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# *HR Quarterly* 3rd Edition September 2017

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King IV has broadened the focus on value creation and emphasizes that performance should entail both short and long term value creation **for all stakeholders.**



Dear valued client

1 September 2017 it was seven years since PwC acquired REMchannel®, now known as PwC Research Services. The acquisition was seen as a strategic imperative to grow the People & Organisation division within PwC and has truly provided us with the tools and capabilities to deliver high quality services in the market place. The growth of the REMchannel® survey from just over 250 subscribers in 2010 to more than 550 subscribers this year demonstrates that the “marriage”, as Gerald Seegers, People and Organisation leader fondly describes the acquisition, has been very successful.

We continue to strive to provide quality information and consulting solutions to assist you in your decision-making process. In the current economic climate it is a business imperative to make the right decisions pertaining to talent in all our businesses.

***As we celebrate our successes we are always very aware that this would not have been possible without our clients and your continued support over the past seven years. Thank you for sharing our vision!***



# *Crafting KPIs for executives – linking company strategy and executive pay*

*By Mariangela Venturi*

## *King IV™ and the movement towards integrated thinking*

Organisations have previously focused their attention on the use and creation of financial capital as a measure when identifying Key Performance Indicators (“KPIs”) for their executives. However, a shift has occurred, as other – sometimes softer – forms of capital which also produce value for a company are recognized. This shift is part of an international movement, as the global community starts to understand more deeply that a company’s performance needs to be measured on more than their financial performance alone. This leaves companies in a bind; understanding that they cannot assess executive performance on financial indicators alone, but left uncertain as to how to craft KPIs so that they accurately represent holistic performance, but remain sufficiently measurable and acceptable to investors. How do companies determine which KPIs are appropriate for their executives?

## *Linking to company strategy – integrated thinking*

Within South Africa, King IV™ acknowledges the developments in corporate governance and integrated reporting and the emergence of integrated thinking which forms the foundation of integrated reporting. Integrated thinking relates to the various capitals (human, financial, natural, social and relationship) and their incorporation in the value creation process. King IV™ takes cognizance of the shift from traditional financial reporting to integrated reporting.

Whilst King III contained numerous principles regarding value creation and pay for performance emphasising that “*companies should adopt remuneration policies and practices for executives that create value for the company over the long term*”, King IV has broadened this focus on value creation and emphasizes that performance should entail both short and long term value creation **for all stakeholders**. It furthermore recommends the use of performance measures that support positive outcomes across the triple context (economy, society and environment) in which the organisation operates, and/or all the capitals that the organisation uses or affects. This is a departure from linking remuneration to financial performance only. The proposal of the different capitals by King IV and the triple context provide alternative viewpoints of measuring the success of a company and the performance of its executives.

Principle 1.26, Recommended practice 158

Principle 14, Recommended Practice 29b

# *Influence of shareholder activism*

The success of a company's strategy is dependent on identifying the right performance indicators – the key indicators that inform strategy. The long-term incentives of executives should align the interests of executives with those of shareholders, and should link reward to performance over the long term. This is most commonly done through the use of performance conditions which determine the vesting of the executives' long-term incentive awards. Such performance conditions should be of strategic importance to the Company and measured over a period appropriate to the objectives of the company.

The increase in shareholder activism over the last few years, both internationally and within South Africa, has resulted in, amongst other things, the expectation that the performance conditions applied to awards be linked to factors enhancing shareholder value and require strong levels of corporate financial performance before any vesting can occur. However, with the increasing awareness that corporate performance alone should not define a company's success, shareholders may find that companies are increasingly pushing back on what performance measures are considered to be appropriate reflections of executive (and thus, corporate) performance. Companies should be prepared to tackle the issue head-on with their shareholders, engaging with them to provide context and detail regarding KPIs which are wider than pure financial ones.

Interestingly, in the UK, there has been criticism of the use of traditional (financial) performance conditions which do not drive the correct behaviours and leads to excessive remuneration. This calls for a new and simpler model of executive remuneration, where pay is considered on a total remuneration basis, with an appropriate level of total remuneration determined, and a portion of this paid in shares, thus linking the success of the company (determined with reference to the share price) to the ultimate levels of award.

## *Integrated thinking*

As the movement towards integrated thinking gains momentum, it is vital that organisations reconsider the way they determine their strategy. The provisions within King IV™ require companies to think in more detail about the executive KPIs and the link to performance, and ensure that KPIs are derived meaningfully from the company strategy. In this process, it is vital that time is spent on determining and documenting the company strategy, and that due consideration is given as to how the company-wide strategic goals are translated to a remuneration strategy. Often, a corporate scorecard is used to summarize these goals – this scorecard should focus on the relationships that the company has with all stakeholders (not only its shareholders). Many companies use this corporate scorecard to determine individual balanced scorecards for the executive, as a basis against which to measure their performance.

# Relooking company strategy

“You have to be fast on your feet and adaptive or else a strategy is useless.”

*Charles de Gaulle*

## ***Defining value drivers***

Strategy must not only relate to an analysis of the inputs and resulting outputs of the company, but also include the various outcomes and impact of the organisation’s products and services on critical aspects of society and the environment. The organisation needs to consider the positive or negative impact of its outcomes on its overall value creation, and where an inconsistency exists between its outcomes and good corporate citizenship which will threaten or diminish an organisation’s reputation, the trust in which it is held and the confidence society as a whole feels towards it, steps must be taken to act on the drivers of these outcomes.

An organisation must therefore identify its value drivers and how value creation takes place over the short, medium and long term. These value drivers will be used to develop the performance measures or targets which will be included in the design of the incentive scheme for the relevant executives. This linkage makes pay for performance possible and will result in an executive’s achievements being aligned to the objectives of their job and of the business strategy. The value drivers must be incorporated into the organisation’s strategy and cascaded to the business units, the departments and individual targets of the executives, to ensure that their activities are aligned with the overall organisational strategy.

## ***Translating strategy into executive KPIs***

*In order to translate the identified strategy into relevant KPIs for the executives, the following steps should be taken:*

- Clearly understand the organisation’s strategic objectives
- Consider what activities the business should excel at to deliver on its strategic objectives
- Think about how much needs to be measured – and whether it can be measured. The aim is to select metrics which are aligned to strategic goals and what is happening in the business. It is therefore important to have a clear view of the strategic goals and how they can be measured, find a balance between financial and non-financial KPIs, use leading (forecast) and lagging (past performance) KPIs, and to make sure the KPIs provide intelligent, connected information that is easily understandable and relevant for people in the entire organisation.



# *KPIs and targets*

The choice of KPIs should be reviewed on a regular basis to ensure that as the strategies and objectives of an organisation change, there is suitable adjustment to the KPIs chosen for performance measures. The reason and nature of such changes in KPIs and how they are measured should be clearly explained.

The identification of suitable metrics to apply to executive remuneration is critical and the choice of performance indicators will require introspection at board level and be dependent on the industry and company profile.

The financial metrics should be viewed as financial indicators supporting the sustainability of the business and not the only cause of value creation in the long term. Whilst the 'harder' KPIs remain important, non-financial KPIs which can still be objectively measured are becoming more prevalent on executives' performance scorecards. The movement does not stop with the introduction of these non-financial KPIs – in fact, some companies are choosing to include 'softer' measures which are more subjective in nature.

Non-financial measures could include safety, environment, employee responsibility and the organisation's carbon footprint.

It is clear that with the onset of integrated thinking, and the provisions of King IV™, companies need to start from the ground up in determining their strategy, and defining their value drivers beyond mere financial success. When this exercise is undertaken, the KPIs for executives will naturally extend wider than pure financial metrics, and we will observe executives being measured on a balanced scorecard approach. Remuneration committees should apply their minds to KPIs, and be very familiar with the company strategy and corporate scorecard, to enable them to determine the appropriate KPIs for executives to be measured against. The achievement of these KPIs should result in corporate success which goes beyond the parameters of mere financial performance.

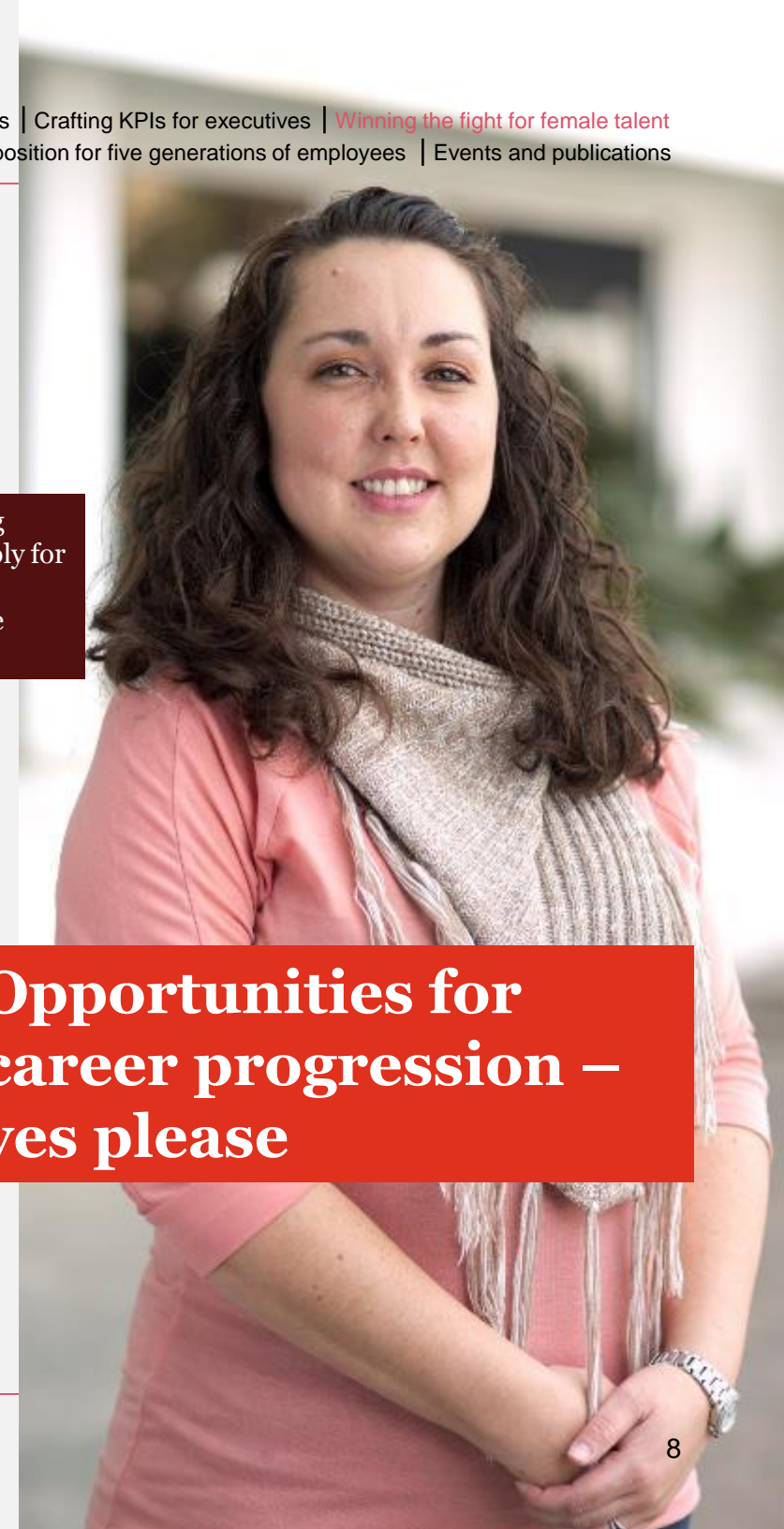
# *Winning the fight for female talent*

Sue, a technology whizz with extensive experience in building and leading teams in many different countries, has been asked by a search firm to apply for a position for which she's ideally suited. But she decides not to apply – because she feels the tone of the job description is very aggressive and the organisation probably has too macho a culture.

Elizabeth is very excited about a role she's applied for with a healthcare company – and feels the organisation can really help her achieve her career aspirations. During the final interview, she asks her prospective boss how the company can support her career as a woman. Tim assumes Elizabeth is a mother, and starts talking about the great flexibility programmes he has helped many mothers on his team to use over the years. Elizabeth is shocked that this is Tim's immediate response, and leaves the interview thinking this probably isn't the employer for her after all.

Do any of these scenarios sound familiar? Is your organisation missing out on exceptional female talent because you're failing to deliver gender-inclusive recruitment? Are unconscious gender stereotypes impacting your organisation's hiring decisions? Despite good intentions, could your organisation be letting blindspots and attraction and selection processes that lack objectivity hamper its ability to attract the best and brightest talent? If your answer to any of these questions is yes, you need to act. To create a sustainable talent pipeline and be a talent magnet to the modern workforce, employers must actively focus on creating and delivering gender-inclusive recruitment.

**Opportunities for career progression – yes please**





# How to gain the diversity edge through inclusive recruitment

***PwC's ground-breaking research throws a new light on this pressing business challenge and opportunity. Our study highlights eight critical themes, each generating opportunities to improve the gender inclusiveness and overall effectiveness of employer attraction and selection activities.***

## *Talent attraction: Not a level playing field*

One of our most striking findings is that growing numbers of women feel employers are biased in favour of male candidates when attracting talent. Indeed, over one-fifth of the women in our study said they have experienced gender discrimination personally when applying or interviewing for a job. And when asked to cite the factors preventing higher levels of female recruitment at experienced levels, women and employers suggest very different reasons. One thing is clear: employers will need to do more than become better at looking outside when hiring female talent. They will also need to look inside, at their own processes, if they are to succeed in delivering gender-inclusive recruitment.

## *Employer trends*

The good news is that 80% of employers said they've aligned their diversity and recruitment strategies. This is vital, as diversity efforts operated in a silo will not achieve diversity goals. However, while we're clearly seeing organisations make substantial efforts, it's also evident that sizeable strides are still required. Crucially, employers must identify the most significant pain points in their attraction and selection processes, intervene to address them, and then assess the impact of their interventions to ensure they're accelerating their progress through meaningful results.

## *The fight for female talent*

We're seeing a tidal wave of organisations across the world injecting greater urgency into their efforts to tackle gender imbalances, as they aim to create a more sustainable talent pipeline, gain competitive edge and be a magnet for talent. And explicit hiring targets have emerged as a core driver in fulfilling these ambitions. Some 78% of large organisations said they're actively seeking to hire more women – especially into more experienced and senior positions. As organisations fight to attract female talent – particularly at levels and in sectors where they're currently under-represented – we're now seeing competition for female talent escalate to a whole new level.

## *Opportunities for career progression – yes please*

Three shining stars emerge as the most attractive employer traits by which the modern workforce navigate their careers. These are 1) opportunities for career progression, 2) competitive wages, and 3) a culture of flexibility and work-life balance. To attract the best and brightest male and female talent, employers need to make these traits integral to their employer brand. Female and male job-hunters and movers also identified a lack of opportunities for career progression as the top reason for leaving their former employers. Employers simply must recognise that traditional life stage gender stereotypes that over-associate career ambition with men, and flexibility and work-life balance with women, are well and truly out of date.

### *An inclusive talent brand: not an option – but an imperative*

Female candidates increasingly want an accurate and honest impression of an employer's workplace experience and culture before deciding whether to join them. And what they're looking for are employers who **WALK their diversity talk** – including creating a workforce that reflects wider society and an inclusive talent environment where all employees can fulfil their potential. When considering a potential employer, 61% of women look at the diversity of the employer's leadership team, 67% at whether it has positive role models similar to them, and 56% at whether the organisation publicly shares its progress on diversity. So to win the fight for female talent, it's not enough for an employer to have an attractive talent brand: it's also vital to have an inclusive talent brand.

### *The potential-plus opportunity*

With availability of key skills still a growing concern for CEOs worldwide, employers must explore new approaches for finding the skills they'll need for both today and tomorrow. A shift from hiring for the complete and perfect skillset to hiring for potential, for example learning agility, plus skills and experience, could turn the talent threat into an opportunity. With most employers now actively focused on increasing their levels of experienced female hires, career returners are one avenue worth exploring.

### *Show me the – fair and equitable – money*

With today's talent voicing growing demands for disclosures on fair and equal pay, some 50% of women said they believe there's a pay gap between equally qualified male and female experienced hires. Employers need to embed measures to close this gap into their recruitment activities, ranging from monitoring and fixing pay discrepancies to establishing processes that prevent them from occurring in the first place.

### *Diversity technology trends*

Opportunities to use digital technologies and data analytics to revolutionise inclusive recruitment are increasing rapidly. But while growing numbers of employers are adopting or exploring the use of such technologies, most are failing to keep pace. What's clear is that the modern recruiter will need to be able to work alongside technology to enable recruitment processes – and not only for gender inclusive recruitment.

***Explore our full report to learn more about this research – and the critical areas of opportunity to benefit from gender-inclusive recruitment and win the fight for female talent.***

To obtain a copy of the full research paper contact René Richter at [rene.richter@pwc.com](mailto:rene.richter@pwc.com)

### **Is your organisation actively trying to attract and recruit more diverse talent?**

Respondents who answered:

Yes – recruit more female talent



***\* Employers with more than 10 000 employees***

# *Employee value proposition for five generations of employees*

In efforts for employers to be the employer-of-choice and retain their key staff, there is a constant need to have a competitive employee value proposition. “An employee value proposition (EVP) is the unique set of benefits which an employee receives in return for the skills, capabilities and experience they bring to the company.” (Michael Page, 2016).

Even when employers continue to be cost-conscious, when having conversations with employees, it has become evident that while employees may not be fully aware of the value of the benefits that are built into the total guaranteed package, the employers strive to stay in line or lead the market in their offering against their competitors.

Decisions regarding how employers structure packages in terms of pay and benefits remains critical in their approach to staff retention. Based on REMchannel® data, benefits constitute about a third of the total guaranteed packages. When managed and structured correctly, benefits play a key role in attracting, retaining and motivating employees in a highly competitive market. In the past benefits have proven to be pivotal in increasing employee motivation, productivity and loyalty to the employer. This remains fact in today’s environment. The challenge presents itself to the employer when they need to assess whether their current benefits are viable, sustainable and competitive when compared to their industry-sector competitors.

It has also become evident how the human capital demographics also have a significant influence on how employers approach the organisation’s benefit structures. Organisations find themselves managing five different generations of employees, each with different perspectives and approach to work and life. Currently, the workforce is made up of Traditionalists, Baby-Boomers, Generation X, Millennials and Nexters. One generation seeks security from the employer, the next generation wants more recognition while another wants work flexibility. The younger generation are looking to add value to an organisation while seeking mobility.

By the year 2020, the Millennials will form 50% of the global workforce while CEOs have confirmed that attracting and retaining the younger generation is one of their biggest challenges, as reported in *PwC’s Annual Global CEO Survey*. Work-life balance remains a priority to Millennials and this was evident by 95% of respondents to the *Millennials at Work* report saying it is important to them. Millennials place great emphasis on their personal needs and in the workplace. This generation seeks learning and development opportunities; flexibility in working hours and also believes recognition and reward for their contribution make it worthwhile. Having the knowledge of how the different groups perceive benefits, need for benefits and which of these groups makes the largest generation within the human capital; will help shape the employer’s benefits strategy.



## *How do your benefits EVP compare to the market?*

***“Irrespective of the long-term aims and ambitions of an individual company, the ability to attract and retain millennial talent will be a vital step to achieving it.”<sup>1</sup>***

The remuneration landscape is continuously changing which is influenced by legislation, economical changes and the job market, and it can be a challenge to determine the best and a financially sustainable benefits framework. It is important to understand the business and culture as an employer, as well as to assess which benefits will add value for employees and earn a return on investment for the employer.

Within this dynamic yet niche environment, data regarding employee benefits’ trends and practices remains a key component in the decision-making process for stakeholders.

To remain abreast with the benefits trends and many more policies and benefit initiatives across a spectrum of industries, consider participating in the PwC Employee Benefits Survey that will be published in December 2017.

<sup>1</sup> PwC’s *Millennials at work*: Reshaping the workplace – to obtain a copy of this publication please contact Puseletso Matsheng at [matsheng.puseletso@pwc.com](mailto:matsheng.puseletso@pwc.com)

***To find out,  
participate in PwC’s  
Employee Benefits  
Survey***

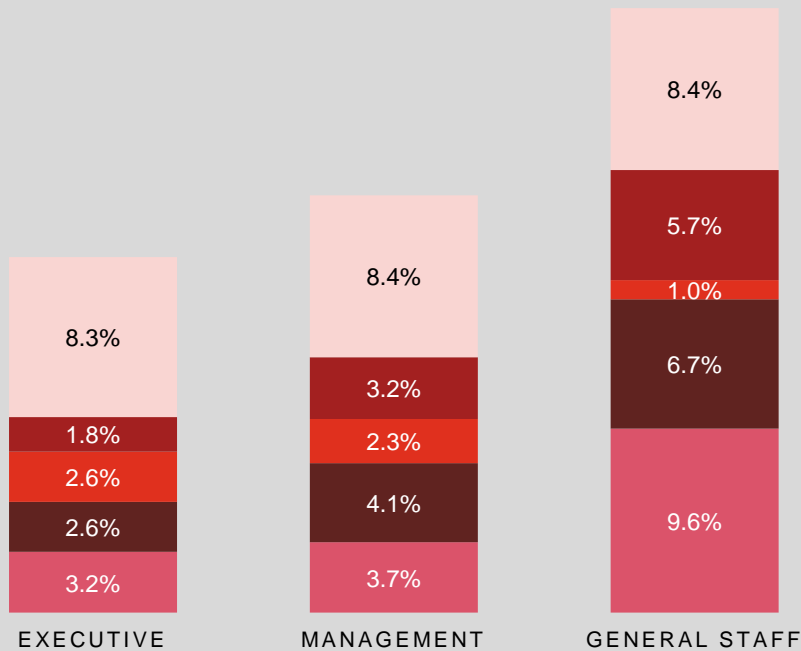
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# Financial versus non-financial benefits – do your employees understand the total reward offering?

**Financial Benefits as percentage of total guaranteed package by employee category – source REMchannel® August 2017**

■ Cash benefits ■ Non-cash benefits ■ Vehicle benefits  
■ Medical scheme ■ Retirement



More often than not employees do not understand the total reward offering. Benefits as a percentage of total guaranteed package range between 18 and 30 percent for executives, management and general staff and have very little impact on how employees perceive their take-home pay versus the benefit quantum or cost to the employer. Employees also don't have any idea of the cost relating to "non-financial" benefits. Trying to explain to employees that an element such as leave is a liability and must be accounted for in the company's financial statements hardly ever makes an impact. Most employees accept that this benefit is part of their employment conditions – almost seen as a given.

The same can be said for training and development. The investment in training and development forms a significant portion of the people costs in most organisations – yet employees don't value the benefit the same as they would cash.

For each "non-financial" benefit there is a cost to the employer. Of course these benefits are valued differently by your employees, considering that they are from various generations and that a stock standard approach does not meet the needs of all your employees. In many large organisations the benefits structure has hardly changed in the past 10 years and it is no wonder that employees do not see the value of these benefits.

The key to providing a compelling total rewards offering is to ensure that as an organisation you are a) competitive, b) can demonstrate the value of the total rewards offering and c) have an effective communication strategy. Most importantly do you know what your employees value? And if so, *are you prepared to review your benefits structure accordingly?*

# Current and forthcoming attractions

The following thought leadership and survey publications have been released or will be released in the next few months. Should you wish to review the available thought leadership publications please go to our website [www.pwc.co.za](http://www.pwc.co.za)

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

## Thought leadership:

- Major banks analysis 2017 publication
  - SA Mines 2017 publication
- Economic crime and fraud survey 2017

## Surveys:

- Employee benefits survey: December 2017
- Short-term incentive Scheme Survey 1<sup>st</sup> quarter 2018
  - Non-Executive Director's Survey: January 2018
  - Salary and Wage Movement Survey: April 2018

***PwC's REMeasure<sup>®</sup> job evaluation tool utilised extensively by mining and financial services organisations!***



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