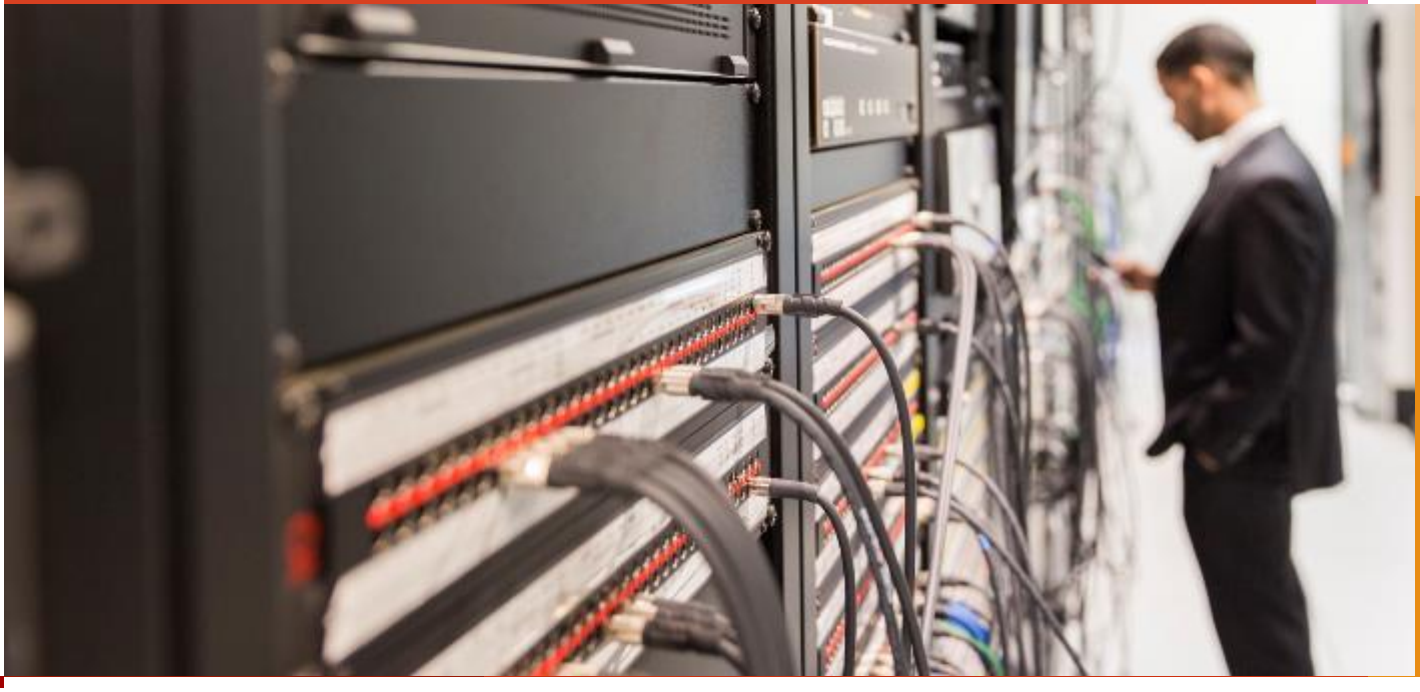
www.pwc.com

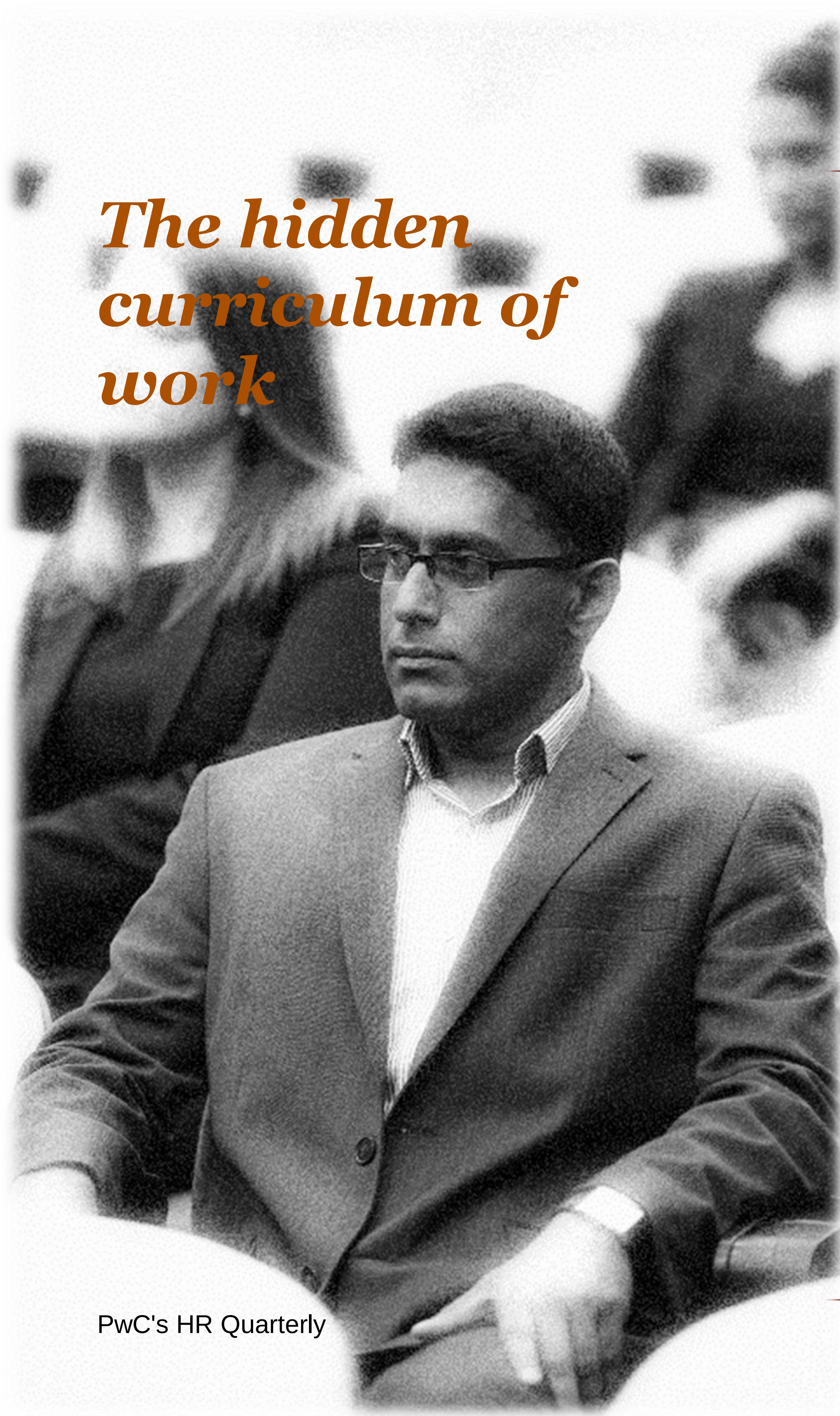
PwC's HR Quarterly
3rd Edition October 2016

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

1 October 2016



Contents



The hidden curriculum of work

What do you do for work? Not, what is your job title, or what's written in your official job description? But what do you actually do?

It's potentially the most important question you can ask yourself if you care about standing out, staying ahead of the change curve, and continuously elevating your performance to gain access to choice assignments and opportunities to advance. This is because the value you deliver, the results you produce, and the impact you have on others come more often from the execution of unspoken intangibles that are not reflected in your title, job description, or the daily tasks and activities you're responsible for. This severe mismatch is based on a fundamental misunderstanding of the true demands of work.

Nobody told you this, but the day you were hired you actually accepted two jobs. The first was the position you interviewed for, including all of the tasks outlined in that job description. The second "job-within-the-job" included the unspoken, unwritten work that, among other challenges, requires you to manage constant change, collaborate well with others, navigate workplace politics, and get your best work done in an environment of shrinking resources and increasing demands.

Nobody trained you to succeed in this hidden work, and you have to learn how to confront its everyday pitfalls. Although you can reach out to trusted colleagues for input, the pace of work and pressure to perform often limit our willingness to reflect, formulate questions, and take the time to seek guidance. Despite the complexities of such situations, the hidden curriculum of work can be identified and understood as can be seen from the article overleaf by Jesse Sostrin, director at PwC's U.S. Leadership Coaching Centre of Excellence.

We trust that you will find this issue of our HR Quarterly of value.

The People and Organisation Team

The term *hidden curriculum* was coined by the educator Philip Jackson in 1968, and then elaborated upon by MIT's Benson Snyder in 1970. Both explored the concept within the realm of education and youth development.

Consider this example: An emerging leader, recently promoted to manager, is challenged by her boss to "step it up" and is given a clear mandate: "Work closely with key stakeholders outside of your department to improve collaboration and achieve the company's objectives of increased innovation." The expectation is now visible and, on the surface, easily understood. But a closer look reveals a range of complexities, judgment calls, and potential pitfalls that can derail her. To fulfil the mandate, she must:

- Know her own department's goals, as well as the company's objectives, well enough to interpret what is most important among many competing demands
- Understand the varied communication habits among the different stakeholders, including the various "triggers" to avoid
- Stay mentally flexible and willing to adapt her own leadership style to build rapport and establish trust with others who may define success differently
- Avoid over-collaborating, but have the wisdom to know what requires closer oversight, discussion, and shared decision making

A hidden curriculum exists whenever there are two simultaneous challenges where one is visible, clear, and understood and the other is concealed, ambiguous, and undefined. Take, for example, the lives of professional athletes. They must master the fundamentals of their sport and excel at the highest level on the court or field, but they also have to learn how to navigate murkier waters like wealth, fame, and other distractions that can arise. Similarly, when children enter school, they have to master their academic curriculum but, reading, math, and science do not prepare them for peer pressure, social dynamics, and developmental challenges of youth.

We all encounter a hidden curriculum of work, regardless of tenure, level, or role. Whether you acknowledge it or not, you're navigating your own hidden curriculum.

Quite often, one of the biggest barriers to success in making the transition to strategic leadership is a lack of insight into the roles that leaders need to assume at the senior strategic level.

If leaders are responsible for equipping others to succeed on the job, trial and error just isn't good enough. For example, when a leader tells his team, "We're getting complacent and need more innovative ideas, so I want to encourage more debate at our weekly meetings," he needs to recognize the hidden curriculum in this request. Encouraging debate can trigger defensiveness, which inadvertently shifts people into "advocacy mode": an unconscious effort to prove a point, which inhibits listening, mental flexibility, and learning. When this happens, the capacity to stay curious, ask questions, and make connections among previously unconnected things is lost, and the intended result of the debate collapses.

Despite the complexities of such situations, the hidden curriculum of work can be identified and understood. What's more, one of the most significant competitive advantages for organizations is a leadership group — and ultimately a workforce — that has the capacity to recognize the hidden curriculum of work and take deliberate steps to manage it. Considering this, the urgent questions for any employee are: Do you know your own hidden curriculum of work, and are you navigating it with focused attention? If you are a manager, do you know the pitfalls and demands of those who report to you, and are you taking proactive steps to equip them to address them?

Unfortunately, as "do more with less" has become the corporate world's mantra, the rush to oversimplify distracts from these questions and the nuanced answers they bring. Perhaps it shouldn't be surprising that one of the most common barriers in advancing to and succeeding in a senior leadership role is an inability to switch from task execution (focusing on the tactical side of delivering work) to big-picture, strategic thinking (the ability to know what's important, why it matters, and how to navigate the uncertainties in between).

Just because leaders have been highly successful in operational/functional roles doesn't ensure their success as senior strategic leaders.

The legal aspects of equal pay

Equal pay claims require objectively justifiable reasons

Analytical tools such as job evaluation and profiling tools will assist employers to provide objective job analysis information in pay equal pay claims

Organisations need to consider more equitable remuneration policies and practices to reduce and eliminate situations where employees may be paid different salaries for doing work that is contended to be the same, similar or of equal value. The same applies to conditions of employment to the employees of the same employer in terms of section 6(4) of the Employment Equity Act. If differences in pay or conditions of employment do exist where it is contended that the work is the same, similar or of equal value, and an employee lodges an unfair discrimination dispute based on one or more of the grounds listed the employer bears the onus to prove that the allegation is without merit or that it can be rationally explained. To do so, an employer will typically rely on its remuneration policy and practices as well as its job analysis and evaluation system it uses to determine job grades and salary levels. The onus is on companies to explain and defend pay differentials and pay policies in instances where an employee lodges a claim on the basis of a listed ground.

The amendments to the Employment Equity Act, which came into effect on 1 August 2014, prohibit companies from discriminating unfairly between the remuneration and conditions of employment of employees doing the same or similar work or work of equal value. Should an employee refer an equal pay claim on the basis of an arbitrary ground (a ground not listed in section 6 of the Act), the burden of proof falls on the employee in such instances. However, the employer, in presenting its case, is still required to provide objectively justifiable information to refute the existence of alleged discrimination based on arbitrary grounds.

Companies' remuneration structures, policies and practices need to be carefully evaluated in an attempt to identify and quantify cases or possible patterns of remuneration and conditions of employment which may fall foul to the grounds listed. Failure to do so may be costly and can potentially expose employers to hefty penalties to be imposed should the Department of Labour conduct an equal pay for equal work audit. This also presents a reputational risk to organisations.

Pay equity cannot be achieved overnight

Like employment equity, pay equity is a target to be achieved over a period of time and the prescribed reporting should reflect the progress made by employers with regards to achieving certain goals.

Inasmuch as the Act prohibits unfair discrimination based on listed or arbitrary grounds, Regulation 7 of the Act provides grounds on the basis of which differences in remuneration may be justified. On condition that the difference in remuneration or conditions of service is fair, rational or objectively justifiable, the employer can differentiate between employees' remuneration and conditions of service by taking into account one or more of the following factors: seniority and length of service; qualification, ability, competence or potential; performance, or quality of work; temporary employment for purposes of gaining experience or training; and shortage of relevant skills or market value in a particular job.

Employers are required to ensure that they are accurate in their reporting as the Department of Labour is insisting that Employment Equity plans have more specific details. In addition, the penalties for non-compliance has increased significantly since the inception of the Act. In terms of the International Labour Organisation (ILO) Pay Equity Guide, it is recommended that organisations establish a Pay Equity Committee. Amongst other things, the committee should ensure that pay equity-related processes are conducted in a consistent manner.

For more information regarding the implications of the Act contact Dr Gary Paul at gary.paul@pwc.com

The committee must include members who have first-hand knowledge of the jobs to be evaluated; who are capable of objectively identifying and eliminating any bias that could derail the process or the evaluation tools; and empower female and other potentially affected employees to perform a substantive role in this process which is intended to address their plight.

Given that job evaluation is at the core of this recommended approach, the following job evaluation principles which form part of most job evaluation systems are pertinent: qualifications, effort, responsibility, and the working conditions.

Employers will have to make an important election in respect of being proactive, by embarking on a structured pay equity process with job grading front and centre. This will entail reviewing or assisting with the designing of the company's compensation philosophy or job evaluation policy. Skills audits of competencies required for equal value jobs will have to be carried out. All positions from labourer to top executive level should be accurately analysed and evaluated. Positions and jobs should be benchmarked against that of other employers.

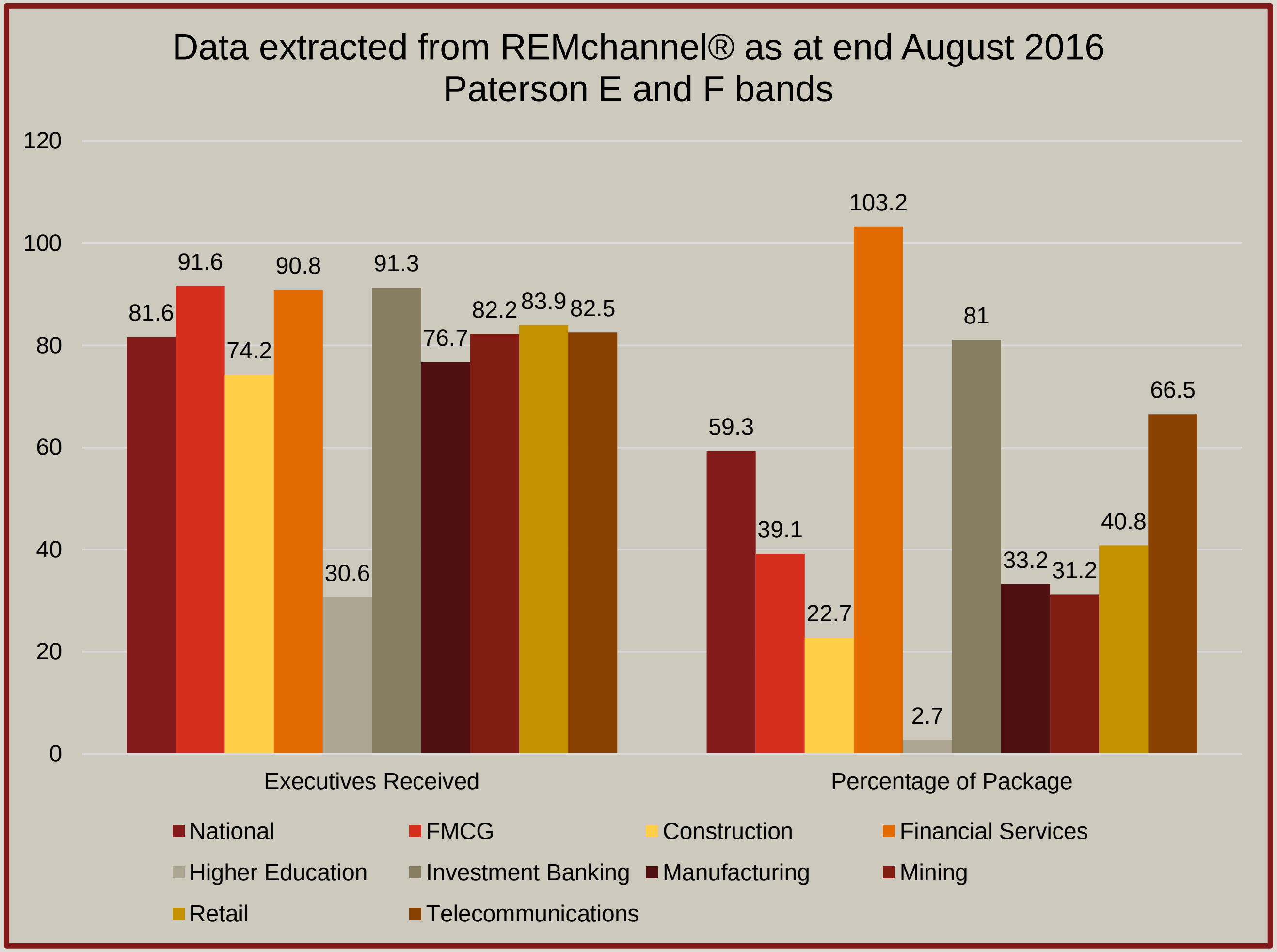
Alternatively and unwisely so, employers may elect to adopt a wait-and-see approach and deal with 'equal pay' disputes on a reactive basis. Whether the legislative amendment contained in section 6 will prove to be adequate to protect employees against wilful, unfair and discriminatory pay practices remains to be seen, and will probably only be revealed when the courts start applying the amended section 6 of the Employment Equity Act.

Short term incentives by sector

Perceived unfairness is the main reason incentive pay goes wrong. And yet we persist with formulaic and simplistic approaches that cannot produce a fair outcome. Boards need to have more discretion to ensure that outcomes are fair and aligned with performance delivered and value added.

On average 59% of general staff received incentive bonuses over the past 12 months with the quantum being 6.2% of guaranteed remuneration.

Executive short term incentive bonuses by industry sector



This transformation in reward practices has been driven in large part by the global governance developments of the last fifteen years. The underlying model (shareholder value, underpinned by an agency-theory model of company management) is based on the assumption that executives will perform better for shareholders if they are heavily incentivised. The aim is to align reward outcomes with the best interests of shareholders. Such alignment is considered essential to prevent managers from extracting unjustified short-term rewards for themselves at the expense of the company's shareholders.

However, in a down turned economy we have seen a decline in the percentages of short term incentive bonuses over the past 12 months in certain industry sectors.

So how does incentive pay affect senior executives and what will the impact be over the next 12 months where financial growth is marginal?

How does incentive pay affect senior executives?

Much research on the direct effect of incentives is carried out either on university students or on sales forces, neither of which form a good test lab for the reactions of senior business leaders. Our latest research, in conjunction with Alexander Pepper at the London School of Economics and Political Science, seeks to address this gap.

The research involved asking senior executives to complete a structured interview questionnaire that explored the trade-offs that individuals make between risk, reward, time and fairness. The research was completed by around 100 senior executives, of whom around 25 were compensation professionals. The results below focus on the non-expert population of around 75 senior executives in a variety of business roles at executive committee level within FTSE 100 and FTSE 250 companies.

The results are perhaps not surprising, but reinforce how much is wrong with the norms of incentive pay design today.

The importance of fairness has two important implications

First, complex formulaic incentive plans can generate outcomes that participants think are arbitrary and unfair. This is bound to cause trouble because people are far more likely to remember bad news over good. One year when they believe the outcome is unfair can outweigh several years of undeserved windfall. So it is vital to ensure that the measurement approach enables outcomes to be perceived as fair.

Second, there are implications for disclosure. Many believe that transparency is the best way to ensure sound pay and governance practices – "sunlight is the best form of antiseptic". The reason for the recent drive for greater pay disclosure by banks is the assumption that transparency will somehow make firms and individuals exercise pay restraint. Our research findings on fairness suggest that the opposite will be the case. It matters less to individuals what they are paid in absolute terms. What is most important is what they are paid relative to those they consider to be their peers. Fairness will become increasingly important as levels of disclosure increase. There are already a number of factors that are accelerating this change. The Equality Act 2010 makes pay secrecy clauses in employment contracts ineffective. Ongoing pressure for the disclosure of remuneration levels in the financial services sector in the UK is likely to spread to all companies.

Gender pay reporting is likely to be required by the UK Government at some point over the next two years. In the public sector all salaries in excess of £58,000 are now published.

So it is vital that pay systems are fair, properly explained and the rationale behind pay decisions is well communicated. The ultimate test of the fairness of any pay system is judging how people would react if every employee's pay was posted on the staff notice board.

Complexity and ambiguity destroy value

Participants were asked to make a series of choices between risky offers which had similar expected or average outcomes, but which varied in the complexity of their construction.

Impact of complexity on take-up
Which would you prefer?
(a) 50% chance of £100,000
(b) P% chance of winning £100,000 where P is unknown but between 25% and 75%
(c) Indifferent to (a) and (b)

The results showed that people don't like uncertainty. For example, only a quarter of respondents were prepared to grapple with the ambiguity of (a). People were more comfortable when the source of uncertainty was something familiar (a share award versus a cash award). But abstract and complex formulations (as above) proved unpopular.

The clear lesson here is to avoid unnecessary complexity, an unfortunate feature of many incentive plans. Recognise that relevance and simplicity are closely related. For example, an incentive plan with a large set of measures may appear complex to the uninitiated. But if those measures are based on a set of reporting information that is viewed and managed on a monthly basis by executives, then this may actually appear simpler to them than a plan based on two metrics that they only look at when the time comes to measure performance.

Executives are risk averse – but not always

A range of questions were asked comparing trade-offs with different levels of risk.

Attitude to risk
Which would you prefer?
(a) 50% chance of £18,000 (or nothing)
(b) £8,000 for certain
(c) Indifferent to (a) and (b)

Which would you prefer?
(a) 50% chance of £370,000 (or nothing)
(b) £165,000 for certain
(c) Indifferent to (a) and (b)

Unsurprisingly risk aversion increases with the sum at stake. 40% of respondents were prepared to take the gamble on the smaller amount, but this fell to around 25% when the stakes rose. Across the population as a whole, there was a significant bias towards risk aversion. But there were some (around 25%) that were active risk seekers.

The moral of the story: know your audience. Unsurprisingly most corporate executives are not risk-taking entrepreneurs. Yet we load them up with highly geared incentives as if they were. It is hardly surprising that this often leads to frustration and disengagement. Yet a quarter are risk seekers so the motivation provided by private equity style risks and rewards may be significant. The trick is to know who they are within your executive population.

Predicted salary increases for the next 12 months, CPI or lower?

Consumer inflation slowed to 6% year-on-year in July, down from the 6.3% increase recorded in June and somewhat lower than the market consensus of 6.1%. This deceleration was mainly due to a moderation in housing and utilities price inflation. This, in turn, was due to an increase of only 7.4% in electricity prices, significantly lower than the 11.2% increase recorded in July 2015. The food and non-alcoholic beverages category also added to the headline figure, with prices increasing by 11.3% year on year. The BER expects food price inflation to peak in the third quarter of 2016 on the back of the drought-induced agricultural commodity price increases recorded in early-2016.

Category	Remuneration Structure	Previous 12 months		Next 12 months	
		Mean	Median	Mean	Median
Executive					
	Basic Salary	5.9	6.2	6.2	6.5
	Total Package	6.1	6.0	6.3	6.5
Management					
	Basic Salary	6.1	6.5	6.4	6.5
	Total Package	6.3	6.5	6.4	6.5
General staff					
	Basic Salary	6.7	7.0	6.7	7.0
	Total Package	6.5	6.5	6.5	6.5
Unionised					
	Basic Salary	7.5	7.5	7.3	7.0
	Total Package	6.8	7.0	6.7	7.0

For the average South African less take home pay is a stark reality. This places significant pressure on employees to maintain their standard of living and also creates an environment where employees with key and sought after skills remain highly susceptible to “a better offer”. Increasingly reward professionals are faced with higher demands in terms of the attraction and retention of staff.

Unemployment:

South Africa's unemployment rate slightly decreased to 26.6 percent in the June quarter of 2016 from 26.7 percent in the three months to March. The number of unemployed fell by 1.6 percent and employment went down 0.8 percent.

Organisations challenged by shrinking margins and increasing remuneration costs

The question facing the employer is whether the salary and wage bill is in line with budgeted salary increases. From the table below it is evident that year on year actual increases of employees in the same hierarchical category are significantly higher at the lower levels than the overall budgeted increases.

Grade Hierarchy	Increase
Executive Management	6.7
Senior Management	6.1
Middle Management	6.6
Junior Management	7.1
Entry Level Management	7.9
Supervisory	8.5
Senior Clerical	8.9
Clerical	11.4
Semi Skilled	10.1
Unskilled	13.2

The continued level of response and debate surrounding the economics and ethics of pay is significant, particularly around the issue of the pay gap. While the public's fascination with the pay of top executives remains, the focus is also shifting to the level of pay of entry-level workers, with the debate around the minimum wage, the social wage and a living wage gaining momentum. The concept of a national wage is also being discussed in other parts of the world and was the subject of a recent referendum in Switzerland, where it was rejected by a 77% majority.

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 at margie.manners@pwc.com or Lisa Tamkei at lisa.tamkei@pwc.com

Thought leadership:

- Getting the balance right: Major banks analysis South Africa (published)
- Platinum on a knife's edge: PwC's perspective on trends in the platinum industry (published)
- SA Mine 2016 - highlighting trends in the South African mining industry (published)

Surveys:

- Salary and Wage Movement Survey: October 2016 (published)
- Non Executive Director's Survey: January 2017

Research publications:

- Long term incentive scheme trends: 1 December 2016

Long-term incentives have become an integral part of the total remuneration packages for executive directors and are key in ensuring appropriate motivation and sufficient retention. Now, more than ever, we are seeing executive remuneration being scrutinised by shareholders who demand a clear link between pay and performance. Therefore, when deciding on appropriate long-term incentive structures, it is important to strike a balance between the interest of shareholders in creating value and the tools used to incentivise management in this respect.

PwC will be publishing an overview of the different types of incentive structures that are prevalent in the listed and unlisted sectors, including award levels and performance condition considerations in December 2016.

Should you be interested to obtain a copy of this comprehensive publication, please contact René Richter at rene.richter@pwc.com

Regional contact details

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

Gary Paul
+27 74 079 7026

Louna Robbertse
+27 79 494 3222

Carol Shepherd
+27 84 657 3526

Chris Lamprecht
+27 84 657 3526

Minda Botha
+27 81 546 0931

Western Cape

James Whitaker
+27 72 117 2180

Gizelle Erwee
+27 82 871 5728

Julia Fourie
+27 82 781 3462

Barry Knoetze
+27 83 399 8122

Kwa-Zulu Natal

Kerry Barker
+27 83 787 9411

Caitlin Shaw
+27 (83) 384 3111

Eastern Cape

Shirley Thomas
+27 (82) 735 8240

Yvonne Ducie
+27 (84) 605 6332

pwc