

HR Quarterly

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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 trust that you are all well, safe and adapting to the new way of working which we were all plunged into since the start of lockdown. While level 3 has reduced some of the restrictions, many of us wonder if we are heading to a longer lockdown period as the number of cases of the coronavirus continues to increase in South Africa. The question is whether the economy can withstand Government's proposal that South Africa could remain in lockdown on a risk-adjusted approach to the coronavirus which is expected to peak in September.

The devastating effect of the lack of economic activity can be seen in the press daily. We conducted two remuneration trend surveys since the start of lockdown to assess how corporate South Africa is responding to the liquidity pressures facing many organisations.

While cost cutting is a pre-requisite in the current climate it is important not to lose sight of the need to retain key and critical skills. The pandemic has changed the way most corporates work, propelling the workforce into a virtual environment. This has emphasised the need for digitisation and a renewed focus on cyber security and technology requirements. Ultimately remuneration trends will be governed by supply and demand, which is why it is crucial to ensure that organisations remain competitive and keep track of market movements. This is but one example where the retention of scarce skills will be vital to ensure that organisations can continue business as usual in these unprecedented times. For this reason, any available budget for reward and remuneration should be considered carefully to ensure maximum return on

investment and keeping up with market trends relating to remuneration for these critical skills in the coming months.

In discussions with clients it is evident that the pandemic has created a 'reset the baseline' scenario. This is especially true in cases where organisations have not considered whether their organisational structures are still fit for purpose and future sustainability. We have seen an increase in job architecture initiatives and the implementation of organisational design reviews to ensure that there is a maximum return on human capital expenditure. At the same time organisations are taking the new normal into account so that they can weather the pandemic and associated economic impact.

In cases where organisations are forced to downsize their workforce and start a section 189 process, it has been crucial to not only assess the workforce requirements quite critically but also to review outdated job descriptions and the associated job levels. This provides a fair and unbiased approach to any downsizing or resizing initiatives and will also protect the organisation from any potential legal repercussions.

We trust that this edition of the HR Quarterly will provide you with valuable information while we are navigating the rough waters that we are all facing. 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



Impact of a virtual working environment from a total reward perspective

Article written by Emily Zuccarini

Virtual working environments have been a buzz word for years now, with numerous organisations allowing employees to work from home one day, or a couple of days a week as part of their employee value proposition. However, now more than ever it is a necessity as organisations try to continue with business as usual due to COVID-19 and the ensuing lockdown that has been enforced across most of the affected countries around the world. They have been forced to move all or some of their employees into a virtual working environment, but how many have catered for their employees to work full time from home? This situation will, for many organisations, highlight areas such as technology, processes, structures and policies that urgently need to be reviewed to continue to be able to work in such an environment.

There are several considerations to be considered when moving to a virtual working environment:

1. Nature of business and jobs

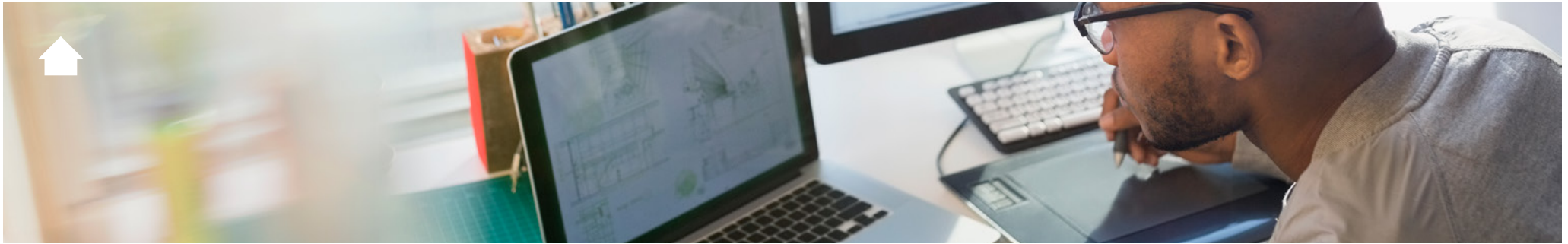
Of course, the first element to consider is does it make sense to create a virtual environment for all areas of your organisation. It is impossible for co-located teams within industries such as mining, manufacturing, FMCG, health etc. to operate virtually due to the nature and interdependence of the tasks performed. This, of course, could change going forward when artificial intelligence and technology advances further for repetitive tasks, but for the time being and during this pandemic, it is not possible. Uncollated teams such as employees with specialist skills and support staff may, in most cases, be set up in a virtual office.

2. Personality

Personality comprises psychological characteristics that create and guide behaviour which affects employees' needs and operational effectiveness. If an employee has a strong need for affiliation, working in an isolated virtual environment will be counter-productive. Therefore it is more important than ever that managers understand their employees and are sympathetic to their individual needs. As a result, organisations must ensure that their managers possess the correct skills and are given the correct tools to effectively manage employees who work virtually. Trust between a manager and employee is a key element that is required for a virtual working environment to work. The manager must trust the employee to get their work done, micro-managing is almost impossible, and the employee must trust that the manager has faith and believes that they are willing and able to get their work done. Emotional intelligence is critical both from the employee perspective – self-awareness, self-regulation, motivation – and from the employer perspective – empathy and social skills (*Daniel Goleman).

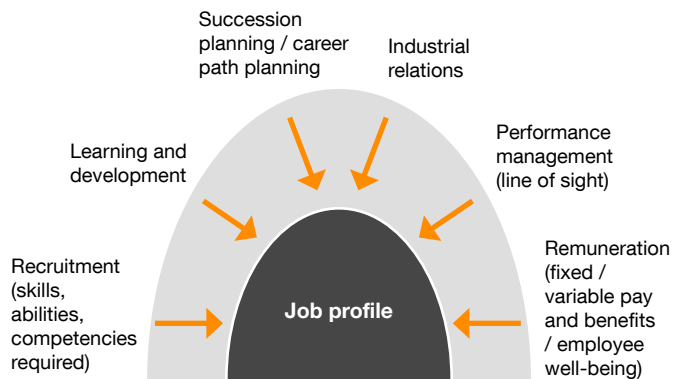
3. Current technology and systems infrastructure

For employees to be empowered and able to work securely and productively from a virtual office the organisation must ensure they have user-friendly, reliable, secure technology and systems in place. A requirement is a good, stable fibre line or 3g connection as well as VPN (virtual private network). One of the biggest frustrations of working in a virtual environment during



load shedding is that connectivity is a big issue. As soon as the power goes off, if one does not have a generator or UPS all connectivity including 3g (in some areas) goes down. Unfortunately, the current forced virtual working environment situation will very quickly highlight the systems and processes that need to be reviewed within an organisation.

Based on the considerations above, it is evident that the following areas of human resources will be extremely important and, in some cases, may need to be reviewed to take into account the new way of working and, from a manager's perspective, new way of managing employees.



Job profiles/descriptions are of fundamental importance, as they serve as the grounding of all human resource-related functions such as recruitment, learning and development, succession/career planning, industrial relations and, of extreme importance in a virtual environment, performance management and the link to remuneration.

It is a given that the employee and their manager must understand the following to function successfully in a virtual working environment:

- What is expected of the job, and what the job requirements and key performance areas are;
- How the individual's skills, abilities and competencies link to their job;
- What online assistance or programs are available to assist with the development of new skills;
- What requirements must be met for vertical progression/promotion within the organisation;
- What are the employee's and employer's rights in terms of their working relationship and the requirements from both sides to fulfil the job expectations;
- What are the individual employee's performance requirements, is there line of sight, how is the employee's performance measured;

- How is the employee's remuneration linked to their performance, what benefits are provided to assist the employee with working in a virtual working environment?

When recruiting employees for a position within a virtual working environment personality and attitude must be measured to ensure that they will be suited to work in such an environment. Recruitment is no longer just about culture fit; it is about working environment fit. Different generations and cultures of employees will have different requirements. The challenge therefore is to ensure that your organisational structure is flexible enough to cater for the different working environment requirements. The age-old saying that attitude is important while aptitude can be taught is an important consideration during the recruitment phase, and as a result, even more emphasis should be placed on the use of psychometric testing. It is therefore key that the organisation's job profiles specify the behavioural competency required to fulfil each role.

Online training has been a growing field for years now. The number of internal and external online courses as well as long-distance learning platforms continues to grow. The important factors here are to ensure that all training available is current and relevant, that there are different types of courses available to suit the different needs of the employees and that training focuses both on core skills (technical and leadership competencies) and soft skills (behavioural competencies).



Succession planning and career path planning is very likely to change as more and more organisations move to a virtual working environment due to employees and teams having to manage themselves. The traditional hierarchical organisational structure will move to a more flexible, flatter structure, which will impact the split between management and specialist career streams. The focus will be on job enrichment and enlargement rather than an increase in power and authority. This may in turn have an impact on the job evaluation systems that are currently available with regard to the traditional management of staff and impact thereof.

The linkages between industrial relations, job profiles, job evaluation, performance management and reward are of extreme importance. As we all know, equal pay for equal work has been in place for years now and it has highlighted the need for organisations to review and implement proper job profiles, as this is the crux of ensuring that defensible mechanisms are in place to justify reasons why employees are paid differently for the same job. We, as PwC Research Services, have seen an increase in the need for formal job evaluations to be conducted. In addition, performance management systems are being, and have been, reviewed to ensure that the link between performance and reward can be defended.

However, the biggest challenge, but of upmost importance, in a virtual environment is the management of performance. The key emphasis is that performance should focus on output not input. The days of employees working from 8 until 5 at their desk are no longer applicable in a virtual environment: the emphasis will be on defined outputs and outcomes expected as per the employee's job profile. The challenge however is how do you measure intangible key performance areas for positions such as debtor's clerks, who do not have measurable output? The easiest and most logical way to measure the performance is to use the balanced scorecard approach, as not only will it cater for the group, department, team and individual outputs, it will ensure line of sight in terms of how each individual's role impacts the success of the organisation as a whole and thus serves as motivation to enhance productivity output.

Finally, total reward considerations with regard to the impact of the virtual working environment:

- Pay as you go – paying employees on an hourly basis instead of monthly basis;
- More emphasis on variable pay than fixed pay – emphasis is more on pay for performance;
- Changing employee well-being programmes to suit a virtual environment – i.e. provision of online consultations with medical professionals such as psychologists, online exercise programmes such as yoga sessions via zoom.

The unfortunate truth is that COVID-19 has forced organisations to change how they work before they have been able to put proper processes in place. The impact on business and the economy will be felt for a long time. Many, if not all, organisations will not be able to implement annual salary increases or performance bonus payments this year or may be deferring increases to assess the impact of lockdown on the economy. However, given the present situation and the high unemployment rate in South Africa, it is more important that employees feel secure during this disruptive period. The well-being of staff and the avoidance of cost cuts in the form of retrenchments is of high priority. This is the time to make the virtual environment work for your organisation.



Benchmarking in unprecedented times

Article written by Rene Richter

The year 1918 heralded the advent of the Spanish flu, which lasted about 15 months. This influenza virus infected 500 million people, about one third of the world's population at the time. Then came the roaring 20s. This period saw the large-scale advancement and utilisation of automobiles, telephones, motion pictures, radio, and electrical appliances being introduced to the lives of millions of people globally. Air travel gained traction and many countries saw quick mechanical and financial progress. This led to increased customer demand in what was deemed to be a new way of life. Advertising increased spurred on by consumer demand, and economic growth ensued.

Move the dial forward to 2009 – another pandemic, although less talked about, occurred. The 2009 swine flu pandemic was an influenza pandemic that lasted for about 19 months, from January 2009 to August 2010. There are indications in some studies that the actual number of cases including mild and asymptomatic cases could be somewhere between 700 million to 1.4 billion people, affecting between 11 and 21% of the global population at the time. Of course, this coincided with the financial meltdown, which further influenced the global economy – leading to negative growth internationally.

And here we are today facing the COVID-19 pandemic. A global economic meltdown is not an understatement. So, what does this have to do with benchmarking? The reality is that after the downturn there will be level of normalisation and renewed growth, albeit in a very different world. This means that the operating models of many organisations will have to adapt to the change, and very quickly. Future strategies are being crafted as

we speak, workforce capabilities are being analysed and upskilling is taking place at a pace never imagined. At the same time organisational structures are being adapted to be fit for purpose in the future. The new world of work, once talked about as if it were far into the future, is now a reality, and it will influence the type of skills required for growth and prosperity. As these organisational structures are reviewed there are certain basic principles that must be adopted to ensure that your workforce meets your future needs. This will require that role profiling be revisited, and competencies and skills will need to be clearly defined to facilitate reskilling of your workforce. Most organisations already have outdated role profiles, and the impact of COVID-19 is seen as the perfect opportunity to review not only the operating model but the fundamental structures that underpin reward management.

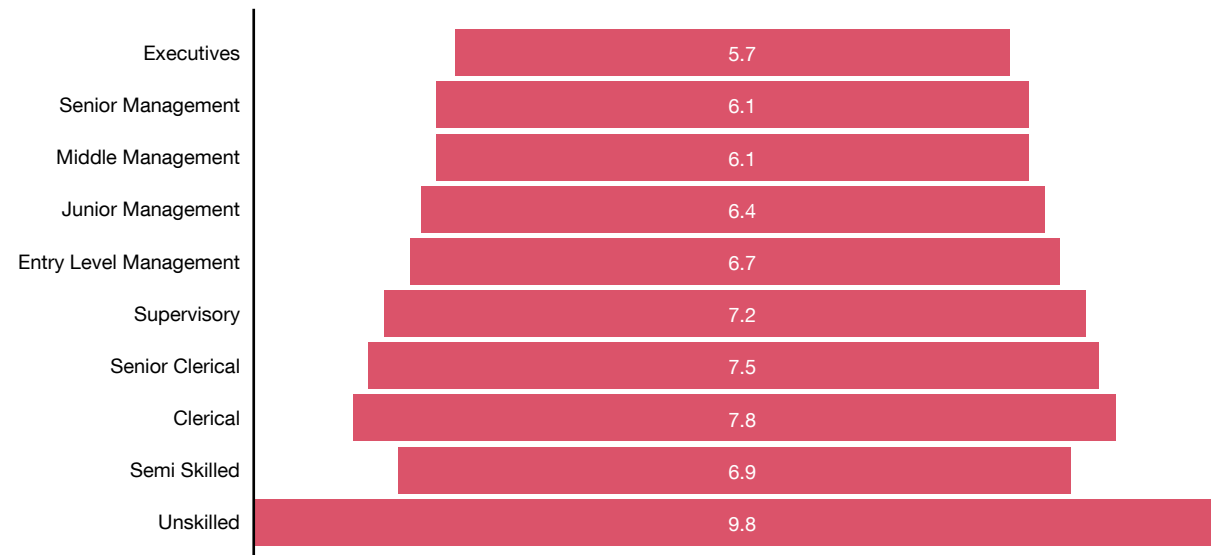
Of course, understanding the level or grading within the new structure is crucial to align remuneration to achieve strategic long-term objectives. At the same time, your employee value proposition must be realigned to attract and retain these skills. While they may be different in the various sectors, one thing is certain: technology will influence each of the roles in our workforce in various ways.

The question is whether you understand the impact on your remuneration structures and whether you are preparing for the potential upswing post COVID-19. How will your reward philosophy be adapted to address the new norm, if at all?



In a recent COVID-19 survey the participants responded to questions relating directly to cost-saving mechanisms. In this study covering more than 90 organisations, 31.9% have deferred or frozen salary increases to preserve jobs, while 31.9% are unsure whether they will increase salaries or not. 19% indicated that the percentage increase will be in line with budgeted increases and only 7.4% indicated that they will be granting reduced increases. Bearing in mind that prior to lockdown many companies reviewed their salaries during the last quarter of 2019 and the first quarter of 2020 and granted increases of between 5% and 6%, see figure 1. This means that market data has indeed probably moved since your last increase. In addition, key and scarce skills will continue to attract a premium as pay is driven by supply and demand.

**Figure 1: Actual incumbent on incumbent pay adjustments
1 June 2019 to 30 June 2020**



Remuneration decision making cannot take place in a vacuum. Losing track of what is happening in the market could become a very costly exercise. Considering that losing a key skill could cost your organisation between two and three times an annual guaranteed package it would most certainly be of the utmost importance to understand what your competitors are doing in the remuneration space. While all organisations are looking to reduce costs, not benchmarking in these unprecedented

times could be a very expensive exercise indeed. Once you start lagging the market and your turnover increases it may cost far more to catch up to the market than originally envisaged. This will of course be further exacerbated by cost-cutting initiatives such as freezing increases. We will be monitoring the movement of data in the REMchannel® online salary survey very closely in the coming months to establish which skills are attracting premiums.



Leave pay – the potential time bomb on your balance sheet

You have seen this headline before in one of our HR Quarterly publications, but it is now more topical than ever!

In the third edition of the 2013 HR Quarterly we published an article indicating the costs of benefits for South African organisations. At the time we reported on the leave liabilities of organisations and the significant impact that it would have on the balance sheet of most organisations. This dilemma has now become one of the biggest headaches of most CFOs due to the impact of COVID-19 and in particular the liquidity and solvency issues that are facing South African companies.

The leave liability remains one of the biggest costs reflected on the balance sheet. In the 2019 South African Employee Benefits survey organisations reported leave ranging from 15 to 30 days per annum. The minimum, average and maximum leave granted by employee level is indicated in the table below and interestingly this does not show a major deviation from the leave day entitlement reported in 2013.

Employee level	Number of working days per annum		
	Minimum	Average	Maximum
Top management / executives	15	22.7	30
Senior management	15	21.2	30
Professionally qualified and experienced specialists	15	20.4	26
Skilled technical and academically qualified employees	15	19.3	25
Semi-skilled and discretionary decision-making	15	18.9	25
Unskilled and defined decision-making	15	18.4	24
Expatriates	17	21.6	25
Contractual staff	15	16.3	24



An extract from the REMchannel® online salary survey database indicates that certain industry sectors have historically been far more generous in terms of the annual leave entitlement benefit. In addition, employees could accumulate leave, which means that the organisation must make provision for the additional leave payouts. Right now, most companies are trying to reduce their liability in terms of the accumulated leave and have put additional controls in place to manage this balance sheet liability. Employees have also been strongly encouraged to take any excess leave during the lockdown period in most organisations. Restrictions have been placed on the duration that the accumulated leave may be carried over as well as the automatic payout of any leave days over and above a specified maximum.

60% of the participating companies in the Employee Benefits survey also reported that additional leave is granted based on the years of service of employees. 46% of companies in the financial services sector grant additional leave based on tenure, while 61% in the technical sector also extend this benefit to employees.

On average the mining industry sector grants 26 days leave per annum at all employee levels. Based on the average remuneration data and a sample of 337 000 employees during 2013 the average cost for the mining industry sector on the balance sheet was approximately R8.5bn per annum. Even though the REMchannel® mining industry sector sample has reduced by approximately 18% due to job losses and other factors as at end May 2020, the cost has increased to a staggering R10.9 bn. This cost does not factor in historical leave, which may have been accumulated during the period of employment. Paterson A, B and C bands account for 75% of the liability in 2020 compared to 70% during 2013. Paterson D and E bands account for 24% of the liability compared to 2013, while Paterson F bands still account for only 1% of the liability.

On a national all industry sector basis, the REMchannel® survey consists of just over a million data points. Using the same average number of days leave it is calculated that the leave liability for the more than 550 participants is in the region of R40 to 50bn as at end May 2020. Paterson A, B and C bands account for 58% of the liability, followed

by 41% at the Paterson D and E bands. Paterson F bands account for 1% of the liability. We believe that many organisations will be reviewing leave policies in the coming months to reduce the liability on the balance sheet for future sustainability.

To obtain a copy of the 2019 Employee Benefits Guide please contact Lisa Tamkei at lisa.tamkei@pwc.com or Margie Manners at margie.manners@pwc.com. Please note that terms and conditions apply, and a copy of the survey will be available only to organisations that commit to participating in the next scheduled survey in 2022.



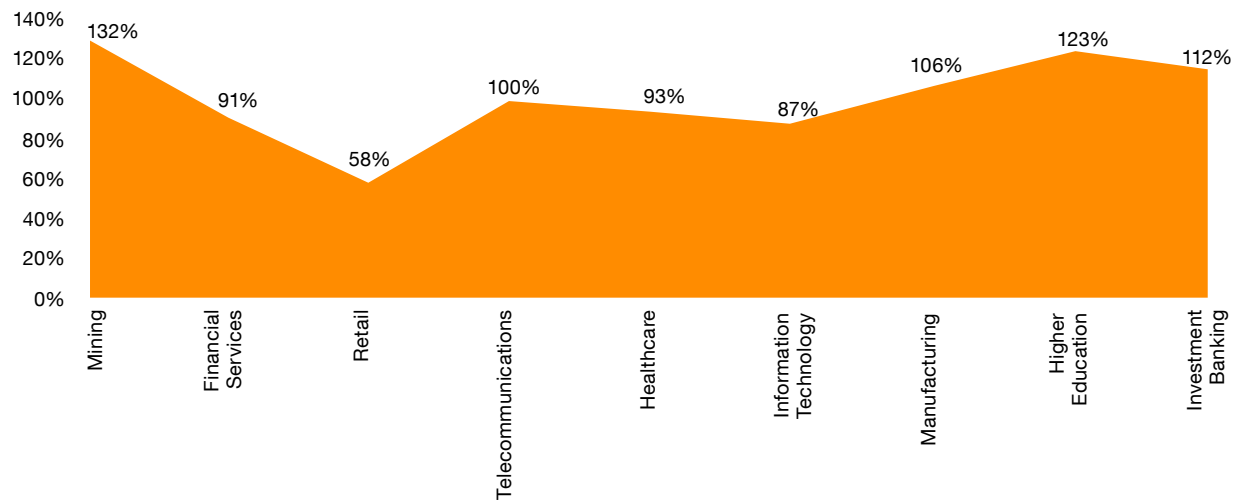
Managing perceptions about pay

More often than not there are certain perceptions about pay in various industry sectors. For example, the financial services sector has for many years been deemed to be a premium payer from a guaranteed pay perspective. Although this may have been true many years ago, it is certainly no longer the case. The pay mix as defined in the reward philosophy and the market anchor point varies between organisations and often contributes to some industry sectors being positioned at a lower or higher quartile than others.

From the graphical illustration below (extracted from REMchannel® as at 3 July 2020) it is evident that there are significant variances in remuneration between industry sectors for grades A1 to C5. The most significant guaranteed package deviation is in the retail sector, but it should be noted that most of the sales staff at these levels will qualify for commission scheme payments based on sales generated and this will be payable on a monthly basis. The full impact of COVID-19 on the retail sector will be seen only in the coming months and will affect the

ability of sales staff to maintain their income levels. The mining industry sector employees at these levels remain significantly ahead of the national all industry sector, and the comparative ratio has increased by on average 15 percentage points since 2013. This may be attributed to the fact that the mining industry sector has granted higher than inflationary adjustments at these levels over the past seven years. This will have a major impact on profitability in these unprecedented times.

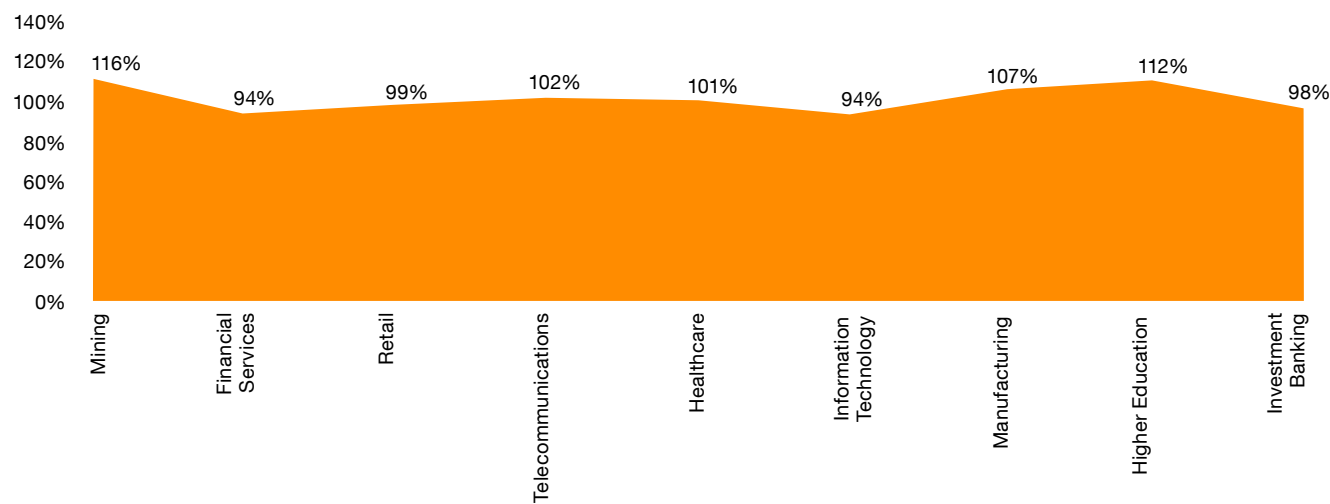
Figure 2: Median Total Guaranteed Package – Grade A1 to C5 industry differentials compared to National All Industry Sector





At the more senior levels in these industry sectors the variances are less widely dispersed, as can be seen from the graphical illustration below. It is however evident that the premium paid in mining and higher education is as prevalent at the higher grades as it is at the lower grades in these sectors.

Figure 3: Median Total Guaranteed Package – Grade D1 to F5 and higher industry differentials compared to National All Industry Sector



The trends may also be attributed to the supply and demand of skills and in particular technical skills, in the mining industry sector. The major challenges faced by reward professionals are that line management does not necessarily understand the differences in the various pay philosophies and how these are applied in the market. To manage payroll costs effectively and still attract and retain the best high-performing talent it is imperative that reward educational programmes for line management are conducted on a regular basis. The full employee value proposition of each organisation must also be communicated to all staff regularly. Understanding the value of benefits and the reward environment from a total reward perspective increases employee engagement, and ultimately retention of skills.



Technology news

We are continuously striving to enhance the user experience. For this reason, we have designed and released a new report in REMprofile® called a Consolidated Profile Report. The report provides users with the functionality to list all profiled jobs in a flat file which can be used to import it into other systems. In addition, users will be able to perform consistency checks by assessing each of the profile jobs with each other. This report provides a holistic overview of all the job profiles created by various users in an easy to use

format. The results can also be distributed to various line managers for validation discussions to finalise the profiles. Once this has been concluded the profiles can be signed off and job grading can commence based on accurate profiles containing not only a job description but all other factors such as KPAs and KPIs. The latter can then be used to draw up performance contracts, and the associated competency framework will ensure that talent can be managed and skilled effectively to create a high-performance environment.

Job Title	Profile Status	Template Job Industry	Template Job Discipline	Job Sub-Discipline	Template Job Title	Template Job Code	Local Market Title	Alternate Title	Paterson Grade	Typically Reports To
Human Resources Administrator	Approved	Generic	Human Resources	General Human Resources	HUMAN RESOURCES CONSULTANT I	192	Personnel Officer, Human Resources Generalist	Human Resources Generalist C1		Human Resources Manager
Company Secretary	Approved	Generic	Support Services	Company Secretarial	COMPANY SECRETARY I	353	Company Secretary		D2	Company Secretary II, Finance
Admin officer	Approved	Generic	Support Services	Administration	ADMINISTRATION OFFICER II	439	Intermediate Clerk	Intermediate Clerk	B4	Administration Officer IV, A
Procurement Officer	Approved	Generic	Support Services	Buying / Procurement	BUYER II	1033	Junior Buyer	Junior Buyer	C5	Buyer III
Assistant Buyer	Approved	Retail	Support Services	Buying / Procurement	RETAIL FASHION BUYER I	1233	Junior Fashion Buyer	Junior Fashion Buyer	C3	Retail Fashion Buyer II
Business Development Director	Approved	Generic	Support Services	Executives	FUNCTIONAL DIVISION EXECUTIVE II	1232	Business Unit/General Manager Medium Organ	Business Unit/General Manager Medium Organ	E5	Chief Executive Officer II, III

REMeasure® has also upgraded its reporting mechanisms, and users can expect a performance increase in the generation of reports, which will speed up

the management of job evaluation. This will however be influenced by external factors such as system bandwidth, number of concurrent users and the volume of data being processed.



Executive Directors' Survey (July)

An annual survey published by PwC covering trends pertaining to governance and executive remuneration.



Salary and Wage Movement Survey (October)

A bi-annual survey published by PwC Research Services (Pty) Ltd providing informed trends on annual salary and wage movements.



Short-Term Incentive Survey (December)

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.



Upskilling: the secret weapon in uncertain times

As South Africa eases national lockdown regulations, many organisations are opening their doors following months of restrictions. As they do so, they're finding that some of the skills required pre-COVID-19 are no longer relevant in a disrupted world.

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



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