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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.

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Leadership and corporate governance go hand in hand and neither exists in a vacuum. Both need to be relevant to the situation in which they are applied. The governing body should assume ultimate responsibility for the organisation, as well as the protection of resources: financial, manufactured, human, social and relational and intellectual and natural capitals. King IV

We live in an environment of continued cost-constraint, skills shortages and labour mobility.

At the same time, there is pressure to improve productivity, unlock discretionary effort and improve employee engagement. Unsurprisingly, companies are looking for new ways to drive value from reward spend, and help support the business imperatives. Overlaying this, is pressure to respond to changes in pensions, the living wage, and the equal pay agenda.

The information to establish the right level of compensation to attract and retain key talent is key to this. PwC's REMchannel® allows you to effectively benchmark your compensation packages against the competition and help to inform your reward strategy. Our latest publication provides remuneration data for more than 570 South African companies covering more than 1700 roles. Extracting insight from an organisation's data is nothing new – it's long been seen as important in supporting forecasting and business planning. But data analytics has now become a top priority issue, seen as critical to unlocking future growth, managing cost and decreasing risk.

Data alone is not enough however. There are broader trends around performance management systems and the pay outcomes, pay progression and the employee value proposition.

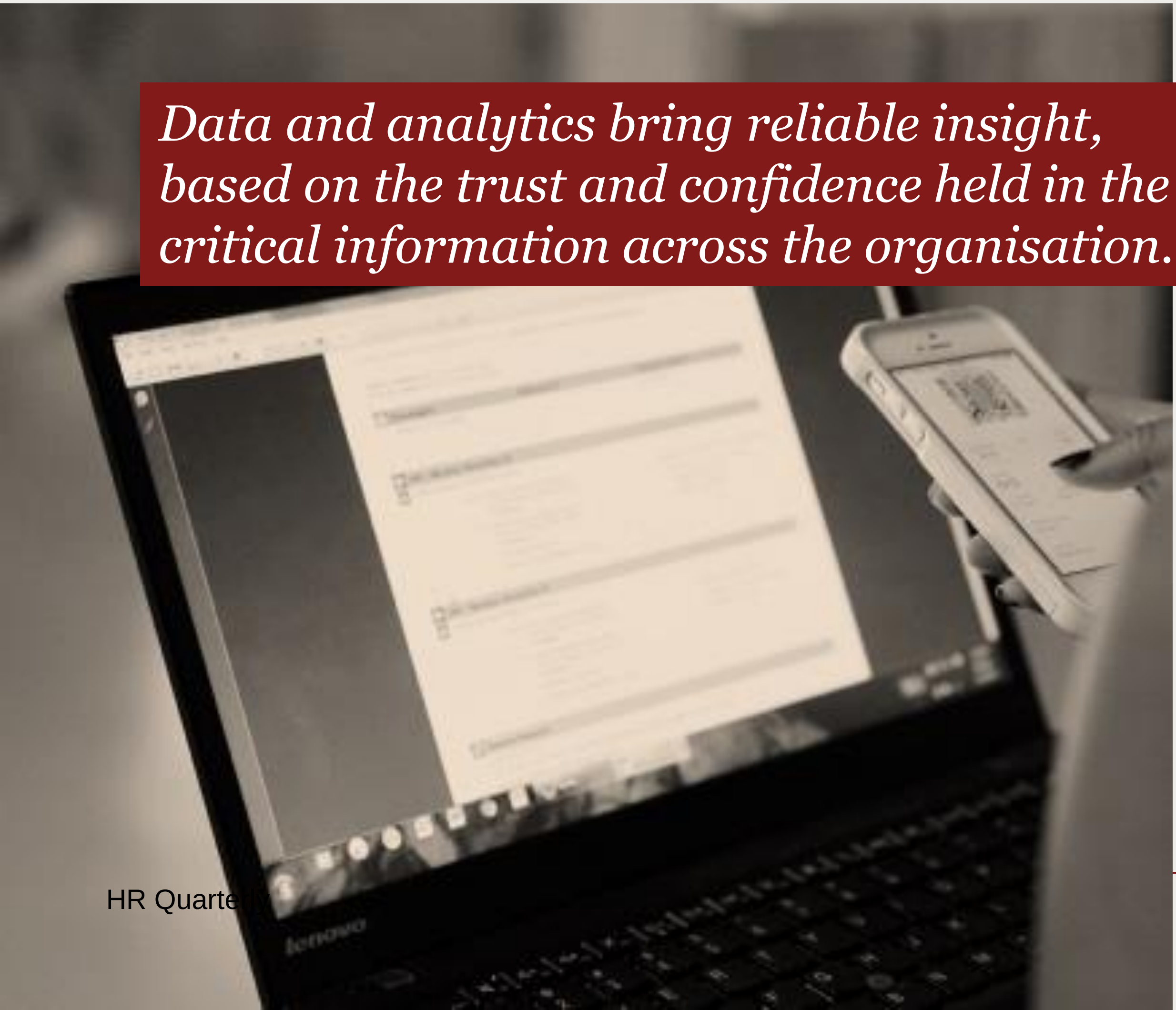
At this time we would like to thank our clients for their continued support. Without your survey participation high quality robust data would not be available to assist you in your decision making process. We will continue to strive to provide you with optimal solutions in a very tough environment.

Wishing all our clients and their families a very blessed, safe and peaceful festive season.

The People and Organisation Team

Is data enough?

From informed to reliable insight



Data and analytics bring reliable insight, based on the trust and confidence held in the critical information across the organisation.

The rise of data analytics represents a shift from informed to reliable insight. Until now we've taken decisions based on incomplete information, using our own commercial acumen and experience to fill in the gaps. These informed insights are seen as directionally correct, which may be 'good enough' for the job.

But is directionally correct always good enough? If the underlying information is wrong or interpreted incorrectly, the insights drawn may be misleading – resulting in a poor decision.

Business leaders recognise the critical importance of data and analytics to successful modern business. Analytics has transformed the ability of companies to access and use information from their customers, suppliers, employees and other stakeholders. And evidence suggests that the companies that most effectively use analytics to inform supply-side decisions about business processes outperform those that can't.

The challenge for organisations lies in gathering, managing and using wisely the data that's available. And that means breaking data analytics out of its organisational confinements.
Typically, data analytics has been limited to small, siloed teams serving pockets of the organisation. While some business functions – such as credit risk in banking – have long built data analytics into the heart of their operations, many others have used analytics only sporadically or not at all.

How best to use the data available

Organisations are increasingly using data and analytics to seek out new revenue opportunities. The management of customer relationships and delivery of customer experience is being transformed by rich customer-level data on interactions, transactions, consumption and sentiment. Product development, proposition design and pricing decisions are being informed by real-time data on customer reactions and preferences. Greater volume of customer data and improved access to this data, combined with improvements in the ability to extract meaningful insights from it, leads to more customer-centric decisions and better demand forecasting and planning.

Delivering value through operational efficiencies: data analytics generates business value by improving operational efficiency. Every operational process can be understood, simulated and refined – from optimising the use of fixed assets to anticipating variable demand patterns and optimisation of procurement. There's huge potential for value creation in most organisations.

The cost of technology is falling, opening up many more sources of data, synthesised from both internal and external sources (market, government or proprietary). This gives company executives real-time confidence around what's going in their organisation. Individuals can use data to connect the grass-roots of an organisation to the boardroom in a quicker, more effective way – with confidence. This enhanced visibility means that strategic decision-making becomes more proactive and less reactive.

The power of data-led insight today is its ability to add business value to every part of the value chain and to every area of business decision-making. Better insight means better decisions.

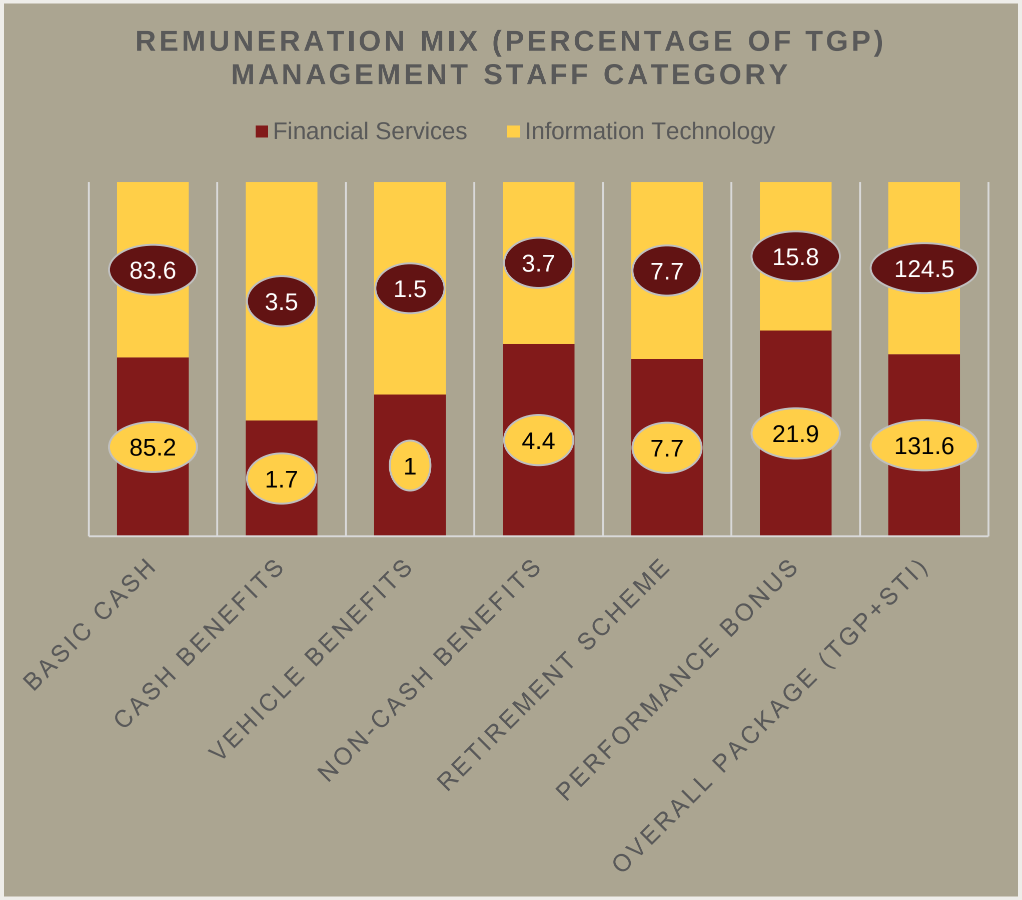
Delivering value through more effective risk management: It's important for all organisations to understand and manage risk, in their day-to-day operations and strategic decisions. Big data makes it possible to assess risks that were previously seen as unquantifiable. This creates an opportunity for organisations to better manage their risk and make sure that an appropriate return is being achieved for the risk taken. That said, it's also critical to understand the power of data when things go wrong. Mistakes are made faster and the sheer volume of data creates new challenges around security and fraud. Organisations must be able to minimise risk, comply accurately with regulations, respond promptly to incidents and have trust in their data at all times. Trust in data is required across the whole digital value chain – spanning technology, data, process and people.

Creating a successful data analytics capability

Companies that are using data and analytics successfully are quick to spot opportunities, quick to assess ideas and quick to test and learn from these experiences. They innovate continuously. They understand and embrace new business models. They use data and analytics as a core enabling capability.

They exploit the latest technologies to deliver better digital experiences for their customers and integrate digital channels and operations into the fabric of their businesses. They use data and analytics to understand how their customers are actually using their products and services, how their operations and supply chain are performing, how to manage their workforce and how to identify key risks – and then they act upon these insights.

The power of remuneration data



What might happen next? Using historical data will provide insight to establish future trends taking elements such as your changing workforce into account.

Can you trust your survey data?

As crucial decisions to attract and retain staff in your organisation are made based on your survey data you need to understand the survey methodology followed. Some of the elements that you need to consider when assessing the value and quality of survey data would be:

The collection methodology

- How is data validated?
- What process is followed to match your jobs to the survey jobs and what is taken into account i.e. job levels, job content, job title and reporting structures. Does your survey provider match the jobs on your behalf? If so, do you believe that your job titles are indicative of what people do?

The data

- Is the data representative of your industry sector?
- Do you have access to information such as standard deviations and co-efficient of variance to assess the reliability of the published information?

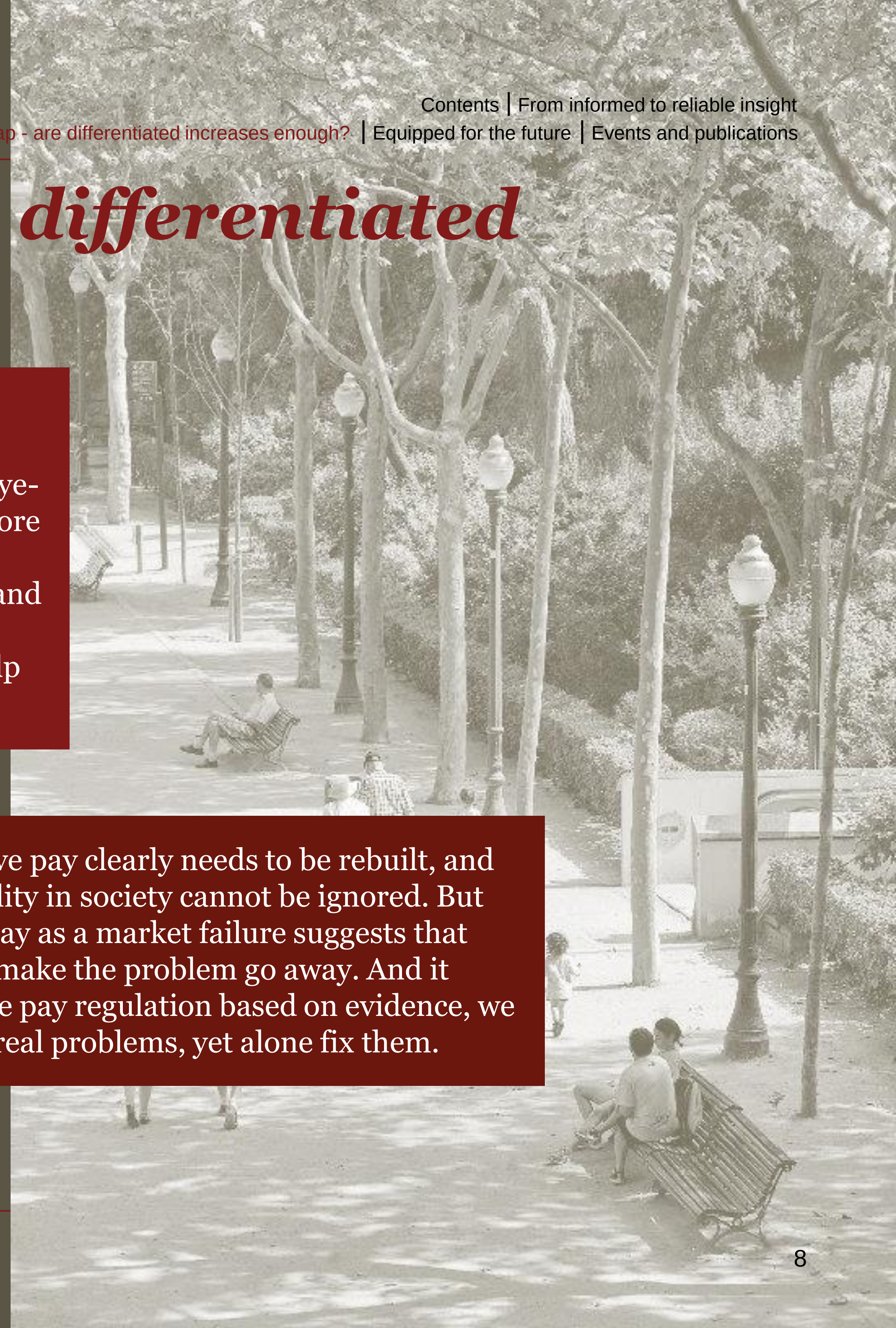
Even if a very robust and intensive process is followed by your service provider, conducting a salary survey is by no means a perfect science. It is most certainly not the only element that is taken into account when making remuneration decisions. Your reward philosophy may be significantly different to that of your competitors to provide you with a competitive edge.

Consider this example: your business strategy focuses on technology to drive business efficiencies and to increase your market penetration. You deem the information technology sector to be your primary sector when competing for talent. However, most financial services organisations have also changed their technology strategy and they are competing for the same talent. The pay mix in these organisations may be distinctly different from the information technology sector to attract the right skills and as such you have seen an increase in resignations. Can your survey provide the data required to make informed pro-active decisions?

The wage gap - are differentiated increases enough?

There will not be a single magic bullet to rebuilding trust in executive pay. Unfortunately policy makers will look for eye-catching initiatives, when, as ever, life is more complicated. The reality is that the current system provides the means for companies and shareholders to find the answers for themselves. Further regulation may not help and could even be counterproductive.

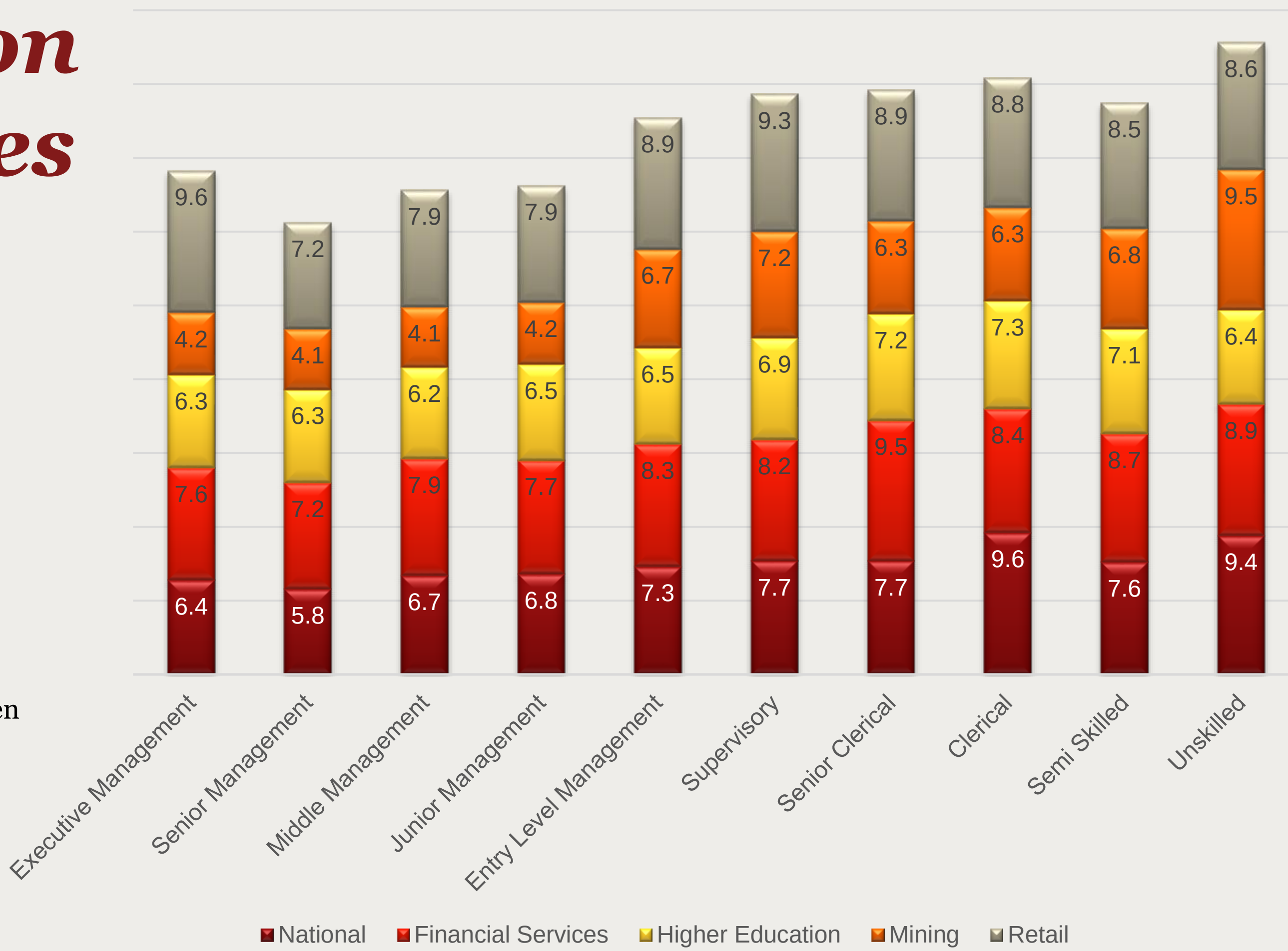
Public trust in executive pay clearly needs to be rebuilt, and the problem of inequality in society cannot be ignored. But presenting executive pay as a market failure suggests that fixing the market will make the problem go away. And it won't. If we don't make pay regulation based on evidence, we won't understand the real problems, yet alone fix them.



Actual year on year increases by Industry Sector

There are compelling arguments to remain sensitive to income equality and companies around the world and in South Africa should focus on practical measures to address inequality in an economically sustainable way. Several leading companies have followed the principles articulated in PwC's 2014 edition on this topic and have been exercising caution in their approach to executive pay. They have been doing their best to increase the minimum level of pay for junior workers.

This is evident from the graphical illustration which indicates that in many industry sectors and, in particular in the mining sector, actual increase percentages for semi-skilled and unskilled workers have been significantly higher than for executives over the past 12 months. The question is whether this is enough to address inequalities in South Africa? The concept of the living wage and the consideration of an appropriate mechanism to establish the principles and practice of determining this pay level are emerging as a compelling solution to address junior worker pay.

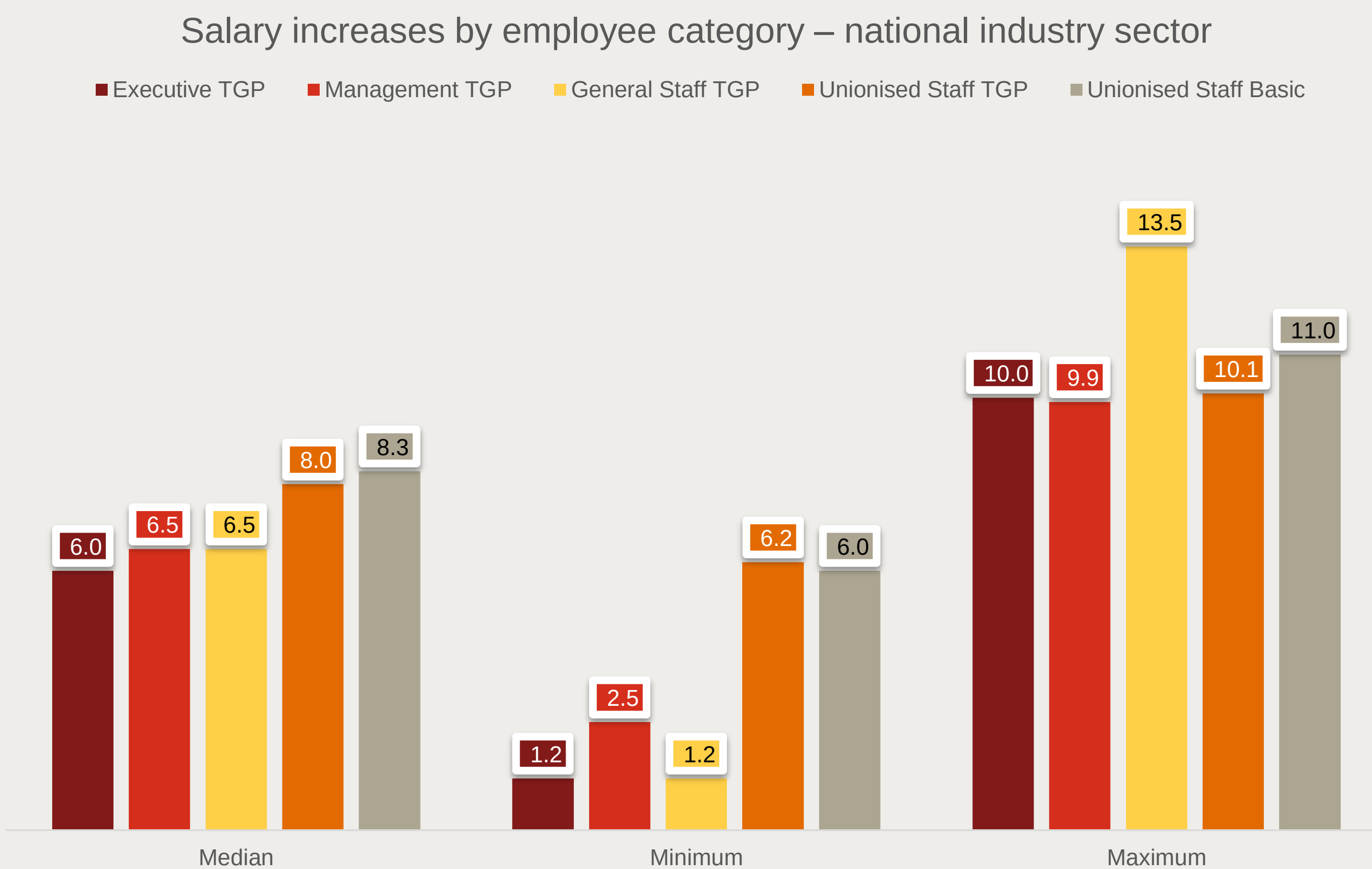


Our opinion remains that continued restraint in the approach to executive pay and focussing on the financial wellness of junior workers are crucial in achieving the inequality objectives set by South African companies.

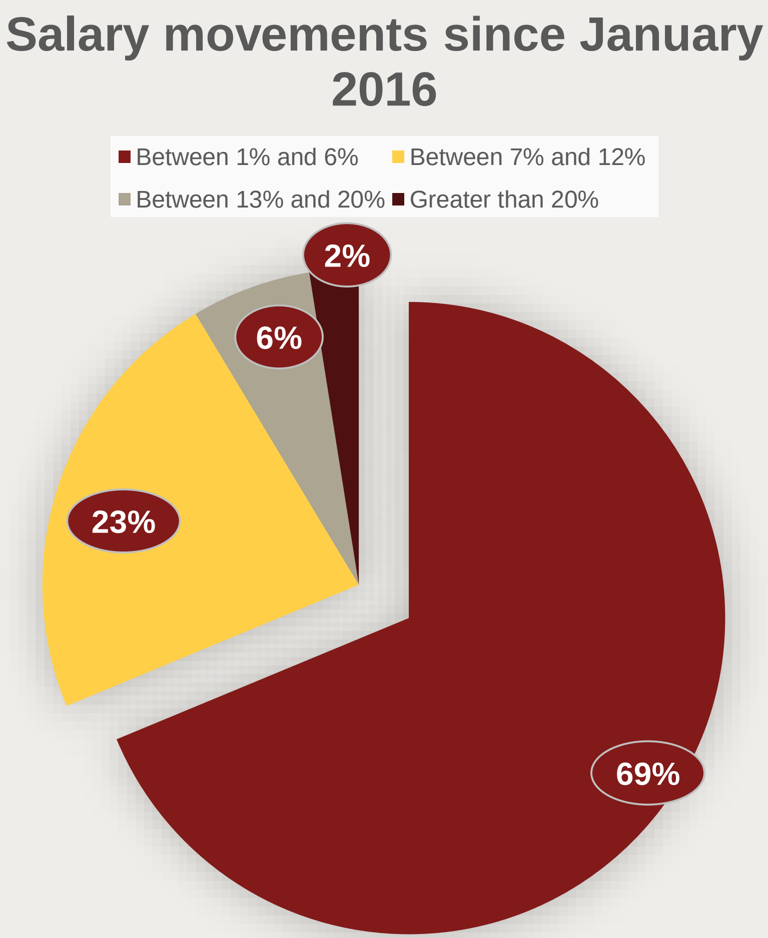
Predicted salary increases

Approximately 20% of REMchannel® participants have reported that zero percentage increases will be granted in the next 12 months to executives and managerial staff. These companies have been excluded from the graphical illustration below. 22% have reported increases of less than 4% across all staff categories. This is indicative of the cost cutting initiatives in many industry sectors due to the current economic climate.

In our latest research, we started with the idea that organisations are becoming more data-driven and we asked executives how this is changing decision-making. We specifically asked about two core dimensions of decisions: speed and sophistication. Speed is how quickly an organisation moves – the time it takes to answer a question, make a decision, take action, and measure the value created as a result. Sophistication is the breadth and accuracy of analytics used to inform decisions, which these days may not mean the lengthy cycles some executives have been used to, due to progress with data platforms and the ability to generate meaningful insights from them.



Impact of cost cutting on increases



Continued pressure on business results and margins has necessitated smaller increases to contain the cost of labour in most organisations. The impact of this can be seen in the movement of the total guaranteed package for the majority of jobs in the REMchannel® survey. The majority of the survey jobs increased between 1% and 6% since January 2016. There are however exceptions to this rule and a very small number of positions increased with more than 20% in the same corresponding period. The majority of jobs in this category are at the lower levels, for example, labourers, agricultural general workers, heavy vehicle drivers, apprentices and accounting trainees.

This is indicative of the conscious effort by organisations to increase the salary levels of junior workers more rapidly to address the wage gap in South Africa. Based on this trend we are expecting to see junior workers and especially unskilled worker increases to be higher than those of executives in the next 12 months.

In addition the minimum wage debate will also influence junior worker salaries in the coming months. Deputy President Cyril Ramaphosa presented the findings of the National Minimum Wage (NMW) report at the National Economic Development and Labour Council (Nedlac) office in Johannesburg. The report proposes a national minimum wage of R3 500 per month (R20 per hour) to be phased in over the next two to three years. The report recommends that wages in the domestic work sector should be set at 75% of the minimum wage level and at 90% in the agricultural sector, while some businesses could also apply for exceptions. In addition, Ramaphosa highlighted the progress made with strike balloting, which could help to "prevent long strikes from having a negative impact on the economy, on workers and businesses". The NMW recommendations still need to be affirmed by legislation, but given that the proposed level is at the lower end of the scale that was talked about, they are likely to be positively received by credit ratings agencies.

That being said, organised labour is not satisfied with the level at which NMW proposed the minimum wage and has indicated that R5 700 per month should be implemented.

Equipped for the future

Forces driving change

Imagine a marketplace in which service standards are defined by the digital experience, brand value is determined by chattering on social media, customers know more than salespeople and are readier than ever to switch if they believe they can get something better elsewhere. This isn't some distant future your business can worry about later, but the market realities that you're already beginning to face. A much more urgent and radical organisational overhaul than many businesses are undertaking is likely to be needed to reflect these rapid shifts in the market.

New organisational blueprint

Building on our experience of working with businesses across a range of different markets, we believe there are five main building blocks for the new organisational paradigm:

Inspirational: The brands people want to be associated with make lives better

The starting point for organisational regeneration is a clear vision of what you're in business to achieve and how this contributes to society and the economy. This renewed sense of purpose can help to rebuild trust, restore pride and motivation within your workforce, and strengthen its ability to compete for customers and talent. Making the vision real requires strong leadership and firm control of the levers that shape culture and behaviour on the ground.

Fit for the future: Defining the organisational capabilities needed to compete

The businesses out in front recognise the need for new and sharper capabilities as they seek to keep pace with rapidly changing customer expectations. Key differentiators include the ability to sense digital signals, anticipate demands and respond instantaneously. A more fragmented marketplace also requires sharper segmentation, the ability to build relationships across different channels and generations, and the more diverse workforce needed to reflect demographic and social changes. Underlying requirements include defining more relevant analytics for decision making, more effective information security, social media savvy public relations and the ability to work with many different types of business partners.

Decisive: Big can also be fast

Decision-making processes are changing. One of the key challenges is how to become comfortable with a complex multi-speed model in which decisions that affect risk, the brand and the financials will be more centralised, while 'close to customer' decisions become faster and more autonomous. As your business seeks to bring innovations to market quicker, it's especially important to move away from lengthy business planning to a faster and more flexible, data-led iterative approach to decision making. Businesses would launch, test, take on feedback and respond in a model similar to that used by many of today's telecoms and technology companies.

It's important to identify the pivotal jobs within the new market realities. Examples might be analytical or client-facing roles. You can then make sure that people in these positions have all the training and technological support to maximise the value they deliver.

The right people for a new market place

Agile: Maximising freedom of manoeuvre

The need for flexibility, customer focus and more efficient use of resources is going to require greater mobility, adaptability and collaboration. Multifunctional teams would be quickly assembled to meet specific customer needs and capitalise on emerging opportunities, then swiftly disassembled ready to move on to the next opening as part of an agile and cost-effective 'plug and play' model. A new and more realistic 'bargain' with staff is also going to be needed to bring pay rates into line with today's more modest returns.

The right people: Bringing skill sets and rewards into line with the new marketplace

The emerging marketplace demands people who are comfortable with change. They will use their networked capabilities and new decision-making tools to accumulate knowledge much quicker than previous generations and move easily between projects and roles. Levels of pay may reflect how value was created in the past, not how it is now. Interactions now cover a number of different channels, so it's harder to allocate value to any one in particular, for example. Value creation is also less dependent on individual expertise and more on the strength of the organisation's brand, relationships and access to customer data. As a result, simply paying the going rate will give way to a mark-to-value approach, in which staff are rewarded in line with their contribution to customer understanding, sustaining relationships and other sources of long-term value creation.

As analytical, cyber security and other digital skills come to the fore, many organisations are beginning to bring in more people from outside their industry sector. Examples include recruiting people from digital start-ups, internet providers or those with intelligence backgrounds. As many businesses move back to basics, it may not be necessary to hire graduates from the traditional preferred universities. There may be desirable candidates from other universities or backgrounds who may actually prove more attuned and adaptable to the needs in hand than their elite counterparts. Today, we see a number of companies developing closer links with academic institutions to influence the design of university curricula. Looking ahead, the partnership between education and business is likely to include the development of more vocational and continuous learning programmes as staff look to adapt their skills to changing demands.

Remotivating your people

Money has been the main driver for recruitment, retention and motivation within the companies. In many ways, it also has been a surrogate for engagement. But there are no longer the returns to sustain this. As money ceases to be the main driver of recruitment and retention, it will be important to develop a new employee value proposition that matches financial and non-financial rewards. This includes offering broader career paths and greater workplace flexibility. As workforces become more mobile, organisations are looking at how to make retention strategies more pragmatic by focusing more closely on the talent they most want and can realistically expect to stay. Others can be kept close as part of an 'alumni network', which can project your culture in the marketplace and provide a source of talent for future recruitment, once they have gained experience elsewhere.

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

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

Thought leadership:

- Private Equity and Responsible Investment Survey
- 2016 Family Business Survey
- Paying Taxes 2017

Surveys:

- Non Executive Director's Survey: January 2017
- Salary and Wage Movement Survey: April 2017
- Executive Director's Remuneration Survey: July 2017
- Employee Benefits Guide: December 2017

Research publications:

- Long term incentive scheme trends: 1 December 2016

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