HR Quarterly

June 2014

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

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The Talent Nightmare returns

The focus is turning away from constraint; 64% of CEOs said they planned to make cost reductions in 2014, compared with 70% last year. On the other hand, 50% of global CEOs indicated that they would be increasing headcount in the next 12 months. This in itself requires a major balancing act which could feel like walking a tightrope for many reward professionals.

Businesses and their leaders face some pressing questions about their future talent pipelines and human capital strategy. Global megatrends are changing the talent landscape at the same time that the global economy regains its confidence and looks towards growth.

CEOs are well aware of the extraordinary challenges ahead but seem less certain about how to tackle them. 93% say that they recognise the need to change their strategy for attracting and retaining talent, or are already doing so. But there's still an enormous gulf between intention and action; a staggering 61% of CEOs haven't yet taken the first step and only 34% of CEOs feel that HR is ready for the challenges ahead.

This paralysis is familiar. In 2013, 77% of CEOs said they had plans to change their strategy for managing talent in the coming 12 months – but if we look back at the past seven years of CEO surveys, talent management has been identified as the main target for strategic change in every year. And every year, their concerns about the availability of talent have increased. CEOs are well aware that something needs to be done, but are less sure of exactly what that is.

This is no time for tinkering at the edges. The magnitude of the changes underway mean that a fundamental rethink of talent strategy is needed. New sources of labour to build tomorrow's workforce must be found, and the way in which people work, and where they'll work, needs to be reconceived. If you would like to receive a copy of the latest thought leadership pertaining to the transformation of Talent Strategies as viewed by global CEOs, please contact René Richter at rene.richter@za.pwc.com

The PwC Reward Team

PwC Southern Africa HRS News

We invest in knowledge sharing

PwC's Africa Tax and Business Symposium (ATBS) in Senegal promises to be a great knowledge-sharing experience. The presentation and workshop on "Share Plans in Africa" will showcase the nature and impact of Share Plans in South Africa, with presentations on the tax and legal structures for Share Plans in East Africa, West Africa and Francophone Africa by specialists from these markets.

Share plans have been used extensively within the Southern African market for Employee Share Ownership Plans (ESOPs) and for Executive Share Plans to encourage employee engagement, alignment of management and shareholders, incentives for medium- to long-term business performance and the attraction and retention of key staff.

They have also played a significant role in the South African government's programme of broad-based black economic empowerment, which is designed to redress the historical inequalities in South Africa. Share Plans in the rest of Africa have, however, been under-utilised, although many countries have enabling legislation to facilitate their use. Perhaps this is because the African regional markets for listed shares have lower liquidity and volume than the Johannesburg Stock Exchange. This is changing –several regional markets are experiencing stronger growth and liquidity, and there is increasing interest and investment in sub-Saharan Africa outside South Africa.

For more information on the conference venue and to book your place, please contact Alan Seccombe at alan.seccombe@za.pwc.com

We invest in our clients

PwC recently conducted a Reward for Line Managers training session at our offices in Botswana.

This session proved that the sharing of knowledge empowers people and assists reward professionals to effectively manage remuneration with the buy-in of line managers.

The session was facilitated by Norma Mayimela from our Sunninghill office, and the response to the training was overwhelming. We are planning several workshops of this nature in the coming months. These will initially be held in South Africa, Namibia, Botswana and Kenya.

Should you wish to obtain more information about our workshops and training sessions, please contact Norma Mayimela at norma.mayimela@za.pwc.com.

We invest in the development of our future talent

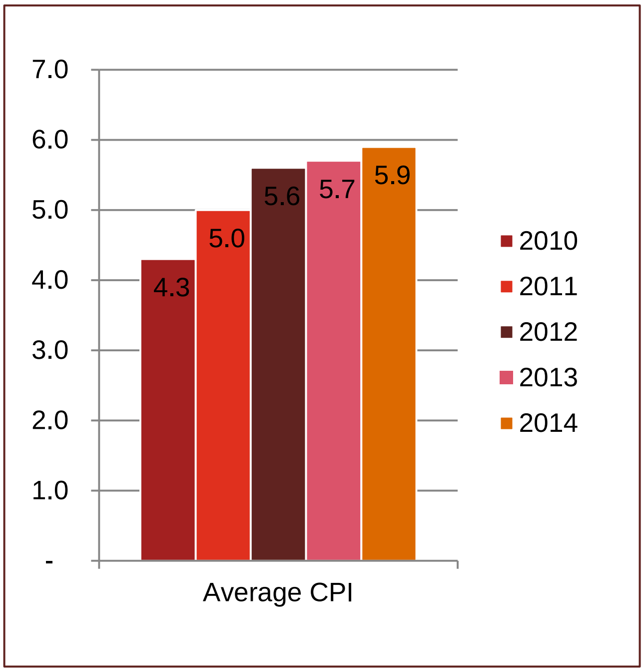
PwC has qualified 1,426 ACI Chartered Accountants over the past 11 years and we continue to be the single largest developer of CAs in South Africa.

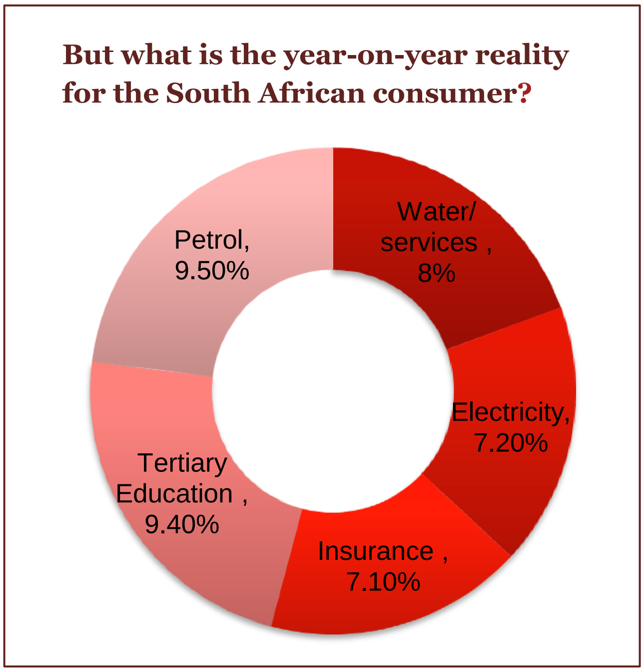
It gives us great pleasure to announce that the Association for the Advancement of Black Accountants of Southern Africa (ABASA) has once again recognised our firm's contribution in the advancement of Black Chartered Accountants, in the Gauteng Region and surrounding areas. This achievement demonstrates PwC's commitment to the development of CAs and our candidates' perseverance, dedication and commitment to their dreams and ambitions.

South African salary increases: inflation vs reality

In the first edition of the 2014 HR Quarterly, we asked whether South African inflation was going into an upward spiral. Based on the latest figures it seems as if the question has been answered in the short term.

CPI has been fairly tempered over the last few years despite the economic climate but has nevertheless increased steadily since 2010, as can be seen from the data below.





A question of trust

In a competitive talent market, the employer value proposition becomes critical. CEOs have worked hard to rebuild trust between employer and employee, and 39% report an improvement. But will trust translate into loyalty?

Clearly, the statistics as provided by Statistics South Africa indicate that South Africans are paying far more for services and education. If reward professionals are faced with cost reduction on the one hand and retention on the other, it becomes a conundrum. How do we spread the available monies to ensure that critical skills do not leave our organisations for marginally higher salaries to minimise the impact of inflation?

Could this be the reason why most organisations utilise inflation plus one or two percentage points to determine their salary increase budgets? And if so, what does this mean in a cost-cutting environment? From a reward and human resources perspective it means that there will be several other areas where cost cutting can be achieved, for example the training budget. This will, however, have a long-term impact on the organisation that will probably wipe out some of the savings initially achieved.

The trend of granting slightly higher than CPI increases is also evident from the percentage increases predicted by REMchannel® participants as at the end of April 2014. Increase predictions for general staff range

between 5% and 8% for the next 12 months, with average increases on a total guaranteed package basis reported to be 6.7%.

The projections do not include any salary and wage movements related to the current labour action in the mining industry sector. It is expected that if the impasse can be broken, increases in this sector will impact the projections by participants in the REMchannel® survey.

The March 2014 Salary and Wage Movements Survey has been published and will provide some fresh insight into the anticipated budget increases of South African organisations. Should you wish to obtain a copy, please contact Norma Mayimela at norma.mayimela@za.pwc.com. Please note that terms and conditions apply. We will also publish this survey in September 2014 to assist clients in their decision-making process for the next 12 months.

The real cost of losing key staff – can you quantify it?

When an organisation loses a key employee or high performer, the result is lost productivity and sales, low employee morale, and increased expenses associated with filling the vacant position. Calculating and tracking the cost of turnover can help quantify the problem and provide justification for making changes that will help the organisation retain employees.

Considering that PwC reported the overall attrition rate for the 2012 calendar year as 23.41%, of which 13.58% can be attributed to resignations, the cost of losing key staff can be significant in any organisation. On the assumption that half of the attrition rate is due to better offers, lack of development or leadership issues, how much can the turnover cost potentially be? Based on certain suppositions such as the level of the position, the hourly rate of the incumbent or the hourly rate of human resources staff, the cost can range between 30% and 120% of annual guaranteed remuneration. The table below provides the estimated turnover cost for a single position at a D5 level. This puts a new perspective on the potential cost in any organisation, especially if the position that must be filled is a scarce skill and it takes months to do so. If you have a high attrition rate at this level, the cost per annum could easily exceed the cost of initiatives for ensuring that employees remain engaged and loyal to your organisation.

Example: Cost of turnover for a single position

Position: General Manager (D5)

Employee Department Costs:	
Departing employee (exit interview/paperwork)7	1,000
Temporary coverage for vacant position	-
Other separation costs (severance/vacation pay-outs)	39,244
Manager/supervisor time for hiring replacement	9,750
Training costs	20,000
Cost of lost productivity	49,030
Placement agency fees	153,000
Total Department Costs	**272,024**

HR Department Costs:	
Processing paperwork/exit interview	500
Recruitment activities	10,000
Screening applicants/setting up interviews	2,500
Interviewing and selecting candidates	5,000
Reference checks and job offer	1,250
New employee orientation/paperwork	3,750
Total HR Department Costs	**23,000**

Other Organisation Costs:	
Cost of advertisements	15,000
Background check costs	5,000
Pre-employment testing	5,000
Total Other Costs	**25,000**

Total Cost of Turnover:	320,024

This is the time for reward professionals to calculate the cost of turnover for every key skill, identifying the potential risk areas, and to re-evaluate Total Rewards and the Employee Value proposition.

How do the Regulations to the Immigration Act affect you as an employer?

Opposition to the new Act remains topical and there are discussions in certain quarters (excluding PwC) regarding potential litigation against the Department of Home Affairs (DHA) to delay the implementation of the Act. PwC views the new act as a holistically positive development, and we have adapted our operating model to lessen the impact on our clients.

This view is subject to the effective and practical implementation thereof to support businesses operating to the benefit of the South African economy. The regulations were implemented on 26 May and operational challenges within the DHA are anticipated. Some of these challenges pertain to the following:

- **Definition of spouse** – The Regulations stipulate that an applicant who has a life partnership with a South African is required to prove that the relationship has existed for at least two years before the date of the application in order to qualify for a visa or permit as a spouse to a citizen or permanent resident.

- **Definition of employer** – It is stated that a person is contractually bound by the applicable employment contract as an employer, or in the case of a juristic person, its chief executive officer or person to whom such officer has delegated the final responsibility in terms of personnel matters.

  Our view is that the applicant may be contractually bound by an applicable employment contract issued by either a South African-registered employer or a foreign registered employer operating in the Republic – this will be tested in practice.

- **Submissions in person** – In line with the Advanced Passenger Processing introduced in the Act in 2011, not all applicants will have to appear in person when lodging an application either at the respective South African Missions abroad or at the DHA in South Africa (now facilitated through VFS). VFS currently facilitates visitors' visa applications on behalf of certain South African Missions abroad, and their involvement is expected to increase in other countries.

- **Applications in South Africa must now be submitted a minimum of 60 days prior to the expiry of the current permit/visa** – currently a minimum of 30 days. This may result in extended lead-times due to increased volumes from abroad, and has a potential impact on existing assignees in terms of travel requirements to return to their home country for the processing of a new application.

- **Amendment to the Section 11(2) visitors' permit/visa application process** – A recent directive has delegated the adjudication of Section 11(2) visitors' permit/visa applications to the South African Missions abroad, requiring all applications to be lodged at the South African Mission in the home country for both visa-exempt and non-visa-exempt passport holders.

PwC has published a newsletter pertaining to this subject which contains a section focusing on specific requirements and challenges. Should you wish to obtain a copy of this newsletter, please contact Stephen Marlin at stephen.marlin@za.pwc.com.

UK companies planning third year of bonus reductions at upcoming AGMs despite signs of economic recovery

PwC analysis shows 2014 is set to be another year of executive pay restraint, as early reporting shows FTSE100 executives have seen their bonuses fall for the third consecutive year and nearly a quarter have had their base pay frozen.

PwC's analysis of FTSE100 companies with year-ends from 30 September 2013 onwards reveals that CEOs' median bonus payouts for 2013 were £1.14m, with CEOs on average receiving bonuses 1% lower than 2012. This signals the third consecutive year of bonus reductions and tougher performance assessments, in spite of economic recovery and a 10% increase in the FTSE100 index during 2013.

PwC London

The picture on salaries is similar, with nearly a quarter of executives receiving no salary increase in 2013. Where increases were given, these were largely in line with inflation, and increases for the general workforce were less than 3%. The median salary for CEOs in the companies that have reported is £898,000. Median total pay, including long-term incentive payouts, increased by just 0.5% for CEOs in both years.

PwC's supplementary survey of large UK companies suggests that the trend for moderate pay increases and bonus payouts will continue in the medium term, as over half (60%) of organisations expect the overall level of senior executive pay to be within 10% of current levels over the next five years. This is being driven by market trends and the pressure to link pay more closely to performance.

The new disclosure rules are also having an impact on remuneration committee decision making. Around one third of companies believe their remuneration committee is more focused on fairness between executives and the wider workforce when making pay decisions as a result of the rules.

Tom Gosling, head of PwC's UK reward practice, indicated that the 2014 AGM season is shaping up to be another year of restraint. Despite fears that executive pay inflation would take off again as the economy recovers, this doesn't seem to be the case. Executives are seeing only modest salary increases, and bonuses continue to fall. Remuneration committees are approaching any increase in payouts with caution to ensure they accurately reflect performance and satisfy shareholders. Even when long-term incentives are included, total pay has only risen by 0.5% year on year, despite the recovering stock market which tends to increase the value of share awards. Remuneration committees are clearly listening to shareholders, are exercising restraint in their decision making and are working hard to ensure pay only increases when performance improves.

It is now common practice for executive pay rises to be in line with or even lower than those for the rest of the workforce, a practice that is reflected in many South African organisations. The desire to demonstrate fairness within the workforce on pay decisions is now much higher on remuneration committees' agendas.

The extent of executive director salary freezes since the financial crisis is one of the untold stories of executive pay restraint. It is now common practice for executive pay rises to be in line with or even lower than those for the rest of the workforce, a practice that is reflected in many South African organisations. The desire to demonstrate fairness within the workforce on pay decisions is now much higher on remuneration committees' agendas. It seems less and less likely that executive pay inflation will return to the levels seen before the financial crisis. Most organisations expect pay levels to plateau over the next five years as shareholder pressure and a focus on pay for performance remain high priority. There's a good case to be made that executive pay will stagnate or even reduce in real terms over the next decade.

PwC's research shows that companies are tweaking reward packages rather than undertaking wholesale redesign. Increases in shareholding requirements or holding periods are the most common changes, alongside changes to long-term incentive plans. Five times as many companies are reducing their overall pay opportunity as are increasing it. Investors' push for post-vesting holding periods is gaining traction, with the number of companies applying them expected to more than double this year and half of companies expected to comply by 2015.

The research shows that most companies believe the pay disclosure rules of the new Department for Business, Innovation and Skills (BIS) are a good thing and will help improve trust and transparency in executive pay. But this increased engagement between companies and investors has not translated to an improved quality of engagement with shareholders for most. Sixty per cent of companies believe the rules will make it harder to recruit executives from overseas. Tom Gosling indicated that the new pay disclosures are a double-edged sword for companies. While they have helped re-build trust in executive pay and increased fairness with the wider workforce, there are concerns that the prescriptive nature of the rules will make it harder for companies to recruit directors from overseas and have not led to improved quality of engagement with shareholders.

Data, data every where

Big Data is increasingly being used to predict and shape the future. But is HR slow to embrace the concept?

To say that organisations are drowning in data is, if anything, an understatement: only a decade ago the biggest datasets in the world were only a few hundred terabytes big; today, high street stores sell terabyte drives and the world's largest companies have datasets that reach into the hundreds of petabytes (one quadrillion bytes). Until recently, the ability of corporations to gain insight into this mass of data was limited, but the development of new tools and predictive analytic techniques increasingly means that these huge datasets, colloquially known as 'Big Data', can be used not just to monitor performance but also to predict and shape the future. In 2011, for example, the Los Angeles Police Department (LAPD) piloted a project that would use data analytics to direct police patrols towards likely crime hotspots. After seeing a 27% decrease in crime in the first month of the trial, the LAPD decided to rely entirely on predictive analytics to forecast property-related crimes.

These huge datasets can be used not just to monitor performance but also to predict and shape the future. In 2011 the Los Angeles Police Department piloted a project that would use data analytics to direct police patrols towards likely crime hotspots. After seeing a 27% decrease in crime in the first month of the trial, the LAPD decided to rely entirely on predictive analytics to forecast property-related crimes.

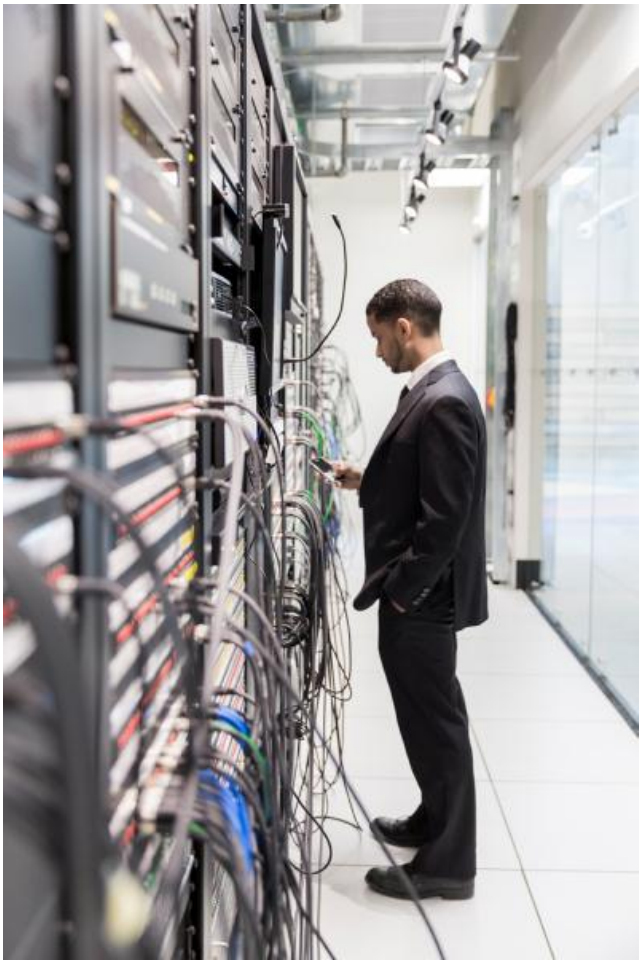
Nick Holley, Director of the Centre for HR Excellence at Henley Business School, has been conducting a large-scale survey of the use of predictive analytics in major organisations. "There's a growing realisation that Big Data is already in the process of revolutionising business, but HR is light years away," he says.

"When I interview sales and marketing people they have great stories to tell – HR professionals simply don't have as many." This is partly because the field is in its infancy and early adopters tend to be industries and functions that are used to dealing with large amounts of data, for example using retail loyalty cards for targeted marketing. Or they are already highly oriented towards data and numbers, such as IT and financial services – Big Data is, after all, only a modern descendant of the concept of actuarial tables. But HR as a function has been slow to come to the Big Data party, despite the fact that HR issues are well up CEOs' agenda. PwC's 16th Annual CEO Survey showed that CEOs saw the availability of core talent as a growing concern; 58% cited this as a problem, compared with 54% in the previous year's survey. And as Michael Rendell highlighted in his column on page 2, CEOs consistently say that they intend to address their talent management strategy. Big Data has the potential to unlock these and many other pressing HR problems. "HR sits on massive amounts of transactional data," says Nik Shah, Principal at PwC's workforce measurement practice, Saratoga.

You can use that for selection or for predicting future performance, and then for more pragmatic issues such as predicting unscheduled absenteeism or where safety incidents may occur. So the obvious starting point for HR is the data that already exists in the organisation. But, as Shah points out, much of the focus has been on implementing HR technology to improve transactional efficiency. The move to using HR technology for predictive analytics, rather than as a custodian of historical data, requires a change in mind-set. The bigger the organisation, the easier it is for HR to lose sight of the company's bottom line.

The question is whether a Big Data project in HR would benefit the person who's spending the money. It's best to start with a small idea and then grow it – plant the idea and then look at what you need to put beneath it. Organisations often underestimate the complexity of these projects, so starting with the tools in the systems you already have in place is a good idea. There's also a worry about data quality. HR is a federation of systems and a lot of data is held outside the system, so there's quite a big job to be done when HR now fails to answer simple questions such as, 'How many people do we employ?' and 'How many are contractors?'.

But Nick Holley warns it's important not to allow a Big Data project to become an exercise in data cleaning. "Don't start with the data, start with the insights," he says, "otherwise you will spend two years on an unbelievably expensive data warehousing project that ends up with insights that are only of use to HR – training and development, international mobility, sickness and absence – rather than how to enter new markets or industries, or how to transition from product selling to solution selling."



Article extracted from* Hourglass *28th edition. If you would like to receive a copy of the publication, please contact René Richter at rene.richter@za.pwc.com.

Making yourself at home

An organisation should be equipping managers with the tools to use their discretion to find solutions that both retain employees and get the work done.

For the past few years, a common mantra from HR teams across the world has been the promotion of flexible working. But recently there has been something of a backlash against policies that view working at home as a right, towards much closer scrutiny as to whether there's a good business case for it, with, in some cases, companies banning it entirely.

Whether this trend is something that will be embraced by more companies in the future is moot. But for HR teams today it throws up important questions surrounding the genuine effectiveness and productivity of members of staff working away from everyone else and how to balance that with a flexible working policy. So it's something that needs to be carefully considered. It's no secret that the millennial generation values flexible working opportunities. PwC's recent report, *PwC's NextGen: A global generational study*, confirmed this, finding that Millennials didn't believe that productivity should be measured by the number of hours worked at the office but by the output of the work performed. They view work as a 'thing' and not a 'place'. But it also found that both Millennials and non-Millennials were looking for more flexibility in the working day– to start their work later, for example, or put in time at night, if necessary. Indeed, a significant number of employees from all generations feel so strongly about wanting a flexible work schedule that they'd be willing to give up pay and delay promotions in order to get it.

Professor Peter Fleming from Cass Business School believes that companies seen to be backtracking from allowing home working are simply reacting in difficult times. "It seems to be a major return to control in times of crisis," he says. "So although all the evidence points to the fact that people are more productive with flexibility and that we have the technology to facilitate that, this is symptomatic of something else: control-centred philosophies. We may be entering into a low trust phase, but these things tend to be cyclical so will doubtless shift again."

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Dr Rob Yeung, Director at leadership consulting firm Talentspace and author of *Personality: How to Unleash Your Hidden Strengths*, identifies certain industries as being more focused on this control element and so less keen on allowing staff to work from home. "Employees at some organisations – in particular some investment banks, management consulting firms and other professional service firms – complain that their organisational cultures require face time," he says, "so employees who aren't at their desks putting in long hours are assumed to be less hard working. That's an unfortunate culture as it punishes those who could be more productive." But Yeung also highlights a serious point about the benefits of office working. "It's true that some people do work more productively when they're allowed to work flexibly and from home at least some of the time," he says, "But there's also something to be said for being physically present with the rest of the team. Email correspondence tends to be short and to the point. Phone calls tend also to be fairly focused. It's often when people get together, whether in meetings or just unofficial chats around the coffee machine, that they spark ideas off each other or catch useful pieces of information."

Fleming agrees. "Even in the internet era," he says, "there's nothing like bumping into someone in a hallway and starting to talk." If there's a shift back towards a reluctance to allow employees flexibility, the impact (and subsequent challenge for HR) is likely to be keenly felt by one particular employee demographic: working mothers. A new study from Santander into how mothers balance work and family recently revealed the scale of a maternal 'brain drain' on the UK economy.

The overarching question for HR, though, is whether productivity is improved or damaged by flexible working. Some people are motivated when working together in a team, while

The overarching question for HR is whether productivity is improved or damaged by flexible working. Some people are motivated when working together in a team, while others prefer to work alone. Is there a happy medium?

others prefer to work alone. Is there a happy medium? "We all know about the introversion-extraversion spectrum of personality. As you might imagine, introverts tend to work best alone," says Yeung, "and extroverts prefer to be with others. To get the best out of individuals, it's up to managers to recognise what suits people but at the same time to balance up what's best for the business. So strong introverts might naturally prefer to work independently even when it might be more useful for the team to have them physically present at times.

Similarly, extreme extroverts might prefer to be with others too much of the time and a good manager should be able to identify when those individuals might need to work alone. Rather than having blanket policies about how everybody should work, the best arrangement would be to allow individual managers to manage their teams as they see fit."

But are there any techniques or personality tests that will help HR identify which employees will work better in the office, and which would benefit from more flexible or home working? "In theory, HR could roll out personality tests to measure individual employees' levels of introversion or extroversion," says Yeung.

"But in practice, I think that most adults have a fairly good idea of where they sit upon the introversion-extroversion continuum. "I've known of some businesses that have required their employees to be physically present in the office because they cling to outdated beliefs that employees who work from home are perhaps doing less work. Yes, that may be the case for some employees, but it also sends a clear message to the other employees that they can't be trusted, which could of course damage the relationship between an organisation and its employees. It would be a mistake to try to apply broad-brush policies to every employee. Instead, an organisation should be equipping managers with the tools to use their discretion to find solutions that both retain employees and get the work done."

Assuming your organisation is not about to ban home working, what's the best way to manage staff who aren't physically present in the office?

How can you keep them motivated and part of a team? At the end of the day, says Yeung, common sense, more than anything else, should prevail. "Clearly, if an employee is insisting on working from home 95% of the time but seems to be producing less than most of the rest of the team, the balance has gone the wrong way. Likewise, another employee who's physically present in the office 100% of the time but making a sub-par contribution isn't ideal either."

Yeung goes on to say, "Across different organisations, the most effective arrangements seem to be a mix of having flexible hours; for example, allowing employees to arrive early or late on certain days of the week as well as allowing working from home. But it would be a mistake to try to apply broad-brush policies to every employee. Instead, an organisation should be equipping managers with the tools to use their discretion to find solutions that both retain employees and get the work done."

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.

Surveys:

- Salary and Wage Movement Survey (3rd Quarter 2014)
- Long- and Short-Term Incentive Survey (4th Quarter 2014)

Thought Leadership

- Adapt to survive: How better alignment between talent and opportunity can drive economic growth (April 2014)
- Cyber: EU steps up on data security and privacy (May 2014)
- Annual PwC Executive Director Remuneration Survey (July 2014)