



HR Quarterly 4th Edition



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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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People and organisation news

Dear Client

We've had an exciting year of continuing to bring talent and leadership solutions to clients across the globe, using innovative approaches to deliver the best of what we have to offer across the talent lifecycle. In our previous edition we focused on upskilling in a digital world and the concept of new world, new skills. In the coming months we will continue to provide our clients with thought leadership on this topic to assist with defining the transformation plan and preparing your workforce for the future.

Executives across the globe increasingly worry about the impact that their companies, strategies and activities will have on the environment, communities and their own employees. While it is important to focus on the future, it is also important to consider the reward and HR challenges created by legislative changes and an economy that is not growing sufficiently to create wealth for shareholders and that hampers job creation. Our highly experienced specialists and professionals are able to provide our clients with insight, solutions and assistance to navigate some of these highly complex issues on a continuous basis. Please keep an eye out for the thought leadership publications listed in this edition for valuable insights and trends in these areas.

At this time we would like to thank all our clients for your continued support and giving us an opportunity to add value to your organisations. We wish you and your loved ones a very blessed and safe festive season and hopefully a welcome break from the highly stressed environment that most of us operate in during the year. Please note that our offices close on 13 December 2019 and reopen on 6 January 2020.

We hope that you enjoy the fourth and final edition of the 2019 HR Quarterly. The first 2020 edition of the journal will appear in early March next year. In this edition we will be exploring the effects of the high stress levels of employees and the cost implications to organisations.

Should you require more information on any of the articles or guidance in terms of best practice, please do not hesitate to contact us.

The People and Organisation Team



People in deals

Article written by Chris de Waal, People and Organisation

The talent aspects of Mergers and Acquisitions (M&A) have long presented challenges for dealmakers, but they can also be a critical part of an M&A strategy. At the same time, dealmakers are under increasing pressure to deliver more value from each deal they do.

Increased disruption, industry convergence, technological change and the need to shift to new business models to stay competitive mean that value creation in deals has never been more important. We surveyed over 600 global corporate executives to uncover how they create value through M&A. Those who genuinely prioritise value creation early on – rather than assume it will happen as a natural consequence of the actions they take as the transaction proceeds – have a better track record of maximising value in a deal.

An effective approach to value creation in corporate transactions must be built around three core areas, as emphasised in our **Creating value beyond the deal** report.

Stay true to the strategic intent: The organisation needs to approach deals as part of a clear strategic vision and align deal activity to the long-term objectives for the business. Opportunistic deal-making can create value, but not as often.

Be clear on all the elements of a comprehensive value-creation plan – it should be a blueprint, not a checklist. Ensure a thorough and effective process for conducting the deal with the necessary diligence and rigour in the value-creation planning process across all areas of the business. Consider how each of these supports the business model, synergy delivery, operating model and technology plans.

Put culture at the heart of the deal: Keeping people and cultural aspects upfront in planning is fundamental. Wide engagement and communication of the value-creation plan will help retain and build buy-in from key personnel. Failing to plan for cultural change will significantly undermine the value created.

In this article we focus on **putting culture at the heart of the deal** in order to ensure that maximum value is derived from the transaction. Culture as a value driver is examined from a buyer's as well as a seller's perspective.

<https://www.Pwc.Com/gx/en/services/advisory/deals/deals-report.Html>

The buyer's perspective

82%

of companies that say significant value was destroyed in their latest acquisition lost more than 10% of key employees following the transaction – which is a problem when a growing number of deals are ‘asset light’ or made up of predominantly ‘people-centric’ intangibles.

What does this mean for buyers?

- You need to understand the cultural barriers to delivering value.
- Consider how you are recognising key skills, clear communication and incentivising core talent to stay engaged throughout the value-creation process.
- Analysis confirms the importance of seasoned, experienced people to generating maximum value from a deal. If your organisation lacks that experience in-house then consider seeking it out.

Investing in integration activities

Our research also highlights a clear correlation between the investment that organisations make in integration and their ability to create value:

- 93% of organisations that report significant value creation in their last deal say they invested 6% or more of their total deal value in integration.

Putting people at the heart of the deal

Respondents recognise that they should have prioritised people and culture during their last deal. A significant percentage also say that value creation was adversely affected by cultural issues hampering the realisation of value. 92% believe they could have handled communication and culture management more effectively during their last deal. 82% who say significant value was destroyed lost more than 10% of key employees post-deal. 65% of acquirers say cultural issues hampered the creation of value.

The ability to bring cultures together should be a key factor in deciding whether or not you do the deal. Savvy dealmakers identify crucial employees before an acquisition and ensure they are incentivised to remain. However, nearly half of respondents say they lost more than 10% of the staff they hoped to retain following their most recent acquisition. Tellingly, among acquirers who say their latest deal lost significant value, this figure rises to 82%.

Talent is increasingly at the forefront of deals, often tied to intellectual property and specific skills, as the technology sector has already discovered. It's important to understand these 'softer' elements in the diligence phase and develop a plan to address them once the deal is done.

Even before a transaction has been completed, smart organisations know their public statements will be scrutinised. Messages that reassure the target's talent, during those early stages, offer a head-start on dealing with cultural issues. And once the deal is signed, direct communication with employees should be a top priority. Understanding their motivations and giving them an incentive to stay is vital.

Our survey underlines this point, with 92% of respondents saying they should have communicated more effectively during the deal and 78% after the deal.

For acquisitions with significant value lost relative to purchase price, all respondents say that cultural issues hampered the realisation of value.

The seller's perspective

89%

of divestors surveyed believe they could drive more value from a sale by engaging with the management team more closely

What does this mean for sellers?

- As with acquisitions, consider how you are recognising key skills, keeping value-creating talent informed and engaged.
- Explore how you can incentivise the management team of the asset being sold to maximise value.
- Consider all aspects of your value-creation plan and embed this in a long-term strategy, underpinned by careful cultural considerations.

Culture is not just a buyer's concern

- As with acquisitions, respondents also recognise the critical role that culture and their people play in ensuring the divestment creates as much value as possible. While colleagues in the business being sold may be unsettled or concerned, keeping value-creating talent informed and engaged in the business is critical.
- 93% of divestors surveyed believe there is room for improvement in the way they engaged with and incentivised the management team of the asset being sold.

Make the most of your people

- Focusing your best people on maximising the value of a unit you are planning to sell may seem counterintuitive, but it will ensure value is not lost and prevent buyers from dropping out. Furthermore, your ability to motivate those people who are in the business being sold and transitioning them successfully to the buyer have a crucial role to play.

Sarah Moore, People in Deals Lead, PwC UK, says: 'The challenge is getting your best people to focus on the divestment – those who understand its key stakeholders as well as all aspects of the unit's operations. Make sure they're fully incentivised and those incentives will produce the highest possible returns.' While managers in the business being sold may be uncomfortable with the process, their experience will likely be coveted by potential purchasers, while their departure could jeopardise deal valuations. Engaging them in the process will be important. 'When buying a business, one of the first things an investor is going to consider is the quality of the management and who is delivering value,' says Malcolm Lloyd, Global Deals Leader, PwC. 'Management must be incentivised. Bring people with experience into the room to discuss options. Learn from what has worked and what has not to achieve the right balance of ensuring the value-creation plan is challenging, yet credible.'

Conclusion

Many organisations now rank their people as their most important asset. Whether buying or selling, recognising key skills, clear communication and incentivising core talent to stay engaged throughout the value-creation process are essential. Buying a brand but losing the people who made it so desirable or preparing an asset for sale but losing the vital people within can both destroy the value of a deal.

Our analysis confirms the importance of seasoned, experienced people to generate maximum value from a deal. Where organisations lack that experience in-house, they should seek it out.



Understanding and diagnosing culture

Every organisation has its own combination of cultural traits, symbols and norms of behaviours which they can either dial up or down, depending on their unique strategic goals, operating environment and external pressures. Our Katzenbach Center is widely recognised as a thought leader on culture and top team effectiveness. The Katzenbach Center helps clients leverage the power of their cultures and unlock team potential.

PwC's methodology focuses on predicting what actions would create the biggest impact towards achieving the desired culture. Equipping clients with this information helps them understand where to prioritise investments in order to drive change where it is needed most. It involves:

- Comprehensive exploration of the current culture
- Robust analysis of key behavioural drivers to inform prioritisation – both formal (e.g., environmental, systems, policies, capabilities etc.) and informal (e.g., behaviours, attitudes, values, etc.)
- Providing insights to track your progress across the organisation and inform current maturity relative to others
- A programme of stakeholder engagement and involvement in the process – from planning through to execution and follow-up.

PwC's robust measurement and analysis methodology helps to determine the current strengths and potential barriers in an organisation's culture, and what needs to change in order to positively develop the desired mindset and behaviours. For more information or assistance contact Maura Jarvis at maura.jarvis@pwc.com

The identification of any gaps that detract from the achievement of the vision and the strategic imperatives

Measurement of the alignment of critical teams on key behaviours

Identification of potential trade-offs between behaviours / ways of working and organisational performance

A tailored, survey-based or qualitative (interview/workshop-based) diagnostic that is benchmarkable, robust and repeatable

Recommendations on activities that will have the greatest impact



Diversity edge through inclusive recruitment

So why are so many organisations falling short on diversity and inclusion, and failing to broaden recruitment as a result? While most employers mainly blame a lack of sufficient candidates, employees point to the lingering assumptions and stereotypes so many women continue to face. There won't be substantial progress until these biases are rooted out. We explored employees' and employers' perspectives on how far organisations have come in making recruitment more inclusive and what more could be done to accelerate progress. We also look at the strategies and practices being adopted by the leading organisations and how they're gaining a decisive edge in the competition for talent as a result.

Employee and employer disconnect

If research shows that many women don't feel that recruitment is equal and inclusive, what's standing in the way? There seems to be a significant disconnect between what employers and employees see as the chief barriers to increasing recruitment of experienced women. While employers blame a lack of sufficient candidates, women point to lingering assumptions and stereotypes in the recruitment process (e.g. that female candidates will have more family demands than male candidates or that men are more committed to their careers than women). This underlines the importance of looking closely at advertising, interviews and selection processes to identify potential biases, many of which are unconscious, such as a tendency among interviewers to favour people like themselves.

Candidates want an honest picture of the employment experience and culture before making a decision on where to work. Nearly 70% of female participants working in financial services looked at the diversity of the leadership team when deciding to accept a position with their most recent employer. Yet, when financial services employers were asked about the extent to which they've incorporated diversity and inclusion within their employer brand, less than 30% say they've shared information about the diversity of their workforce and leadership team. Less than 40% communicate their diversity strategy and associated targets. Candidates are going to be deterred and look elsewhere if they don't get the answers they want, highlighting the extent to which diversity and inclusion are now key reputational issues.



Accelerating progress

Root out biases

The organisations that are most successful in attracting women and minority groups have adopted a more systematic approach to identifying and tackling the biases that impede inclusive recruitment. With women seeing gender stereotypes as the biggest barrier they face, key steps include finding ways to make interviewers more conscious of unconscious bias and its impact. A significant proportion are going further by introducing 'blind CVs', which strip out names, universities and other such potential sources of bias. Within the industry, some companies have begun to use electronic screening tools and carry out initial interviews on a pre-recorded video platform to further eliminate human biases and help ensure that skills and experiences more closely align to what they've identified as being key criteria for success. While follow-up interviews are face-to-face, the questions are structured to help increase consistency and objectivity.

What gets measured gets done

Organisations that are having the most success in broadening recruitment recognise the tangible impact that targets can make. This includes targets for gender and others forms of inclusion within recruitment and subsequent career progression, which are supported by active steps to promote their achievement. Monitoring data on the proportion of women and minority groups at each stage of the talent pipeline helps to identify the issues most in need of tackling (e.g. image, recruitment, promotion or

attrition issues). Regular tracking of progress against targets would also enable your organisation to monitor whether policies to increase diversity are having an impact and to take corrective action if not.

Manage diversity and inclusion as a reputational risk

Transparency over diversity and inclusion is important for both men and women in deciding what employer to work for. And as diversity and inclusion become increasingly crucial in determining how organisations are perceived by customers, investors and regulators, as well as talent, it's important to recognise this as a reputational risk, rather than just an HR issue. Priorities for managing the risk include gauging how your organisation is perceived on diversity and inclusion and what risks and opportunities these perceptions open up. Even if your organisation is behind the curve on diversity and inclusion now, there are opportunities to get on the front foot by acknowledging that there are issues that need to be addressed and setting out your plans for accelerating progress. Such openness and resolve can make a favourable public impression.

Cast the net wider

Employers point to an insufficient candidate pool as the biggest barrier to hiring more women. But a significant part of the pool remains untapped and underutilised. Professional women returning from career breaks are a key example, yet many employers have no returnship programme.

Accelerating progress

Use technology to broaden talent pool and strip out bias in selection

The latest artificial intelligence (AI) systems can help you to cast your talent net further and target individual candidates. Using AI to screen candidates and carry out initial interviews can also offer a more accurate match between position and candidate and cut out a lot of the unconscious biases. The potential for further deployment of these technologies is vast, with significant upside in the utilisation to achieve targets.

The way forward

You can't be one of the front-runners straight away. But your organisation can accelerate progress by adopting a more informed and active approach to diversity and inclusion. The starting point is changing the way diversity and inclusion are perceived and managed within your organisation:

- Analyse what your future workforce will look like, and diversity and inclusion's role in delivering the necessary skills and capabilities.
- Recognise diversity and inclusion as a risk and an opportunity. Business teams need to be closely involved in setting and executing strategies and monitoring performance against them.
- It's too easy to blame a lack of sufficient candidates for difficulties in recruiting women and people from minority groups. In reality, there are plenty of candidates who would be ideal for your business, but they require a more active approach in targeting and attracting them. This includes reaching out to people who may not have considered a career in your industry sector. Technology can play a key role in this.
- Communicate your approach, targets and progress to them.
- Make sure the reality in your organisation matches your claims. Get your business moving in the right direction and you'll gain an important edge in attracting key talent and delivering your business objectives as a result.



Predicted salary increases 2020

The October 2019 Salary and Wage movement survey indicates that participants continue to differentiate between executive and unionised staff increases. However, it is evident that the differential is insignificant to address the real wage gap in South Africa. The discussions around a minimum wage versus a living wage continue to be debated quite extensively across all industry sectors, and, as can be seen from media reports, executive remuneration continues to be reported on widely in the media. The tables below provides a breakdown by employee category and industry sector for salary and wage movements granted over the past 12 months as well as the anticipated increases for the next 12 months. This publication analyses salary and wage movements across various industry sectors and also provides insight into labour turnover in the market. In addition, minimum wages are analysed to provide insight into the key risk areas for many organisations. To obtain a copy of this survey please contact Lisa Tamkei at lisa.tamkei@pwc.com. Please note that terms and conditions apply.

Increases granted in the past 12 months

Industry sector	Executives	Management	General staff	Unionised staff	Average overall
Financial services	5.4%	5.8%	6.6%	6.6%	6.0%
Technical combination	5.6%	5.8%	6.2%	7.1%	6.2%
Other	5.8%	5.7%	5.9%	6.3%	5.8%
Parastatal / State-owned enterprises / Tertiary education	5.6%	6.0%	6.8%	7.2%	6.3%
Overall	5.6%	5.8%	6.3%	6.9%	6.1%

Predicted increases for the next 12 months

Industry sector	Executives	Management	General staff	Unionised staff	Average overall
Financial services	5.5%	5.7%	6.0%	6.4%	5.8%
Technical combination	5.4%	5.6%	5.9%	6.8%	6.0%
Other	5.7%	5.7%	5.7%	6.4%	5.8%
Parastatal / State-owned enterprises / Tertiary education	6.1%	6.0%	6.3%	6.8%	6.3%
Overall	5.6%	5.7%	6.0%	6.7%	5.9%

Technology news

We trust you have had the opportunity of trying our new gender reports in REMchannel. If not, look out for the option in step 3 under the 'Group reports by' dropdown menu in the job and grade reports. The new functionality can be used in conjunction with the 'fair pay barometer' which is launched when clients access the website.

In the 1st quarter of the new year, we will be releasing the latest iteration of REMchannel® with the new job matching module. This module will improve the overall experience with greater accuracy and time saving. More to follow in the next edition of the HR quarterly.

The continuous improvement of our technology offerings is a focus and will not only improve the user experience but also provide valuable data for analytics purposes.

REMchannel Suggestions

Industry	<input type="text" value="Mining"/>	Discipline	<input type="text" value="Technical"/>	Sub-Discipline	<input type="text" value="Select an Option"/>
Lower Grade	<input type="text" value="A1"/>	Upper Grade	<input type="text" value="C2"/>		

▼ Suggestions

- > MINE HELPER II - 1397
- > MINER/STOPER - 915
- > MINE HELPER III - 1226

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 or www.pwc.com

01

PwC's integrated report 2019

In this year's integrated report we're focusing on how our purpose and values are shaping our vision and strategy for the firm's future.

02

Return on experience – The critical few behaviours

Top-down culture change is hard and often ineffective. This means that in order to create lasting change in an organisation we need to find a different way of engaging our workforce and create excitement.

03

Non-executive directors' survey

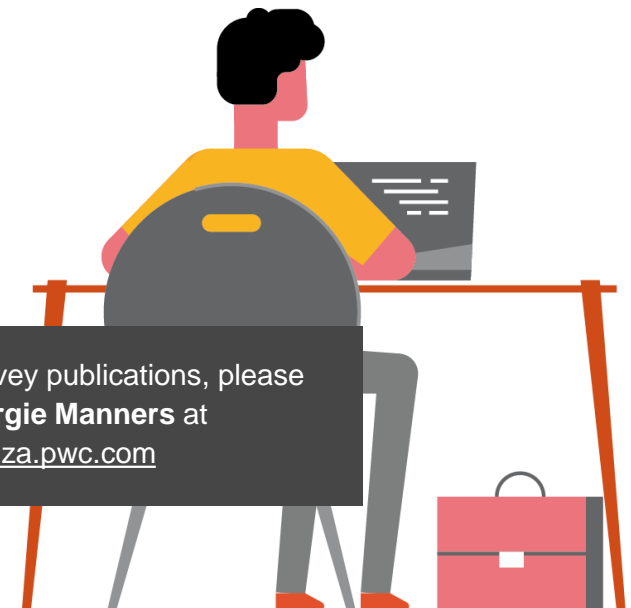
There is a strong perception among major South African institutional investors that remuneration committees are not approaching shareholder engagement properly. Fees and trends are explored in this publication.

04

Employee benefits survey

This publication provides participants with current policy and benefit information across a broad cross-section of South African organisations and delivers a best practice guide for South African organisations.

For enquiries regarding survey publications, please contact **Lisa Tamkei** or **Margie Manners** at surveys.researchservices@za.pwc.com



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