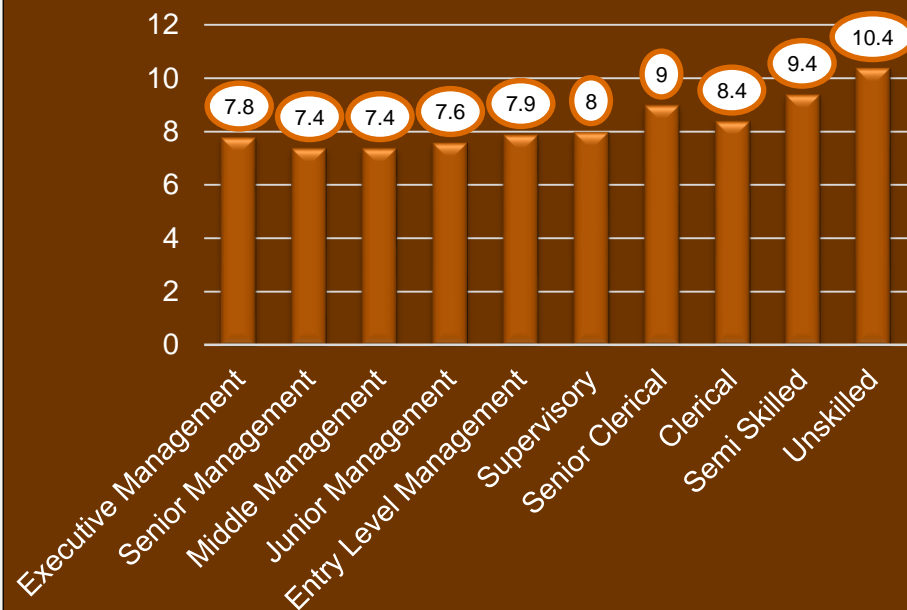
53% of CEO's believe that global economic growth will stay the same over the next 12 months.

# Year on year salary movements

		Previous 12 months		Next 12 months	
Category	Package	Mean	Median	Mean	Median
Executive					
	Basic Salary	5.9	6.5	6.3	6.5
	Flexible Package	6.5	6.3	5.8	6.0
	Total Package	6.2	6.4	6.3	6.0
Management					
	Basic Salary	6.5	6.6	6.5	6.5
	Flexible Package	7.0	6.2	6.3	6.0
	Total Package	6.4	6.5	6.3	6.5
General staff					
	Basic Salary	6.7	6.9	6.7	6.5
	Flexible Package	7.2	6.5	6.5	6.0
	Total Package	6.7	6.5	6.5	6.5
Unionised					
	Basic Salary	7.5	7.5	7.1	7.0
	Flexible Package	7.6	0.0	6.9	0.0
	Total Package	6.9	7.0	6.9	7.0

Budgeted salary increases as at November 2017 reflect an average of 6% across all employee categories, but what is the reality?

**Actual incumbent on incumbent increases as at November 2017 (source REMchannel® on line salary survey)**



Although not the case across all organisations it is evident that the ethics of pay and the wage gap is continuously addressed by South African organisations. Actual incumbent on incumbent increases remain higher at the junior levels in the organisation with smaller percentage increases at all levels of management.

# *So what is in store for 2018?*

To guide you in your decision making and to establish what increase organisations are envisaging for 2018 you can participate in the Salary and Wage movement survey in the first quarter. Scheduled publication date is 1 April.

If however you need information immediately you can obtain a copy of the September survey. Please note that terms and conditions apply.

Staff turnover rate, highest percentages reported at management and specialist employee categories.



## **Did you know?**

More than 50% use other elements in addition to CPI in the determination of increases.

65% of the participants in the Salary and Wage movement survey indicated that affordability is a primary consideration.

60% take individual performance into consideration when awarding increases.



# 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 or Lisa Tamkei at [surveys.researchservices@za.pwc.com](mailto:surveys.researchservices@za.pwc.com)

## Surveys 2018:

- Short-term incentive Scheme Survey 1<sup>st</sup> quarter 2018
- Executive Director's Survey: July 2018
- Non-Executive Director's Survey: January 2018
- Salary and Wage Movement Survey: April 2018

**Employee benefits survey 2017: HOT off the press and available now!**

## Thought leadership:

- Africa Oil and Gas review 2017 publication
  - SA Mines 2017 publication
- Entertainment and Media Outlook 2017 – 2021

# *Look out for ...*

Save the Date: 15  
January 2018

## **2018 Learning and Development Snap Survey**

In the ever-evolving environment that organisations operate in, in South Africa, employees remain the most valued asset. The Employee Value Proposition (EVP) is centric to managing performance, attracting and retaining staff as well as engaging and motivating talent. One of the important pillars of the EVP is learning and development

Keep an eye out for the PwC Research Services Snap Survey on Learning and Development Trends - participate and find out what the market best practice is.

For enquiries regarding survey publications, please contact Margie Manners or Lisa Tamkei at [surveys.researchservices@za.pwc.com](mailto:surveys.researchservices@za.pwc.com)



## ***TRENDS 2018***



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