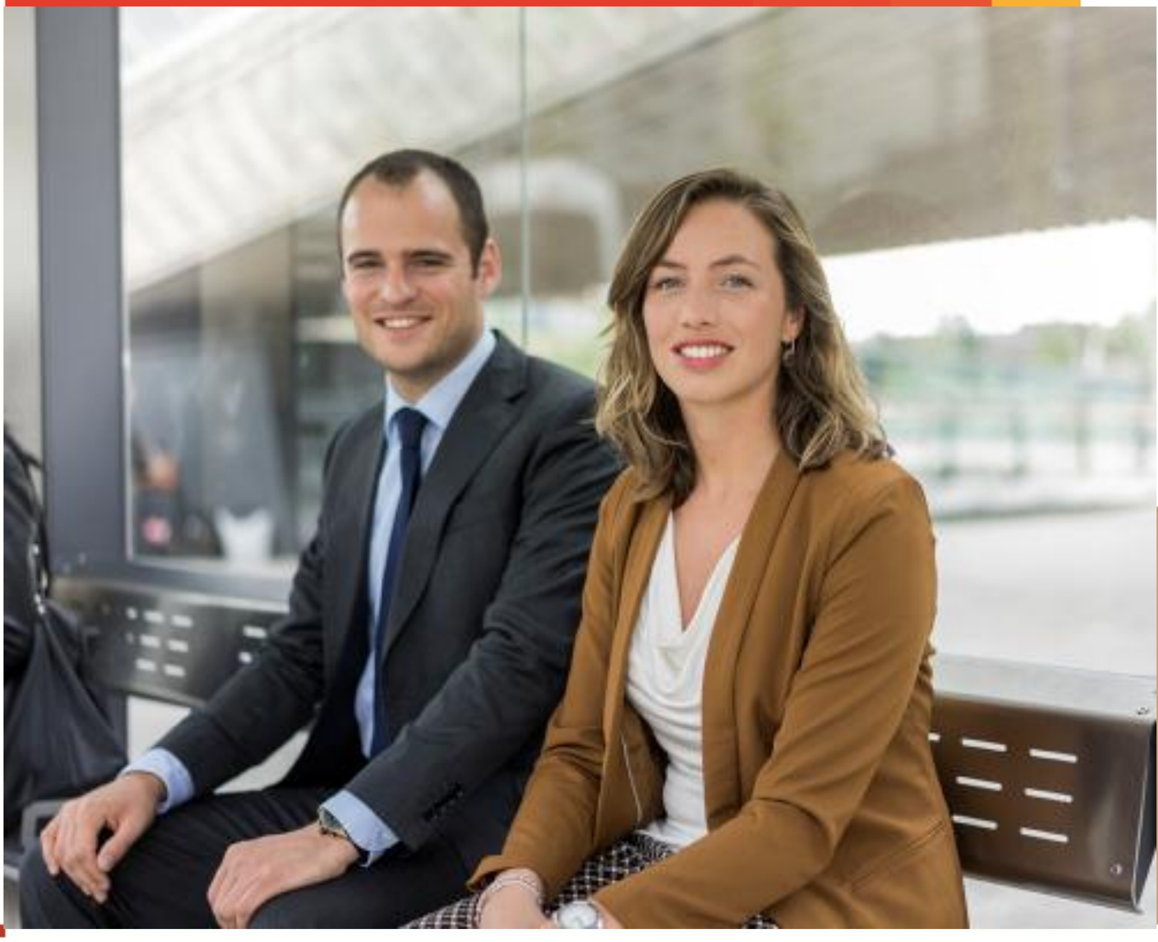
HR Quarterly

October 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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Contents

Contacts

If you require additional background on the published information, please contact:

Gauteng

Gerald Seegers
+27 82 655 7097

René Richter
+27 82 460 4348

Martin Hopkins
+27 82 459 4168

Barry Vorster
+27 83 286 6960

Louna Robbertse
+27 79 494 3222

Carol Shepherd
+27 84 657 3526

Tumi Seaketso
+27 82 464 8126

Minda Botha
+27 83 787 4878

Western Cape

James Whitaker
+27 (72) 117 2180

Gizelle Erwee
+27 (82) 871 5728

Julia Fourie
+27 (82) 781 3462

Kwa-Zulu Natal

Caitlin Shaw
+27 (83) 384 3111

Yvonne Dam
+27 (72) 390 7207

Eastern Cape

Shirley Thomas
+27 (82) 735 8240

Yvonne Ducie
+27 (84) 605 6332

Delivering more for less - What sets top performers apart?

Users of HR services are coming to expect they will get what they want, when and how they want it. But few HR operations teams are delivering on this. How can your organisation create the user experience your 'customers' want?

From films to fashion, one click and it is on its way. Online retailers have transformed customer expectations by shaping interactions and product offerings around customers' buying habits and preferences.

People now want this same user-friendly 'customer' experience within their business interactions, including HR. They want HR to make it as easy as possible for them to access services. They also want HR staff to be knowledgeable enough to understand their requests. They do not want to fill out multiple forms or wait days for a reply to their payroll query – were they external customers of the company they would not have to face these issues. The importance of this customer experience is heightened by the fact that HR is one of the main points of contact between the company and its staff. From recruitment through to leaving the company, these interactions form an indelible impression of the relative professionalism of the organisation and how much employees feel they are valued.

If they are dissatisfied, they may simply bypass HR operations when they want to get something done. Or worse, they might look for work at a company with a better level of employee experience. Moreover, the need to meet these basic expectations for customer satisfaction is the key to taking on more strategic roles within the business such as organisational and capability development. It is often commented on that the principles of Abraham Maslow's identification of the hierarchy of human needs apply just as well to businesses as they do to individuals. Just as people need to be sure they are going to be fed and housed before they seek out love and fulfilment, nobody is going to buy a new car from a showroom that failed to service their current vehicle properly. Similarly, HR will not be invited onto the top table of decision making if employees are not being paid on time or delays in recruitment prevent a company from capitalising on a market opening.

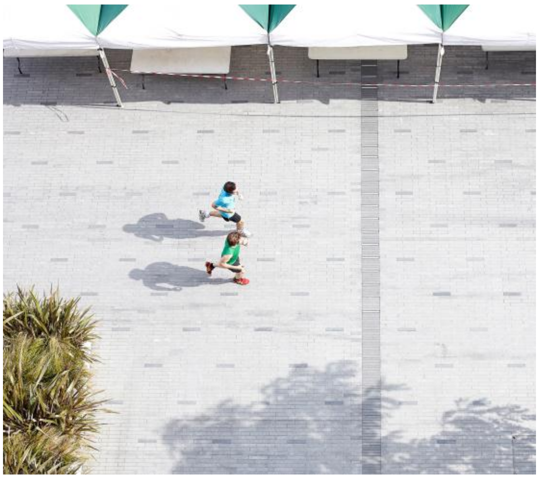
So how user-friendly are HR operations? Engagement is a key indicator of customer understanding and responsiveness. The front-runners are using technology to strengthen interaction, with self-service capabilities providing the first point of contact. They are also looking at new ways to get closer to customers. There is evidence from the survey that high performers are not satisfied and are carrying out detailed analysis of how they engage currently and how technology could enhance this, including cloud and mobile technologies. This is supported by improved online training and support. High performers in the survey also talked about re-negotiating 'core deliverables' and speaking to key members of the business about how to improve the user experience.

The PwC Reward team

To obtain a copy of the Global HR Operational Excellence Survey contact René Richter at rene.richter@za.pwc.com

Salary increases: sustainability versus retention

Most businesses are not running the marathon. They're planning the sprint. They are more concerned about survival than about long term goals. This is indicative of the global economic climate that organisations are facing. The organisational sustainability vs retention conundrum continues globally. Even with the latest reports that the BRICS (Brazil, Russia, India, China and South Africa) and MINT (Mexico, Indonesia, Nigeria and Turkey) economies have toppled the G7 group of developed nations, the South African Economy is faced with real challenges.

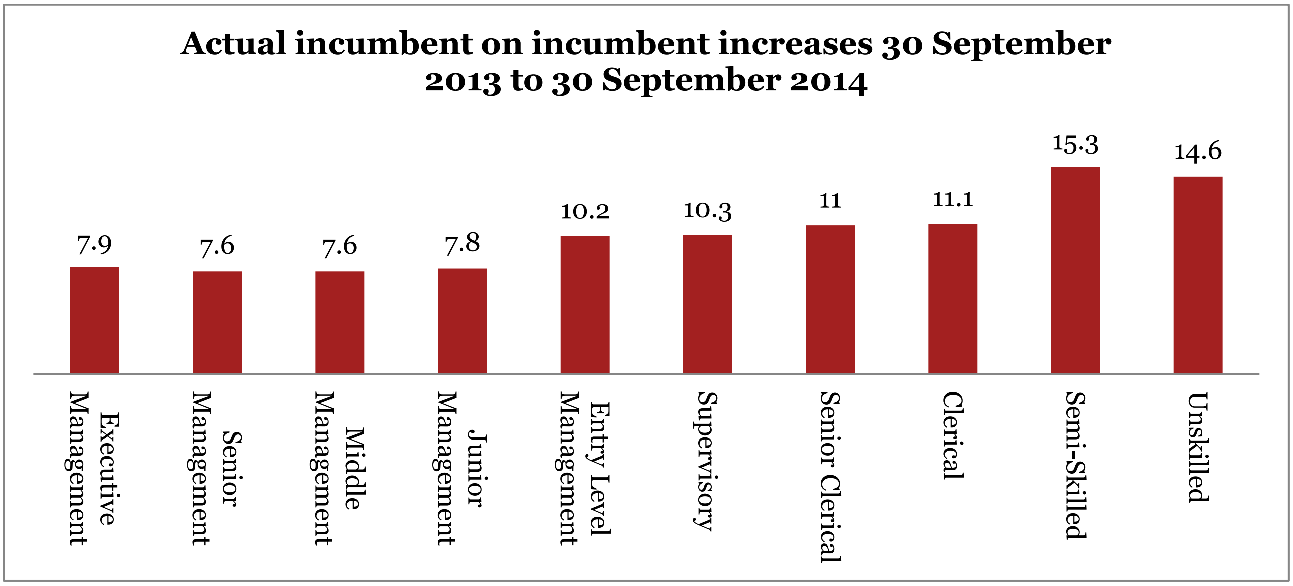


The Bureau for Economic Research (BER) reported that the South African economy continues to shrink and that real gross domestic product contracted by 0.6% during the second quarter of 2014. The contraction can be mainly attributed to the extended strike at the country's main platinum mines. The contraction is however not limited to platinum mining as the production in the gold, diamond and other metals caused the total mining production to fall with nearly 25%. This spilled over into the manufacturing sector which also shrunk with 4.4% during the second quarter of 2014. Just recently Statistics SA has reported that amid labour instability and declining investor confidence, the mining sector registered a year-on-year decline of 10.1% in August 2014. The unemployment rates in South Africa were reported at 25.5% during the second quarter of 2014.

Despite all these factors and the inflation figures as published by Statistics South Africa being at 6.4% year on year, the average estimated increases for the next 12 months are marginally higher across all categories of staff as can be seen in the table below.

Anticipated total package increments for the next twelve month period				
Employee category	**25th percentile**	**50th percentile**	**75th percentile**	**Average**
Executives	6.0%	6.9%	7.0%	6.6%
Management	6.0%	6.8%	7.0%	6.5%
General staff	6.2%	7.0%	7.0%	6.7%
Key specialists	6.0%	7.0%	7.0%	6.7%
Unionised staff	7.0%	7.5%	7.6%	7.4%
Total lift to payroll	**6.5%**	**7.0%**	**7.3%**	**6.9%**

In the past the actual incumbent on incumbent increases exceeded budget increases with approximately 2% to 3% across all employee categories. As at September 2014 the semi-skilled and unskilled staff category actual incumbent on incumbent increases were more than double the annual budgeted increases and on average 8.5 percentage points higher than CPI (consumer price index). What is evident is that the increases are indicative of the continued actions to decrease the wage gap as well as the impact of industrial action in South Africa.



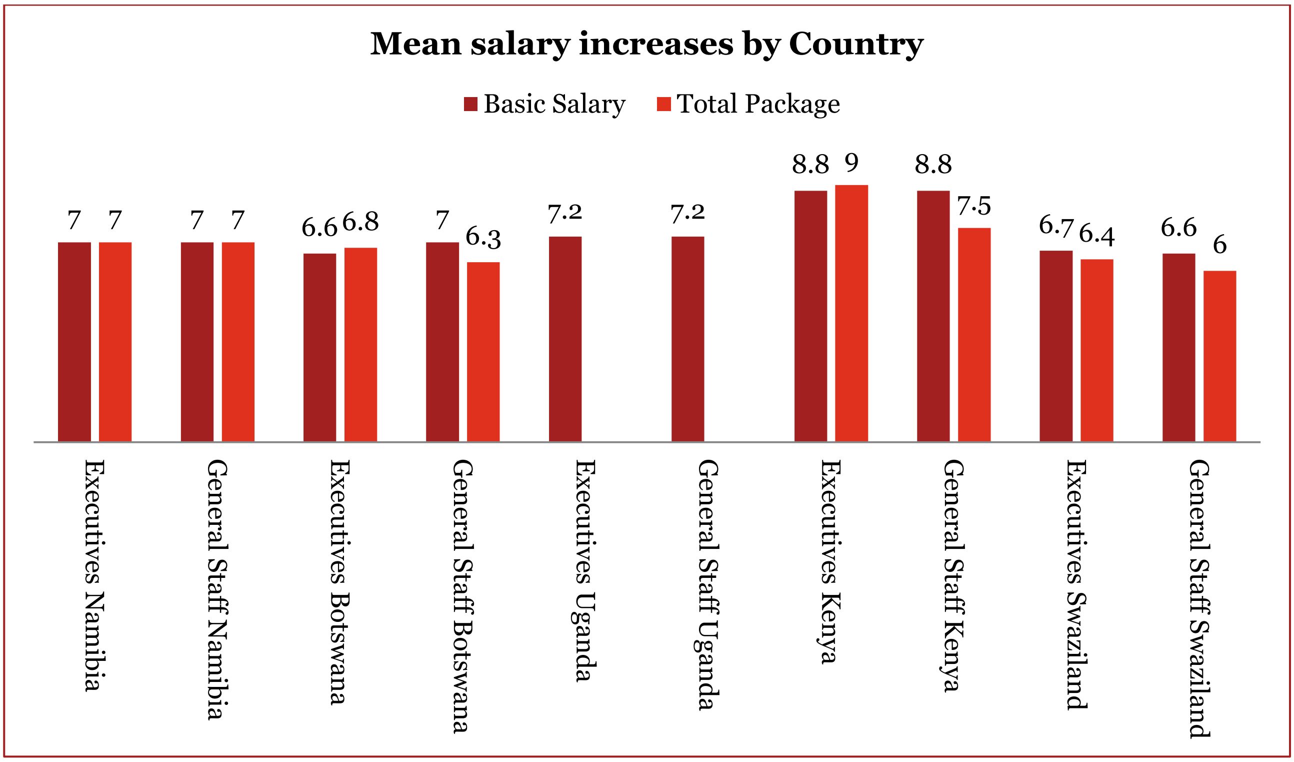
It should be noted that these increases are not indicative of the overall salary and wage movements in the REMchannel® on-line salary survey but represents the data of the identical incumbents in the same hierarchical staff category in the survey over a 12 month period.

The September 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.

Salary increases on the African continent

Globally increases vary significantly. Average increases in North America and Europe are reported to be 3% whilst increases in the Middle East and Asia Pacific are on average 5.6%. The highest reported global average increases are in Latin America at 10.1% and Africa at 7.1%.

Although the average increases for Africa are reported at 7.1% this still varies between different countries and is driven by cost of living increases and economic activity. The scarcity of skills in Africa remains one of the largest challenges for reward professionals. From the graphical illustration below there also does not seem to be major differentials between Executive and General staff increases in the countries where REMchannel® has published surveys during 2014.



For more information on the published African surveys please contact Carol Shepherd at carol.shepherd@za.pwc.com

Millennials at work: Reshaping the workplace

It's clear that millennials will be a powerful generation of workers and that those with the right skills will be in high demand. They may be able to command not only creative reward packages by today's standards, but also influence the way they work and where and how they operate in the workplace. They may also be one of the biggest challenges that many organisations will face.

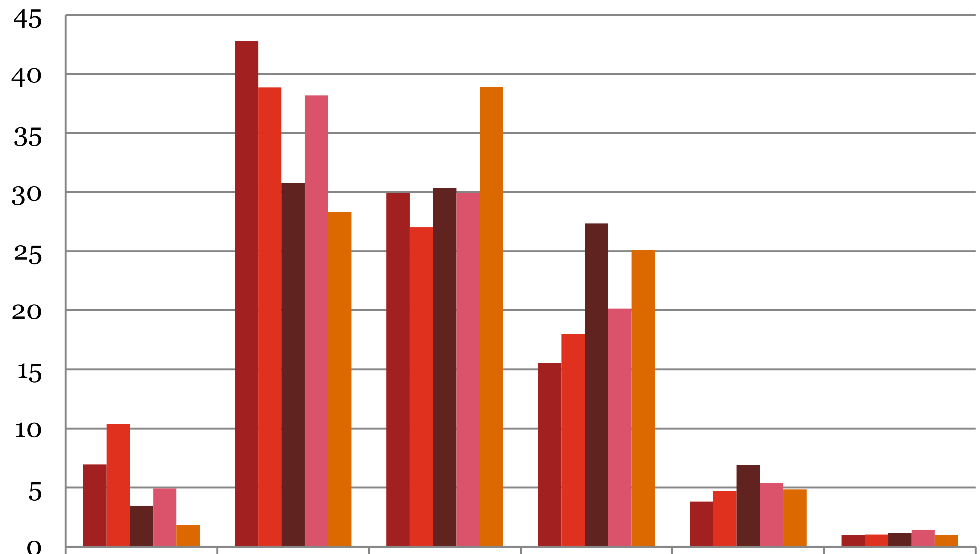
Disruptive innovation and generational change are set to create new industries and business models and destroy old ones. The role of technology, digital transformation, big data and social networks will have a huge impact on how organisations and the workplaces of the future will function. The job titles of tomorrow will be ones we've not even thought of yet. As generations collide, workforces become more diverse and people work longer, what are the implications for career models? And how does HR evolve to cater for employees who want to design their own contracts, working arrangements, rewards and benefits packages? As talent management meets the science of human behaviour, and predictive analytics becomes more common place there will be a demand for a very different set of HR and talent management practices.

So what's to be done? The pace of change and complexity seem to be increasing at an exponential rate. But costs still need to be managed across businesses and HR functions - and risks impact every decision.

HR needs to lead the way – but is it equipped, empowered and ready to consider the implications and necessary strategies required to deal with evolving and multiple visions of the future? The business landscape has changed drastically in the three years since we undertook our last millennials survey. While recognising their need to hold on to the talent that will lead them through the recovery, many companies in developed economies have cut back on headcount and reduced their graduate intake. At the same time emerging economies, particularly in Asia and the BRIC countries, have produced increasing numbers of young talented workers. The future for many millennials looks more uncertain than it did in 2008, and it's hardly surprising that some have made compromises in terms of where they work and their expectations of working life. The fundamental attributes of the millennial generation are still apparent – and in some cases more pronounced than before – and reinforce the view that a more inventive talent strategy is needed in order to attract and get the best out of them.

So how does the South African landscape look for the more than 500 participants in the REMchannel® on line salary survey? It is clear that the majority of current job holders are currently below the 35 years of age category. The statistics below clearly indicate that HR will have to think seriously about the employment challenges that they will be facing over the next few years.

PwC's REMchannel® survey composition - age distribution for selected industry sectors



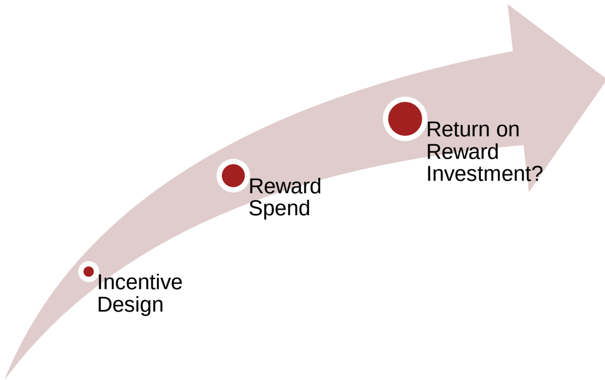
	Up to 25	26 to 35	36 to 45	46 to 55	56 to 60	61 and up
Financial Services	6.95	42.79	29.93	15.55	3.82	0.97
Retail	10.37	38.87	27.02	18.01	4.71	1.02
Mining	3.46	30.79	30.33	27.36	6.91	1.16
FMCG	4.91	38.18	29.94	20.15	5.38	1.44
Telecommunications	1.82	28.32	38.92	25.1	4.84	1

To obtain a copy of "Reshaping the Workplace" please contact René Richter at rene.richter@za.pwc.com

Improving return on reward investment

What are you really paying for?

Organisations have always been highly focused on the return that they are getting from their reward spend. But over recent years we have heard the tone of the conversation change. We are hearing a new degree of scepticism, and a concern that an ever increasing reward spend may not be having the motivational impact on our staff we thought it would.



Much of this scepticism is being driven by a small number of highly publicised studies. Most of us have now heard stories, read books or seen headlines telling us that bonuses don't improve performance, or even that they will lead to lower performance. The concern is that we are in need of some balance in this debate. For example; for much of the evidence we are hearing, there is often equally robust but less popular counter evidence. Also, there are some unanswered questions on how relevant these studies are to the complex real world environments we work in.

Having said that, we shouldn't dismiss these messages too quickly. The emerging messages may very well be important. But we need to find the signal in the noise. We need practical solutions which are relevant in the business world. We need incentives that work in a world where jobs are increasingly complex.

In recent years the debate over the effectiveness of incentive design has become increasingly sophisticated, incorporating much scepticism about the connection between traditional designs and employee performance. A key catalyst for the debate has been a relatively small number of prominent and topical studies that have attracted strong interest from our business leaders and remuneration practitioners.

For example, we are increasingly being told of "the surprising truth about what motivates us", that our employees are "predictably irrational" or are yearning for a "four hour work day" rather than more pay.

Other academic research shows evidence of people sacrificing their own payoffs to punish free-riding team members, decision-makers struggling with complex payoff structures, situations where less pay leads to better outcomes, employees who stop working at arbitrary wage thresholds, and even backfiring bonuses. With incentives being such a significant proportion of the cost base for many organisations, it is no wonder leaders are paying attention.

More talk, but where is the action?

While the discussion is encouraging, action has not kept pace with the rhetoric. Many simply continue to look to popular industry templates, or just keep tinkering with last year's model. Or worse, when things aren't working, companies respond with more (or less) money, and more complex variations of old approaches. We put this down to four factors:

- Fear of losing key talent when operating outside industry norms
- Difficulty converting new insights into practice
- Confusion regarding the evidence given equally compelling counter-evidence
- A concern that the insights might not translate to our specific operating environments.

As a result, there has been limited innovation in performance-based pay frameworks and, arguably, more complexity.

The PwC "Optimising Reward" Australian publication show that incentive pay is likely to boost effort/motivation but only under certain conditions, and to varying degrees depending on industry, demographics and seniority. We believe a more nuanced view of reward that is better aligned to employee behaviour, can result in a greater return on incentive spend.

Our hope is that this research helps you to move the discussion forward in a way that is relevant to your organisation, and helps you to design incentives which are smarter, not higher. To obtain a copy of the publication please contact René Richter at rene.richter@za.pwc.com.

South Africa still has some way to go in building the pipeline of future female leaders

With Women's Month a distant memory, will business continue to address female representation at leadership levels in South Africa?

Although South African women are making great strides in the boardroom, corporate South Africa still has more work to do particularly when it comes to leadership positions. Women currently hold less than four percent of CEO positions in JSE listed companies. Companies that are actively promoting and advancing women to the highest levels of management and leadership tend to have more engaged boards with a greater diversity of talent and wealth.

Recent research has found that companies with the highest percentage of women on boards also tend to outperform those with lower percentages of women on boards. This includes higher returns in sales, a greater return on invested capital, and a higher return on equity. It is important to bear in mind that women's advancement in business is not just a 'gender' issue; it is an economic and business issue. For South Africa to have a competitive workforce, as well as a robust and healthy economy, we need to realise the full value of all our talent – men and women."

The business case for developing the female talent pipeline is clear-cut. It allows companies to: improve performance at all levels including the board; attract and retain a wide pool of talent; improve the organisation's productivity and bottom line; and achieve better corporate governance.

Building the pipeline of future female leaders

PwC's 2014 Executive Directors' Remuneration report shows that at board level the gap between male and female executive directors widens according to industry type.

For instance, there are only 13% of women operating in executive roles in the basic resources sector, compared to 87% of men operating in executive positions. The financial services sector is also largely dominated by men at board level (85%), with a minority of women (15%).

The report also shows that more work needs to be done to achieve better representation of women on boards. Gender equality at management level has tended to remain flat at about

24% since 2009. According to the report, without proactive support at board level, in another five years, organisations that do not mainstream women may find that there are even fewer female leaders in decision-making positions.

It is also interesting to note that 23% of male senior executives and senior managers were paid in the upper quartile of the market while, only 2.3% of females were paid at the same level, according to research carried out by PwC's REMchannel® on-line survey. 2013 Tax Statistics issued by the National Treasury and the South African Revenue Service show that women accounted for 43.6% of the assessed individual taxpayers, had an average taxable income of R167 489 and were liable for tax of R27 980 at an effective rate of 16.7%. On the other hand, men had an average taxable income of R225 919 and were liable for tax of

R50 100 at an effective rate of 22.2%. On average, women earned 25.9% less than men, and were liable for 44.2% less tax than men.

The matter of boardroom diversity in the context of increasing the number of women sitting on boards is a global phenomenon and not unique to South Africa. In November 2013, the European Parliament voted for a draft law mandating a 40% female quota for non-executive board posts. It is highly likely that the majority of EU states will vote for the proposal to become law, given that France, Spain, Holland, many of the Scandinavian nations, as well as Germany, supports quotas. Those against the quota system contend that Norway's introduction of similar laws in 2003 worked only at the level implemented. Not one of the 25 companies on the Oslo bourse has a female CEO and the gender pay gap is still estimated to be within the region of 15%.

Norway, Sweden and Finland continue to lead the developed world in their percentage of women directors on the boards of listed companies, with 36.1%, 27% and 26.8, respectively. Italy and France are also seeing significant increases in women's representation following the passage of recent laws on board diversity. The percentage of women on UK boards has risen 4% since 2009, possibly in reaction to the threat of EU-level regulation on the matter and now stands at 12.6%. In the US women hold only 11% of board seats at the world's largest and most well-known companies, with little progress being made on gender diversity for more than a decade.

Businesses need to empower more women to step up and be counted and included for their talent and skills and what they can bring to the business when they are placed in high-level positions.

Diversity and inclusion should be a boardroom imperative. The underrepresentation of women is not a new issue; it is a matter which has not been fully addressed in the business world. There are those who say that women "unintentionally hold themselves back" in their careers, meaning they don't allow their voices to be heard in the business world. Others contend that women's lifestyles change the outcome of their professional careers. PwC's 'Women in Work' index shows that in countries where there is a more equal proportion of women to men in executive positions, both mothers and fathers share the workload of raising a family and promote a healthier work/life balance for both genders.

Businesses and policymakers have a vital role to play in addressing the needs of female employees in areas such as flexible working hours, childcare policies, and diversity goals. Although family-friendly work practices are often aimed at women, there needs to be a mind change away from the notion that women alone are responsible for family responsibilities. Work policies should be favourable to both male and female employees in terms of work and family commitments.

PwC's REMchannel® growth

PwC continues to strive to provide our clients with the highest quality of information which forms a crucial element in the reward decision-making process.

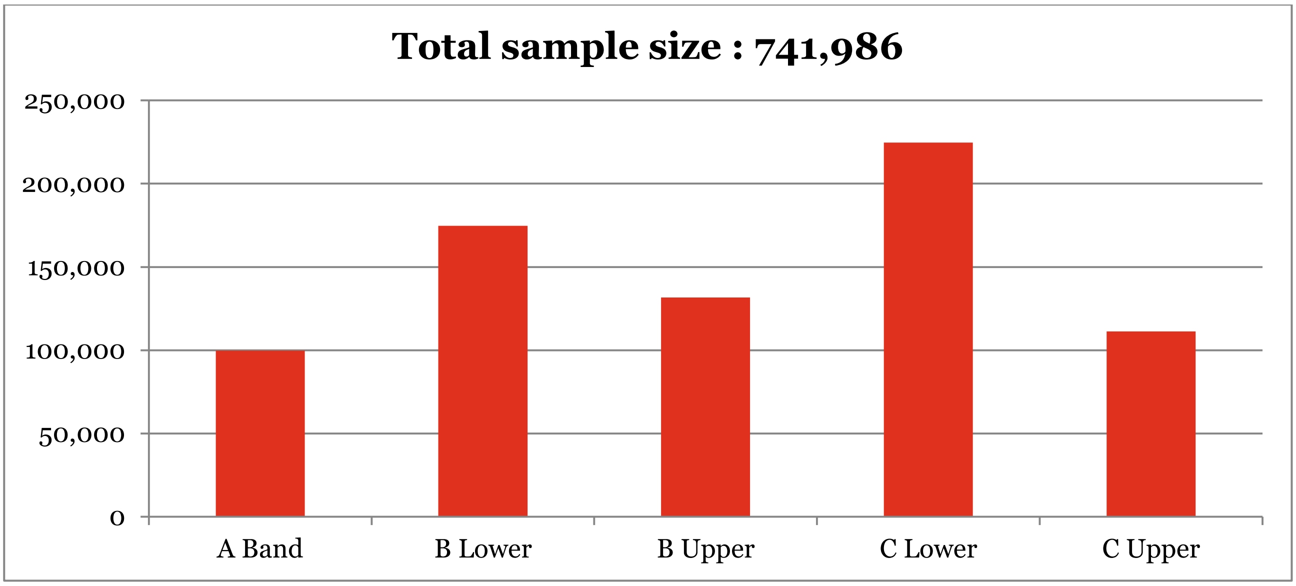
We would like to extend a warm welcome to the following companies who have joined our list of discerning Southern African survey participants since May 2014:

- AARD Mining Equipment (Pty) Ltd
- Airports Company South Africa
- Ashburton Investments Holdings Ltd
- Avanade Inc.
- Barinor Management Services (Pty) Ltd
- Black Mountain Mining (Pty) Ltd
- City Hospital Ltd
- Danroc (Pty) Ltd
- Econet Wireless International
- Efficient Group Ltd
- Esor Construction
- Ethekwini Municipality
- Futura Footwear Limited
- General Electric SA (Pty) Ltd
- Genesis Analytics (Pty) Ltd
- Government Employees Medical Scheme
- Halls Technologies (Pty) Ltd
- Instinctif Partners SA (Pty) Ltd
- IRESS Financial Markets SA (Pty) Ltd
- Jacobs Matasis (Pty) Ltd
- Komatsu South Africa (Pty) Ltd
- Lesedi Nuclear Services (Pty) Ltd
- Marsh (Pty) Ltd
- Mbuyelo Management Services
- Nampak Products Ltd
- Nordex Energy SA (Pty) Ltd
- Oceana Group Ltd
- Omnia Group
- Palabora Copper (Pty) Ltd
- Paycorp Group (Pty) Ltd
- Pearson Holdings Southern Africa (Pty) Ltd
- Perishable Products Export Control Board
- Roshcon (Pty) Ltd
- Royal Bafokeng Holdings
- SA Post Office
- Sedgman SA (Pty) Ltd
- Selfmed Medical Scheme
- South African Medical Association
- South African National Space Agency
- Stefanutti Stocks (Pty) Ltd
- The Spar Group Ltd t/a SPAR North Rand
- Toyota Financial Services SA Ltd
- Travelex Africa (Pty) Ltd
- Wasteman Holdings (Pty) Ltd
- Wilderness Safaris (Pty) Ltd

The South African REMchannel® on-line internet based salary survey now has more than 530 participants covering all job families and more than 1,900 jobs. The National All Industry sector includes participants from all the major industry sectors represented in South Africa with more than 850,000 data points.

The D band sample size is in excess of 120,000 whilst the E and F band sample sizes are in excess of 18,000.

The validity of survey data is highly dependent on the quality of the collection process and a robust sample size. The current sample size by grade for general staff is provided below:



For a full participant list please contact Margie Manners at margie.manners@za.pwc.com.

PwC's REMeasure®

REMeasure® can be used as one of the mechanisms to defend differentials in job size in terms of the Employment Equity Act amendments.

The amendment to the Act states that in addition to the criteria specified 'any other factor indicating the value of the work may be taken into account in evaluating work, if the employer shows that the factor is relevant to assessing the value of the work'.

The classification used by the DoL has been published and it includes REMeasure® in the job classification table prescribed by the DoL. REMeasure® is a point's classification system and as such it meets the criteria for Employment Equity reporting purposes.

The most salient features of the system, and as required by the Act, include:

- Breaks jobs down into a balanced set of factors, measuring input, process and output factors.
- Weights factors appropriately dependent on job level.
- Allocates points which can be reviewed and compared across jobs.
- Keeps an audit trail of all questions answered, so is highly defensible.
- Correlates to all major JE systems, including Paterson. The preliminary banding is Paterson based and the REMeasure® points correlate directly to Paterson grades.

In claims relating to 'equal pay for work of equal value' on arbitrary ground, the onus is on the employer to prove that any pay differentiation is fair based on factors specified by the Act. So how can you be certain that REMeasure® will be a 'defendable' tool to justify the pay differences of a specific position when challenged by the DoL?

To illustrate how you can use REMeasure® to achieve this objective we have used the tool to evaluate the positions of two HR Managers employed by the same international employer but they are being paid different salaries. Being a points system, REMeasure® is able to defend the reason for the differentiation in grades and therefore differentials in terms of pay.

Job Title	HR Manager in West Africa region (1)	Points Score	HR Manager in South Africa region (2)	Points Score
Input factors (Qualifications, skills and experience)	BA Industrial Psychology degree 5-8 years' experience	42	BA Industrial Psychology degree 5-8 years' experience	42
Process factors (Problem solving and communication)	Strategic planning, knowledge of legislation etc. required; high level presentations and interaction with senior management inside and outside of organisation	45.6	Strategic planning, knowledge of legislation etc. required; high level presentations and interaction with senior management inside and outside of organisation	45.6
Output factors (Financial Impact and Influence)	Manages an operational budget of 5 million** annually.	104.4	Manages an operational budget of 20 million** annually.	118.80
TOTAL REMeasure® POINTS		192	**Size of budget being managed is the primary reason for difference in REMeasure® points	206
Paterson Grade		**D5**		**E1**

PwC's REMeasure® is an internet-based job evaluation system that provides a quick, easy and balanced method to accurately measure and evaluate any position from cleaner to top executive level. The system allocates a point score to the job, which can be correlated to any other public or in-house grading system.

To see REMeasure® in action please contact Minda Botha at minda.botha@za.pwc.com

Current and forthcoming attractions

The following thought leadership and survey publications have been released or will be released in the next few months. Should you wish to download a copy of any thought leadership publication, please go to our website www.pwc.co.za and select the "Publications" tab. For enquiries regarding survey publications, please contact Margie Manners at margie.manners@za.pwc.com.

Thought Leadership

- Delivering More for Less – HR Operational Excellence : September 2014
- Global Mobility Insights: August 2014
- US Tax Reform: Will possible changes impact your mobile employees?: August 2014
- Annual South African Non-Executive Director's Survey: January 2015
- Annual South African Executive Director's Survey: July 2015

Surveys

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