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

March 2018

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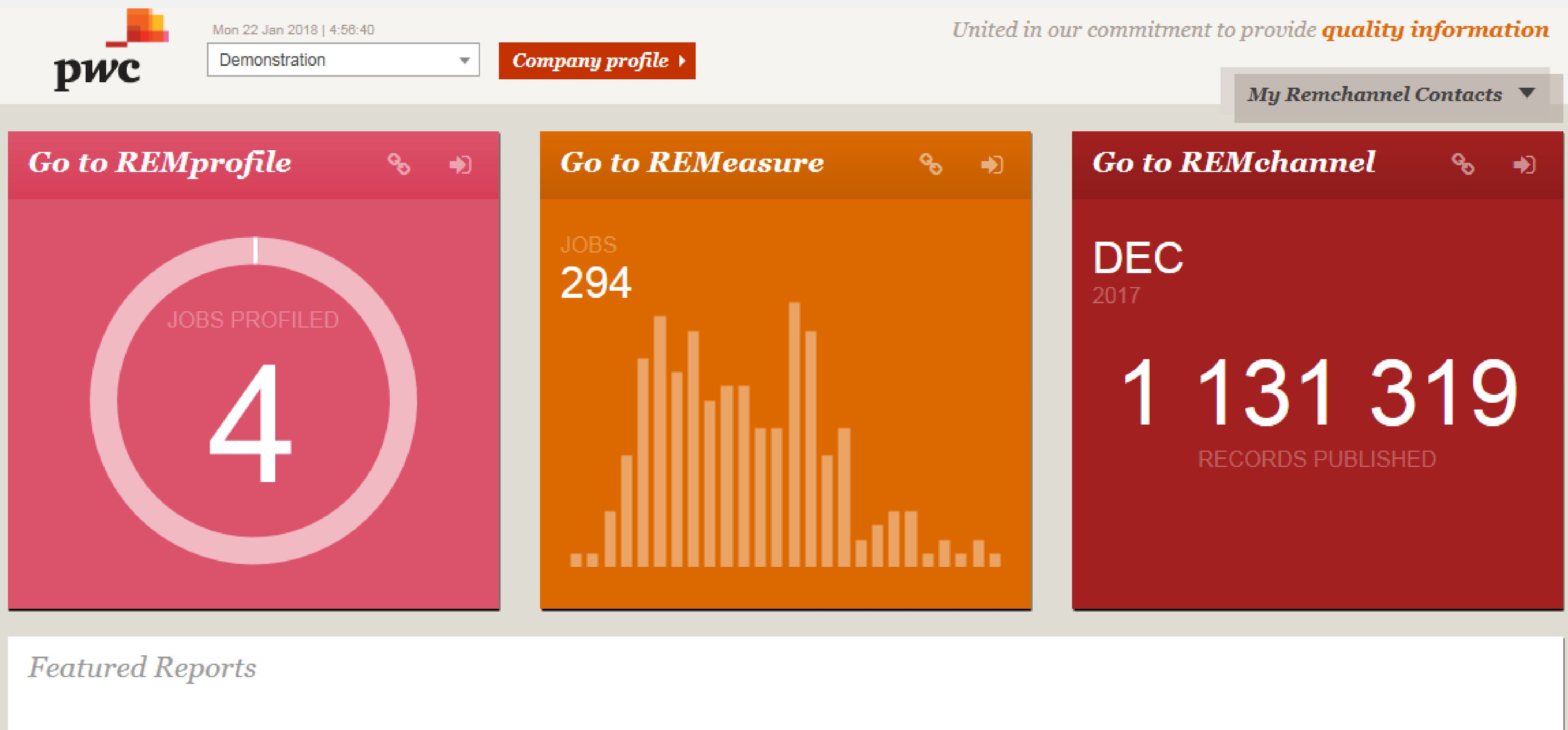
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Dear valued client

We moved into our new building at the end of last year. Not only is the view magnificent, the state of the art building is providing us with an environment that is conducive to innovative thinking and a wonderful employee experience.

2018 is certainly bringing new challenges but also renewed hope for the revival of the South African economy. As we enter this new phase we need to be prepared to relook our people strategies in line with the Workforce of the Future. By now I am sure that most of you completed the quiz on our website and that you have a clear idea of what your future organisation will look like. This changes the people landscape for human resources and reward professionals as we need to ensure that our people strategies are aligned to a changing workforce and environment.

We trust that you will enjoy this first edition of the HR Quarterly for 2018.

The People and Organisation Team

“Education is the most powerful weapon which you can use to change the world.” – Nelson Mandela

Squeezing the pay gap from both sides

Part one: "top down"

By Lelo Skosana

An Ethical Remuneration Framework

In the following series of articles, PwC People and Organisation (Reward) will explain the pressing need for organisations to adopt an ethical remuneration framework, and analyse each component necessary for a robust framework.

This, the first article in our series, gives an overview of the rationale behind the need for the framework, and an introduction to the concept of an ethical remuneration framework. It also looks at the steps that companies can take to manage the wage gap, from the top down, focusing particularly on limiting excesses in executive management remuneration.

The second article in our series will focus on the squeezing the gap from the bottom up, with an explication of the various tools available to an organisation for this purpose. Our third contribution to this topic will be a clear motivation for the development of a living wage in South Africa and why employers should consider this is as part of the ethical remuneration framework.

Our final article in the series will be an international view on how companies have proactively adopted the principle of fair pay, concluding with a call of action for SA companies.

There are numerous international forces coalescing around issues regarding the ethics of remuneration. The first is the increasing social scrutiny on the levels of executive pay, especially when contextualised relative to the levels of pay of all other employees, both within the executives' own organisations, and in the wider economy. There is international momentum towards the concept of the living wage; the proliferation of the ideal that people who are employed deserve to earn a wage that enables them to live decent lives and which allows them to be active members of society. Millennials, who are often observed to be more ethically conscious than their predecessors, are making up more of businesses' personnel and customer base and as a consequence, are demanding higher ethical standards of corporations.

These and other converging forces have meant that there has been a shift in how companies are viewed in society. The organisation's role in society has transformed from them being amoral entities that are solely focused on maximising shareholder wealth within the parameters of the law, to becoming moral protagonists subject to a broader set of expectations. This transformation is multidimensional and consists of multiple new realisations of how companies can become the moral protagonists society requires them to be.

As one of the most outwardly visual forms of morality relates to how organisations remunerate it's employees, our focus will be on how companies can "squeeze the wage gap", that is, how these emerging ethical considerations can be used by companies to ensure that the remuneration in their organisations is fair, responsible and transparent, as the King IV Report on Corporate Governance for South Africa (King IV™) requires. The term 'squeezing' is used to refer to actions that need to be taken at the top end of an organisation, addressing and arresting any errant or excessive executive pay, and managing the upward creep of pay levels at the top; and actions that need to be taken regarding remuneration throughout other levels of the organisation, with a special focus on the absolute levels of the lowest paid employees.

Ethical remuneration framework

An organisation's cornerstone for compliance with their ethical and moral obligations in terms of pay will be the ethical remuneration framework. What follows is our guidance on how an ethical remuneration framework can assist your organisation in staying ahead of the curve, both from a good governance perspective and in terms of ensuring that your organisation discharges its responsibility of being a responsible moral protagonist in society, and more specifically, how your Board will discharge its obligations in terms of King IV™ to ensure that their organisation is and is seen to be a responsible corporate citizen (Principle 3) and that they ensure that their organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.

Creating an ethical remuneration framework requires companies to address various components of their remuneration dispensation. At a high level, the components that would need to be addressed would include the levels, composition, performance conditions and all other intricacies of executive management pay, the statistical distribution of income in the organisation, and the management and correction of any unjustifiable pay differentials amongst employees doing work of equal value.

The first step in squeezing the wage gap is controlling excesses in executive management's pay. This is a two-pronged step which seeks to initially establish that the levels that executives are remunerated at are appropriate, and secondly that there is a justifiable link between their performance and their pay. The initial prong would require that executive pay is at appropriate levels, requiring the organisation to seek independent market research to form the basis of a benchmarking exercise, in which the levels of remuneration of the executives of the contracting company are compared with the executives in a suitable comparator group of companies. This exercise would establish whether the quantum's being paid to executives do not exceed the levels being paid in the market for similar skills and similar levels of performance.

The second prong would be ensuring that remuneration policies and practices are strongly linked to the 'pay for performance' principle. This principle, well entrenched in international best practise, at its most basic is the tenet that executive management should be remunerated in line with how they have created long term value for shareholders, as per predetermined criteria. The criteria by which executive management will have been deemed to have performed should be both acceptable to shareholders, and well documented and disclosed, as should be the levels of remuneration that are linked to each level of performance. This ensures that if executive management are compensated at higher levels than their comparators, this can be demonstrated to be due to commensurately higher levels of performance during the performance cycle. Linking the levels of executive pay with performance is a key feature of ensuring that the perception around executive pay is improved and that the pay gap is not seen to be excessively large.

Incorporating both these principles, appropriate benchmarking and a robust link between pay and performance into your ethical remuneration framework is the initial step in managing the remuneration levels at the top end of the spectrum. This is great start and represents sound business practice. It is not enough however when it comes to a complete ethical remuneration framework. In our following article, we shall give guidance on how we can improve the perception around remuneration for all levels of the income spectrum, and which tools an organisation may employ to assist them.

Job titles - governance and fiduciary duties

For various reasons, such as attracting, retaining and motivating key staff, companies may elect to give job titles which are not fully aligned to the daily responsibilities of the jobs themselves. In some instances, this action which may be argued to be 'job title inflation' may pose various risks for the company itself, as well as for the employee in question. This article will set out a few high level risks of job title inflation to a "director" role.

The true intention of the company is of paramount importance as a starting point to any consideration relating to job title inflation, i.e. does the company have the actual intention to authorise this employee to act as an individual within the context of a director.

If it is determined that the company has no intention to authorise the employee to act within the ambit of that role (interpreted within the context of the Companies Act[1]), then both the company and employee may find that they are exposed to a number of risks.

The risk of "apparent authority"

In the event that the employee binds the company to an external party, acting under his / her apparent authority as a director, and there is a subsequent dispute, the external party can rely on the law of estoppel, which prevents the company from asserting that it was not its intention to furnish that employee with the full powers of a director despite giving them that title.

Section 66 of the Companies Act provides the following:

"The business and affairs of a company must be managed by or under the direction of its board, which has the authority to exercise all of the powers and perform any of the functions of the company, except to the extent that this Act or the company's Memorandum of Incorporation provides otherwise".

The above far reaching responsibilities conferred on directors by the Companies Act make it necessary for companies to consider if they truly intend to allow an employee without the requisite skill and knowledge for the position in which he / she is placed to bind the organisation in the same fashion as another candidate who is properly suited for the position would.

Job title inflation – are you at risk?

1 No 71 0f 2008

Consider your job title naming conventions carefully

The risk for the employee - director's fiduciary duties

S76 (3) (c) (ii) of the Companies Act clearly sets out some of the fiduciary duties of directors, which include the duty to act:

"(a) in good faith and for a proper purpose;
(b) in the best interests of the company; and
(c) with the degree of care, skill and diligence that may reasonably be expected of a person—

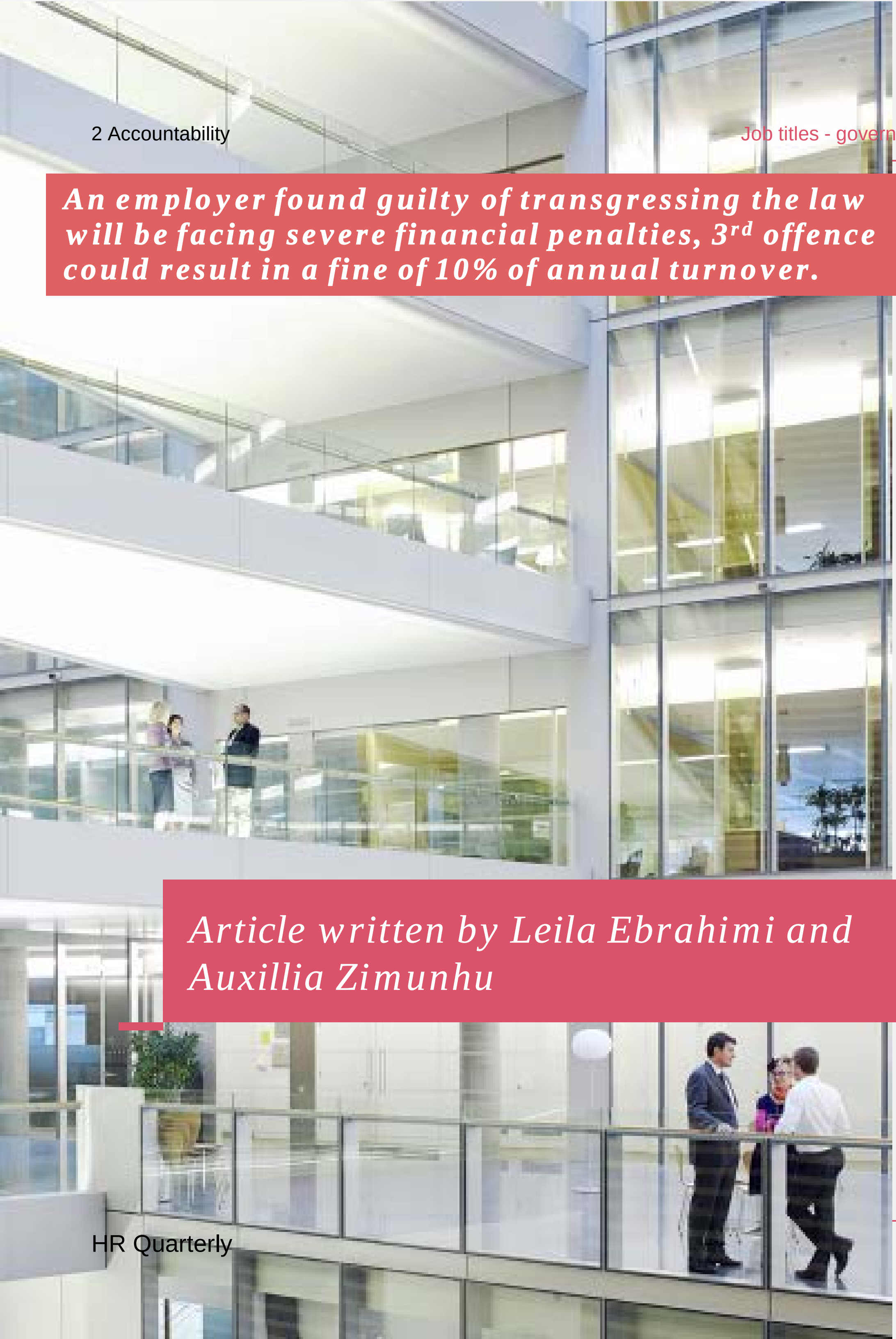
i. *carrying out the same functions in relation to the company as those carried out by that director; and*
ii. *having the general knowledge, skill and experience of that director."*

An employee without the necessary skill and knowledge, but who nonetheless holds the office of director, may nonetheless be held accountable by shareholders in terms of the provisions of the Companies Act, in terms of their fiduciary duties and responsibilities.

It is the prerogative of the employee to assess if they are comfortable with the appointment and the associated risks by evaluating if the remuneration received is fair and equitable in comparison to the responsibility and risk of such an appointment.

Considerations relating to fairness of remuneration

Often, where job title inflation is found, there is a pay discrepancy regarding the incumbent. A further consideration is whether the company can justify paying the employee at a lower scale in comparison to what they would have offered a candidate who is a 'proper fit' for the post. Taking this into account, the principles of 'fair pay' as recommended in Principle 14 of the King IV™ Report on Corporate Governance, alongside the concept of 'equal pay for work of equal value' need to be factored in. Essentially, it must be considered if the employee's lack of experience is sufficient to legally justify the pay differential between the remuneration received by them in comparison to the remuneration which would have been paid to someone with more suited skills and knowledge?



An employer found guilty of transgressing the law will be facing severe financial penalties, 3rd offence could result in a fine of 10% of annual turnover.

Article written by Leila Ebrahimi and Auxillia Zimunhu

The principle of 'equal pay for equal value' is complex and not easily understood. Currently, in South Africa this concept has not been fully debated and expanded on, and it is thus difficult to quantify whether it can be considered fair to pay an employee who does not have the necessary skill and knowledge but holds the office of a director and is expected to take on the full responsibilities and risks inherent to that office, less than a person well suited for that position. Whilst it may be common practice that employees who are graded on lower levels are promoted to more senior positions of which they do not have the necessary skill and knowledge, the amount of risk and responsibility associated with being a director may be an indication that it would be unfair to remunerate a less qualified employee who holds that office less than what would otherwise have offered.

It is also crucial that organisations consider the potential financial risks associated with non compliance of the Employment Equity legislation.

The complexity of equal pay has been noticed by the international community to the extent that the International Labour Organisation ("ILO") has provided guidance on the issue through the recommendations in the Equal Pay, an Introductory Guide ("the Guide"). The Guide states that the value of different work should be determined on the basis of objective criteria such as skill, working conditions, responsibilities and effort. Of course, it can be argued that the company can train, coach and support the employee to quickly develop into the role, however, this may be a temporary measure which will need to be reassessed as the employees' experience grows. The assessment is subjective and may ultimately prove to be difficult.

Job evaluation

It has been 4 years since the amendment of the Employment Equity (EE) act made it unlawful to discriminate unfairly between the remuneration and working conditions of employees doing the same work or work of equal value. Despite the requirements of the amended Act many employers are simply continuing with outdated remuneration practices. Although job evaluation is alive and well in most organisations it is fairly evident that many jobs have not been evaluated for a number of years and that a simple "map and place" methodology is still being adopted. This essentially means that there is a minefield of potential claims of discrimination that must be navigated carefully by employers. It is therefore wise to be proactive by analyzing your remuneration practices and policies and to compare the actual variances for all employees based on the guiding principles as Gazetted. It will ensure that you can defend your pay practices in the event of an audit by the Department of Labour.

The focus on pay equality is not limited to South Africa. Globally there is a renewed emphasis on equal pay and in many instances regulation is being implemented to force organisations to comply. An interesting publication by the Equality and Human Rights commission emphasising gender neutral job evaluation schemes was first published in January 2014. In this publication the legal term 'equal pay' is used specifically to mean "making sure that women and men who do equal work receive the same rewards under their contracts of employment. Equal pay applies to everything that the employee receives as part of his or her contract, not only money paid to him or her, and includes workplace benefits such as holiday entitlement, a company car and pension contributions". The Equality Act was passed as early as 2010 in the UK and clearly identifies the role of job evaluation as a first line defense for employers when a claim is lodged by an employee. Interestingly the publication indicates that a valid defense requires a job evaluation system to be:

- analytical;
- thorough and impartial;
- reliable; and
- gender neutral

Does this sound familiar? It should, the guidance notes as published in the Government Gazette on 29 September 2014 states:

"Article 3 of the ILO Equal Remuneration Convention 1951 (No. 100) requires that "measures shall be taken to promote objective appraisal of jobs on the basis of the work to be performed". While the Convention only applies to equal remuneration for work of equal value between men and women, the need to conduct an objective appraisal of jobs is a necessary element of applying the principle in all contexts, in particular to eliminate residual structural inequalities related to legislated and practised racial discrimination that applied in the labour market and workplace in South Africa."

We are awaiting your call for a no obligation demonstration on how REMeasure® can assist to ensure you comply with the legal requirements of the Employment Equity Act.

The criteria in the South African Act determines that when assessing whether work is of equal value, the relevant jobs must be objectively assessed taking into account:

- the responsibility demanded of the work, including responsibility for people, finances and material;
- the skills, qualifications, including prior learning and experience required to perform the work, whether formal or informal;
- physical, mental and emotional effort required to perform the work;
- and to the extent that it is relevant, the conditions under which work is performed, including physical environment, psychological conditions, time when and geographic location where the work is performed.

Of course not all jobs will require the conditions under which work is being performed to be assessed. However in the South African labour market many of our jobs at the lower levels may fall into this category.

In line with the requirements of the code of good practice on equal pay/remuneration for work of equal value, PwC's REMeasure® job evaluation tool has now been enhanced to make it easier for subscribers and employers to meet all of the required criteria, including physical effort and conditions as well as physical environment in which the work is being performed.

With effect from 1 March 2018 subscribing REMeasure® clients now have the option to include an additional factor to assess the physical effort asserted by a job as well as the working conditions under which work is performed. The weightings applied to each of the factors have been adjusted to produce the correct Paterson grade result.

The optional additional factor (included in REMeasure® as optional Factor 8) measures the role's exposure to *physical effort* and *hazardous work* (discomfort and/or danger) in terms of low, medium or high exposure and as such, it enhances an employers' compliance with the requirements of the EE Act.

Where the job is primarily office bound and subject to normal working conditions, Factor 8 will typically not be applied.

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Short term *incentives in a changing world*

Organisations continue to utilise incentives as a tool to drive the level of motivation and performance of their employees. With increased regulation related to fairness of pay it has become critical for organisations to develop appropriate and compliant performance management schemes. Rewarding performance has been linked to “Maslow’s Hierarchy of Needs”. However, in recent years and as we look into the future, incentive schemes have evolved into performance improvement initiatives which are utilised to reward as well as recognise key talent in the organisation. What does this mean for organisations? It emphasises the fact that organisations need to design incentive schemes that are much more than a “carrot and stick exercise” and focus on what the business needs to achieve as well.

The evolution of workforce demands comes with the entry of new talent or skill requirements in the market and new ways for the organisations to attract, retain and motivate their human capital. In the future, what the workforce looks like and the organisational challenges they face will be different – this will have a significant influence on how organisations approach the reward strategy. It is envisaged that organisations will align remuneration to the value-added by high performers. Recently PwC conducted research to understand the evolution of the workforce and the associated probabilities. The study resulted in the “Four Worlds of Work” being identified. The publication, “The Workforce of the Future: The competing forces shaping 2030”1, hones in on the transformation of business in the context of their human talent, technology and socio-economic challenges. One of the important aspects that is highlighted in this report is that “the competition for the right talent remains fierce”. Two of the key factors in the people management challenges for 2030 are reward and performance. The Four Worlds of Work are vastly different, but in each scenario fair reward and performance are interlinked. Organisations in the “Blue World” are predicted to focus on identifying high potential among their staff and concentrate on developing key skills, whilst performance will be obsessively monitored and excellent incentives awarded to the best talent. In the “Red World”, organisations are aware that those with in-demand skill sets will expect high financial compensation for the value they will add. The “Yellow World” organisations will focus on fair pay while in the “Green World” they will focus on total reward that will recognize good behaviours and performance.

Short term incentive survey publication scheduled for June 2018

Is your incentive scheme still relevant enough to address these changes?

It is evident from the research conducted that there will be a need for organisations to focus a lot more actively on rewarding performance. It has become more and more apparent that employees who add value expect to be recognised and rewarded for their efforts. Due to this need for recognition of the value that employees are adding, there is increased pressure on Human Resources and Reward professionals to decide on the equitable balance of compensation and incentives offerings that will reward individual contribution to business value whilst ensuring that the strategic direction and sustainability of the business is maintained.

As the remuneration dynamics evolve, it will be an on-going challenge to determine the best incentive initiatives and quantum, especially in an economy where profitability of most organisations is shrinking. It is important to critically evaluate the current schemes and ensure they still successfully drive and elicit the ideal behaviours from employees while achieving the sustainability and return on investment for the employer.

Remuneration market data remains imperative in the decision-making process for stakeholders. To ensure that your incentive scheme is competitive against your peer organisation across a spectrum of industries, consider participating in the PwC Short-term Incentive and Commission Schemes Survey that will be published in May 2018.

[1]*PwC's The Workforce of the Future: The competing forces shaping 2030* – To obtain a copy of this publication please contact Puseletso Matsheng at matsheng.puseletso@pwc.com

To participate in PwC's Short-term Incentive and Commission Schemes Survey, please contact Lisa Tamkei at surveys.researchservices@za.pwc.com

What has to change for women at work

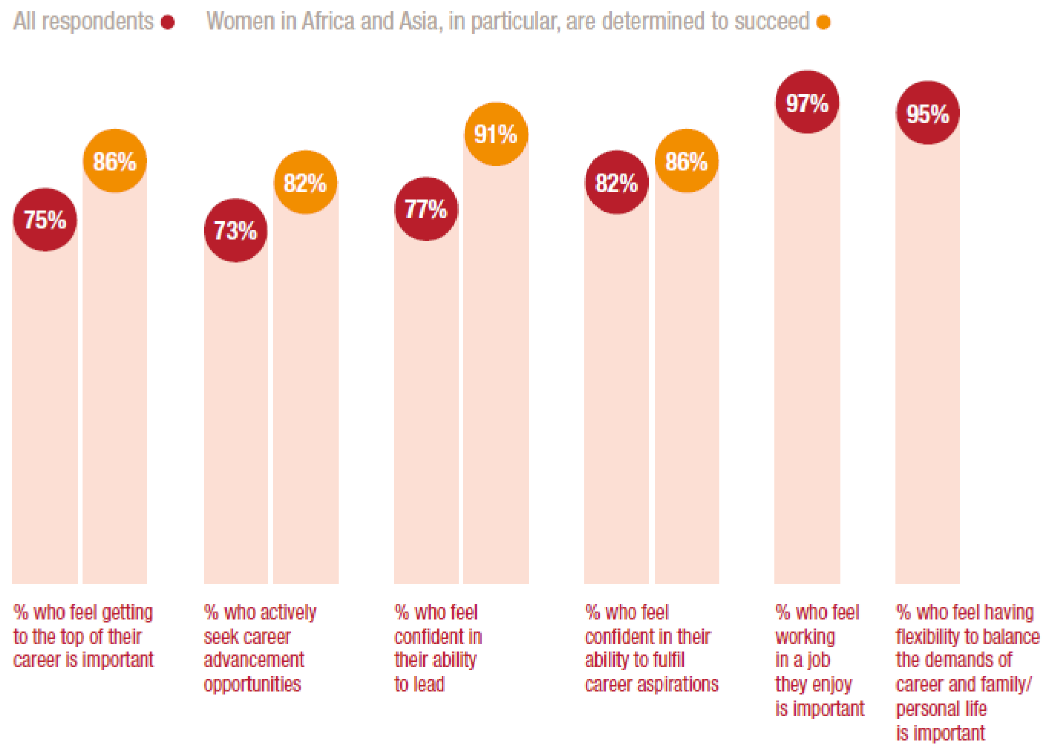
The collective voice of women, speaking up about their experiences in the workplace, has never been stronger. There is a new fearlessness and urgency to address the challenges women face, including, but not limited to, the possibility of discrimination and harassment, and the slow progress in bridging the gender gap.

Achieving gender parity throughout the workplace is one of the most critical challenges that business leaders face today. CEOs are optimistic about growth in the coming year, according to the 21st PwC CEO survey, with more than half expecting to increase hiring. Yet more than one-third (38%) are extremely concerned about talent shortages, a threat to their success that is second only to cyber security. The quality of women's talent and leadership is vitally important to business; the skills and experience they bring, including experience gained outside of the workplace, and has proven to be essential in strategic decision-making and in ethical, sustainable enterprise. In 2015 MSCI, a financial research firm, analysed more than 4,200 companies and found that return on equity was 2.7% higher for those with strong female leadership and these companies were less prone to governance related controversies. Women's voices on teams, especially those which span cultures and functions, have been shown to increase emotional commitment, which leads the teams to push harder for success.

In 2017, the #MeToo movement brought broad public attention to the very real challenges women face in the workplace and beyond. But the momentum for change was quietly building long before then. Companies that do not promote safe, equitable and bias-free environments for all employees do so at tremendous risk to their organisations. The Working Mother 2017 list of the top 100 companies to work for in the US now bases its scores on a combination of criteria, including gender balance data, and professional and personal support programmes across the career lifecycle. None of the best companies scores close to 100% in all categories. One company may offer generous parental leave but score low on career development programmes. Another might offer mentorship but no flexibility in working arrangements. These metrics are increasingly recognised as indicators of the day-to-day problems women encounter when trying to build a career and raise a family at the same time.
The respondents in our survey are aged 28 to 40. They are at the point in their working lives where the gap between men's and women's progression begins to widen dramatically and the challenges of combining careers and personal priorities increase. They live around the world and work in a variety of cultures. Some live in places where many women work; others are regarded as members of a minority simply because they have roles outside the home. They work in all sectors of industry, from education and healthcare, which traditionally employ many women, to aerospace and technology, which typically do not. These respondents represent the enormous amount of female talent in the global workforce, forthright and ambitious for success on their terms. Women in the emerging economies, we found, have even higher levels of confidence. Their high aspirations are a reason for hope.

Walk the talk

Women are determined to succeed professionally while remaining true to their priorities



Source: PwC, Time to talk survey, 2018. Base: All respondents 3,627, Africa and Asia respondents 1,171.

Women today are trailblazers, they are more career ambitious and financially independent than ever before and they expect more from employers. Talking the talk is no longer enough. To attract and keep female talent, employers must be transparent about their commitment to diversity, their diversity progress, and create an open and inclusive culture where women can thrive and reach their potential."

Agnès Hussherr, Global Human Capital Leader, PwC

At the same time, the survey shows that many professional women are deeply frustrated with their conditions of employment, and sceptical of talk of change. These attitudes stem from long experience — companies have been talking about gender balance for decades — and from pessimistic predictions of how long it will take women to reach equality. According to the World Economic Forum's (WEF) 2017 Global Gender Gap report, which measures the participation gap, the remuneration gap and the advancement gap, women lag men by 58% overall and are further behind in developing countries.

This is a systemic issue that cannot be attributed to individual circumstances; it is endemic to organisational structures, cultures and practices. WEF concluded that at the current rate of change, we won't see gender equality in the global workforce for at least another five generations. It's not surprising that women in our survey report low levels of trust in what their employers say about valuing and promoting women, when they see what companies actually do.

The work/life balance and its effect on career progression presents women with a complex conundrum. Our survey respondents want to succeed and rise up the corporate ladder, but they want jobs they enjoy and better options for managing the demands of work and home life. Organisations need to break away from historical behaviours and embrace a holistic approach to diversity, which means addressing these three essential areas — transparency and trust, strategic support and life and family care options — simultaneously in order to produce the kind of healthy ecosystem that gives greater satisfaction and fulfilment for women and in turn will lead to greater success for their employers. We would argue that when the problems are defined in an open and transparent way, and the prerequisites for success as described here are identified and in place, women of all generations and their employers, working together, can come up with the right solutions to address issues of gender equality in the workplace and empower female advancement. So, as women progress in their careers, can organisations rise to the occasion?

To obtain a copy of this publication contact René Richter at rene.richter@pwc.com

" In my organisation, married women are not recruited and as a single woman, you are made to sign an agreement that prohibits you from getting married for at least two years after accepting the job. Men don't sign this agreement and married men are freely employed without any hitches. I think this is unfair." **Public-sector logistics professional, Nigeria**

The employer should provide consistent, accurate, accessible information about career progression and pay scales; they must conduct open conversations with employees on where they stand and what is expected of them to advance.

This outcry for greater clarity is a sign of the times. In the 2018 Edelman Trust Barometer, nearly seven out of 10 respondents say that building trust is the number one job for CEOs.

Clearer, more open information about performance benchmarks will help everyone, men included, better understand the dynamics of what it takes to advance and progress. This greater transparency is just one part of the puzzle and must work in parallel with efforts to mitigate potential unconscious biases and gender stereotypes that have traditionally impacted career progression.

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

For enquiries regarding survey publications, please contact Margie Manners or Lisa Tamkei at Margie.manners@pwc.com or Lisa.tamkei@pwc.com

Surveys 2018:

- Non-Executive Director's Survey: January 2018
- Salary and Wage Movement Survey: April 2018
- Short-term incentive Scheme Survey: June 2018
- Executive Director's Survey: July 2018

Thought leadership:

- Global Economic Crime and Fraud Survey 2018
- Harnessing Artificial Intelligence for the Earth
- 2018 Global Investors Survey

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