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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

Since the COVID-19 outbreak was declared a pandemic by the World Health Organisation, it has had a huge impact on people's lives, families and communities. We scour the internet for updated statistics every day to assess the status and impact of the virus globally.

As we enter the lockdown period in South Africa, many of us cannot help but wonder how this is going to impact the way we work, interact with colleagues and suppliers and what effect this will have on our already weak economic climate. In addition, we are concerned about our loved ones, fearing that we may become just another statistic. The impact of COVID-19 and current and likely preventative measures are causing businesses around the world concerns about their workforces, supply chains and off-shored and outsourced services. Every business, industry sector and market is impacted differently.

As the international response continues to develop, we know that organisations are facing several potentially significant challenges to which they need to respond swiftly. We are working closely with organisations globally to help them in preparing and responding, sharing our experience of having worked with companies, governments, regulators, NGOs and international organisations around the world to respond to some of the most high-profile outbreaks (including Ebola, MERS, SARS and bird flu).

As always, remuneration and benefits are in the spotlight when we are faced with a crisis of this magnitude. Already we are seeing executives globally taking pay cuts to lessen the impact on their organisations, and this will surely rebalance some of the inequities in our society, but will it be enough to weather the storm?

We have provided several articles in this edition of the HR Quarterly dealing with some of the issues faced by organisations globally. In addition, we have published some of the statistics from our most recent COVID-19 survey providing some insight into the strategic and operational actions that our clients are taking in response to the impact of the virus.

We trust that this edition will provide you with valuable information while we are navigating the rough waters that we are all facing. Most importantly, we need to adhere to the regulations as outlined by the World Health Organisation and our president. You need to look after yourselves and your employees if we are going to create a new and better world of work in the future.

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

Responding to the potential business impacts of COVID-19

Our Global Crisis Centre is currently working with a range of organisations across industries. Key concerns that are emerging include:

Crisis planning

From our experience, a strongly developed crisis response capability is required to ensure the efficient management of incidents in order to minimise the associated negative impacts, meet government priorities around maintenance and confidence, and ensure the continued delivery of critical national infrastructure. Many organisations have these plans in place for the workplace and supply chain, but COVID-19 has already unveiled flaws in some. Given the unknown variables surrounding the outbreak, it is important to review crisis and business continuity plans, develop different scenarios and put them to the test.

Effective communication

We are already starting to see mixed messaging on preventing the spread of the virus via the media and negativity across the general public towards others who are wrongly believed to have contracted the virus becoming regular news items. Proactive communication for all stakeholder groups, based on factual information, is essential to manage public perception of the outbreak, minimise misinformation and associated panic, and reduce the detrimental impact on the economy and individuals.

Workforce

While the priority remains human welfare, we are hearing about other employee challenges. Examples include establishing the tax position of people who are moving between countries on an emergency basis, through to companies having to plan on putting production lines on pause due to supply chain issues, with the associated potential impact of asking employees to temporarily stop work.

Supply chain

Where clients are reliant on supply chains in affected areas, rapidly depleting stock levels are becoming a significant risk and clients are working through strategies for alternative sourcing. In certain cases, clients are showing signs of distress, and stakeholders (e.g. lenders) are concerned about the future viability of the business. We are discussing different potential scenarios and what these mean for their operations, for example, as cases of viral transmission emerge in different territories.

Focus on information

From our experience working with various organisations during the Ebola and MERS outbreaks, the lack of complete and accurate information prevents well-considered decisions being made regarding the resources needed to control the outbreak and treat infected individuals. Capturing the correct information and verifying its reliability are vital. Reliable information underpins both crisis planning and response and allows organisations to make informed decisions.

Seven steps to effective crisis communication

Communication strategy during these types of events, however long they may last, can be critical, and the same three basic principles of communication apply: transparency, compassion, and ownership. But the COVID-19 outbreak is a complex event that affects many elements of a business – so what else can organisations do?

Know your audience

While the immediate priority should be employees in infected regions and those who may be at risk, a far wider audience will be looking to the organisation for reassurance and leadership. Every interaction should reinforce brand strategy and the image of a purposeful and empathetic organisation.

Keep messaging clear and consistent

An honest assessment of what the organisation can do is essential, as is the recognition that some things will be outside of the organisation's control. The main message is that the organisation is doing all it can, and we're all in this together.

Focus on perspective

There's an important balance to be struck between transparency – being open about the potential risks – and managing the fear factor. Social and traditional media can stoke alarm. Without downplaying the risks, help people keep the event in perspective.

Duty of care comes first

If employees become infected, the priority is fulfilling the organisation's duty of care to them, their families and colleagues. But there are other, less urgent, duties to consider. If the supply chain is disrupted customers will be affected, but if the impact is restricted to inconvenience, it's because the organisation is doing all it can to protect its people and the wider public. Integrity matters.

Scan the horizon

These types of events can unfold in unexpected ways, so preparing for a range of scenarios, even the seemingly unlikely, could help prepare the organisation for the future. What's the worst that could happen? How could the organisation's reputation be affected? What mitigating action could we take in each scenario?

Keep communication flowing in both directions

Effectively tracking risks requires the help of the wider organisational community – the education sector, for example, has faced particular challenges as institutions need to know quickly if their students have been to or have met with visitors from affected areas. Dedicated hotlines and FAQs can help to target specific groups and encourage the flow of information.

Look out for unintended consequences.

Misinformation around these types of events may raise the risk of discrimination against particular communities. This is a time to reinforce corporate messages of inclusion and quickly counter any suggestions of prejudice.

Virtually alone

Real ways to connect remote teams

By Katherine Dugan and Varun Bhatnagar.

As workplaces increasingly embrace the telecommuting model, leaders can take several steps to bridge cultural and interpersonal gaps.

As two long-time business consultants, we make a point of keeping in touch with former colleagues. When we had lunch recently with one who had left consulting to join a start-up, we were eager to hear how he was faring. Admittedly, we were even a little jealous of what sounded like an interesting, high-energy venture. But once we started asking questions to get a glimpse of what life was like on the start-up side, we could see that after just two months in the new job, he was miserable.

And not because he didn't like his boss or colleagues or the work that he was doing. The problem was that he was a 100% virtual worker for the first time in his career. In a way that he hadn't predicted, he missed the sporadic moments of connection that happen in the hallway or cafeteria. He missed casual human interaction and the accompanying sense of belonging. And he missed the surge of energy that many of us feel when we work in an office with our colleagues.

'Are you on a lot of conference calls?' we probed, searching for a solution. The answer was yes, he was connecting with colleagues formally throughout the day, but there was very little unstructured 'social' time. And when someone did create space for socialising, it often fell flat because it seemed forced and unnatural. In short, our former colleague didn't feel like a member of a real team.

At the Katzenbach Centre, the innovation centre for organisational culture and leadership within Strategy&, PwC's strategy consulting business, we believe that teams – real teams, not just a group that management calls a team – should be the basic unit of performance for most organisations, regardless of company size. In any situation requiring the combination of multiple skills, experiences, and judgments, a team inevitably gets better results than a collection of individuals operating with confined job roles and responsibilities. It pays dividends to invest in teams – not just for the sake of the team members, but for the organisation as a whole.

Building virtual teams

A 'second family'

As the workplace becomes increasingly virtual, our former colleague is not alone in his situation. An Economist Intelligence Unit study found that only 28% of respondents said they had not worked remotely in the past year. Despite the ubiquity of virtual work, most of us are still learning how to communicate effectively in a world that is becoming ever more digital, global, and multicultural. Conference calls are notoriously painful. To make matters more complex and urgent, millennials, who are entering the workforce in droves and will soon make up the majority of workers globally, are looking to their employers for a sense of community – seeking a 'second family' – while at the same time expecting to be able to work virtually at least part of the time. Although technology may be able to cross physical and temporal gaps, the cultural and interpersonal gaps – differences in cultural habits and communication styles – are problems that have yet to be solved. And leaving these gaps open can pose major performance issues for teams.

A recent study found that teams that had high levels of geographic, operational, and cultural differences also reported lower levels of trust, innovation, satisfaction, and performance than their counterparts with more closely located teammates.

The cultural and interpersonal gaps can make it much more difficult for virtual teams to develop empathy among team members, experience random moments of connection, and build the discipline and agility to shift teaming modes to accommodate the specific circumstances at a given time – all of which are necessary to a successful team.

Building virtual teams

How to build real virtual teams

How can leaders enable people to work across locations, time zones and cultures effectively, allowing them to form real teams, collaborate regularly, and feel supported in and fulfilled by their roles? This is no easy feat. However, in our work with teams over many years, we have made some observations that can help. Try the following.

Create empathy. Teams are made up of people who need to be able to understand one another – and one another's emotions – in order to effectively work together.

Think for a moment about your own behaviour. Compare how you as a customer have treated a call centre employee who was not being helpful with how you would treat a clerk in a face-to-face interaction. You are likely far more patient with the clerk than the call centre employee. The truth is, empathy is more difficult to muster when people feel distant from one another, which can be problematic when they are meant to be collaborating with people all around the world.

Cultural and interpersonal gaps can make it much more difficult for virtual teams to develop empathy among team members.

But they can break down this perception of distance, particularly if they are working as part of an intact team, which is functionally oriented and works toward a common, agreed-upon goal. Take, for example, the case of a U.S.-based financial analyst we worked with who was called upon to frequently collaborate with her counterpart in India. Things did not get started on the right foot – the virtual interactions were not very productive and, as a result, she began to doubt his capabilities as a financial analyst. In fact, the level of distrust between the two went so far that she began to dread taking her regular calls with him. But during one call, her colleague revealed that he had been stuck at his office for three whole days thanks to the Indian monsoons, sleeping under his desk – and something changed.

Although he insisted it wasn't so bad, she imagined herself sleeping on the floor of her office, subsisting on emergency meal bars. A call that normally would be punctuated with awkward silences and misunderstandings became a genuine conversation, one in which the analyst learned about her colleague's family, life, and culture. It also marked a major turning point for the pair's relationship – the personal story helped the two eventually to become friends and culminated in a face-to-face meetup many years later in New York when her Indian colleague came to visit on a business trip.

Changing habits

Learning about one another is a great way to cultivate empathy. Have you ever met someone who is 'all business' at work? How connected did you feel to that person? Our guess is not so much. Learning about each other doesn't mean you need to start every meeting with a contrived icebreaker. In fact, it can be as simple as sharing something about your current location, the view from your window, or a funny anecdote from the day before. Learning about others – their hopes, dreams, fears, and stories – activates the parts of your brain that are associated with empathy and can put you on your way to a better team dynamic.

Also, it sounds obvious, but the choice of technology for collaboration can build empathy and make it feel more as though everyone is in a room together, especially if the whole team makes the effort to learn to use the technology. Being able to see facial cues from others is tremendously helpful as people talk with colleagues, so we suggest considering videoconferencing as a collaboration mechanism. It helps distinguish between a wild insight that stunned colleagues into silence and an idea that was not only completely off base, but also bored everyone to (silent) tears. This also helps humanise colleagues, so they aren't simply faraway voices, but individuals.

Connect (sort of) spontaneously. Diversity of location further challenges people, because they miss out on those unplanned moments of connection that can lead to new ideas and insights.

In fact, one study showed that individuals who had 15 minutes to socialise with colleagues had a 20% increase in performance over their peers who didn't.

Act with agility. We know from our Katzenbach Centre research on teams spanning many decades that high-performing teams are able to deliberately shift modes, depending on the challenge they are tackling. For example, if something urgent but simple arises, the team might defer to the leader with the most expertise, falling in line and taking orders. If members need to solve a complex problem using their creativity, they are likely to engage more collaboratively as a real team.

The benefit of working in this fit-for-purpose way is that it both enables teams to be effective and helps team members build trust in the trenches and gain psychological safety, which is conducive to the open sharing of ideas and being vulnerable with other team members. This is perhaps the most important element of teaming, according to a Google study.

When working virtually, this kind of teaming 'discipline' is an even harder nut to crack. Teams must not only be clear about how they will interact with one another and shift modes when needed, but also address the role that their selected mode(s) of communication will play in facilitating their way of working.

Changing habits

Just as important as defining the approach is evaluating it over time. In the case of the Microsoft design team, this meant making the team playbook easy to update so that it was always relevant to the given circumstances.

Soon, team members will know quickly and intuitively how to approach a challenge together. And then the most challenging decision they'll have to make is which collaboration tool to use in order to enable that experience.

Changing habits

It can be tough to work remotely and manage others working remotely, and harder still to change the habits of how teams communicate. But those who want to cultivate effective virtual teams need to be cognisant of how they can close the interpersonal gap that exists when they aren't co-located with their colleagues.

It will take time and practice, but by making an effort to build empathy with colleagues, create moments of connection, and cultivate team agility across a variety of situations, people can bridge this gap and improve team performance, no matter where in the world their co-workers are located.

Teams are an integral part of how work gets done today and a core component of organisational performance, and as the world becomes an ever more interconnected place, instances of working remotely will only increase. If you want to reap the benefits of effective teams in this digital environment, you must do the work to change your habits to keep teams together, even when they are physically apart.

Real cost of labour turnover

What is the real cost of labour turnover to your business? Article written by Puseletso Matsheng

Employee turnover is a concept that is experienced by all organisations across various sectors. In an era in which experience and skills are a commodity, organisations are required to monitor their attrition and retention numbers and trends in order to be sustainable and retain or increase their competitive advantage. With the future of work gaining momentum and the diverse demographic of the workforce, employee turnover is a global concern in terms of costs as well as the scarcity of technical skills that are required to take organisations forward.

By definition, employee turnover refers to the number of employees who vacate positions within an organisation. It can be classified into two categories: voluntary (resignation, retirement) or involuntary (dismissal, retrenchment). No matter how turnover is classified, it has a significant impact on the progression and competitiveness of the business. There are a number of drivers that can influence employee turnover. However, the following rank high on the list: how the employees perceive the organisation's environment and culture, the economic status, global mobility and the high migration of scarce skills in the 21st century.

When considering the issue of employee retention, it's important for organisations to understand why people join, stay and leave their organisations. It takes considerable attention and maintenance to nurture an engaged and loyal staff complement. Along with remuneration offerings and how an organisation compares to its industry competitors, it is becoming evident that other aspects, such as measuring employee engagement, being aware of the perception employees have of the organisation,

understanding how cultural values have an impact on employee loyalty and monitoring the labour turnover, will contribute significantly to the sustainability of the workforce and the organisation as a whole.

The real cost of losing staff

When an organisation loses a key employee in the team, measuring and tracking the cost of turnover will play a significant role in identifying what the core issue is and provide a foundation for developing employee retention strategies.

In 2019, PwC's Salary and Wage Movement survey reported an overall labour turnover across industries of 11.5%, of which 49.8% was attributed to resignations. Even with the high turnover figures, 41.9% of the participants in the survey reported that they do not measure human resources costs associated with this. There is an opportunity for organisations to measure these costs and find ways to mitigate organisational issues related to staff retention. The advantage of monitoring the cost of labour turnover is that the organisation will be able to identify the critical skills for the business, identify the potential risks and gain the ability to review and improve the total reward strategy and the employee value proposition (EVP).

Real cost of labour turnover

The survey further provides analysis on whether participants were able to measure and quantify the costs that are related to staff leaving the organisation.

These costs can be categorised as follows:

- Employee department costs

- HR department costs

- Other costs, such as costs associated with recruitment

Over the historical period from 2014, an average of 42% of the participating organisations did not measure these costs. The increasing concern is that human resources and remuneration practitioners may not be doing enough to contain these costs and review staff retention strategies based on the information at hand.

Employee department costs	HR department costs	Other organisation costs
Departing employee (exit interview/paperwork)	Processing paperwork / exit interview	Cost of advertisements
Temporary coverage for vacant position	Recruitment activities	Background check costs
Other separation costs (severance/vacation pay-outs)	Screening applicants / setting up interviews	Pre-employment testing
Manager/supervisor time for hiring replacement	Interviewing and selecting applicants	Other organisation costs
Training costs	Reference checks and job offer	
Cost of lost productivity	New employee orientation / paperwork	
Placement agency fees	Other HR department costs	
Other employee department costs		

To purchase the PwC's April 2020 Salary and Wage movement survey contact Lisa Tamkei or Margie Manners at: **surveys.researchservices@za.pwc.com**

Impact of COVID-19 on executive remuneration

Over the past two months markets around the world plunged. Already unnerved by the coronavirus crisis, markets were shocked by a sudden 30% crash in the oil price during March.

The current market climate has significant repercussions for many organisations worldwide. As many companies approach their financial year end, boards may also need to consider what, if any, should be their response on how COVID-19 impacts the pay awarded to senior executives as well as for board fees. For example, if business performance is significantly and adversely impacted by COVID-19, which is outside of the executive team's control, what is a fair and reasonable incentive outcome?

The emerging impacts on business performance of the COVID-19 are likely to intensify both the need for boards to consider employing discretion, and the external scrutiny on companies' use of discretion, in determining reward outcomes. The current scenario will no doubt serve as a catalyst for some companies to either develop and/or stress-test the effectiveness of guidelines they have in place to apply discretion. Like other unforeseen events, COVID-19 is likely to raise two related, and equally challenging, questions:

1. Should discretion be used? and,

2. If so, how?

The questions apply equally to companies that may experience a positive impact on financial results (e.g. surgical protection supplies), as those that may be experiencing a negative impact on performance, for example tourism, travel and hospitality. There is no clear answer to either question, and the first step in determining whether discretion should be applied will be as challenging as to what discretion to apply, if indeed it is to be applied.

While in some scenarios, boards may well determine that discretion is not required, the more interesting question is if discretion is applied, how? Prior experience would demonstrate that shareholders are likely to be critical of any discretion that is seen to be too much in the favour of management. There may also be different considerations when applying discretion to either STI or LTI, where the components exist, or even to the specific performance measure and structure of assessment. By way of example, executives and industries that are negatively impacted by COVID-19 may find themselves receiving differential reward outcomes depending on the TSR peer group: e.g. if measured against the same industry, they may receive an outcome if they have performed better than their peers, but if measured against a multi-industry peer group they are likely to be below the median.

What should boards and remuneration committees be thinking about?

To **what** extent do we need to balance the interest of shareholders and managers for material / critical events outside the control of the company? **How** do we effectively balance the interest of shareholders, management and employees?

What is the size and materiality of the impact of the unforeseen event, and how clearly can this impact be isolated from other facts impacting performance?

What actions, if any, has management taken, or **what** actions could it take, to negate either upstream or downstream impacts of this (e.g. supply chain continuity risk management, diversification of revenue stream)

How have other related scenarios (e.g. unforeseen events) been treated in the past? **What** precedent would the application / non-application of discretion set for the future?

What is the likely impact / consequence, if any, of not overriding the "formulaic" outcome? Is there genuinely a higher likelihood that talent will leave, but more difficult to attract, or be harder to motivate? Or are shareholders and investors likely to consider a formulaic outcome unfair?

Where to from here?

Unlike many other 'unforeseen events' or events outside of management control, a key variable of COVID-19 is that there is no clear guidance as to how long the impact may last, and significant dependency on market sentiment.

Regardless, discussions on the topic are already occurring in boardrooms, and we have observed several public responses driven by the impact of the lockdown in South Africa.

Accordingly, six suggested immediate steps for heads of reward and remuneration committee chairs include:

- Confirm understanding of business impact

- At a high level, determine potential impact on reward outcomes given year-to-date performance (including on discrete reward elements such as fixed pay spend, STI outcomes, LTI outcomes)

- Identify any differential reward impacts on each employee segment

- Consider other impacts or 'asks' of other employee segments that may impact views on internal equity/fairness, e.g. are some employees being encouraged to take annual leave, or even leave without pay?

- Revisit existing guidelines regarding consideration and application of discretion to ensure they are robust, and

- Confirm any messages that have been shared publicly to date regarding principles behind the use of discretion.

And or course, application of discretion is only one of the reward considerations that may arise, with additional questions:

- **Future performance assessment:**
  How should performance assessment for the following periods be determined? Do existing metrics – particularly in STI – reflect the desired performance going forward? Are targets set on an absolute basis or relative to (unusually high or unusually low) performance in the prior year?
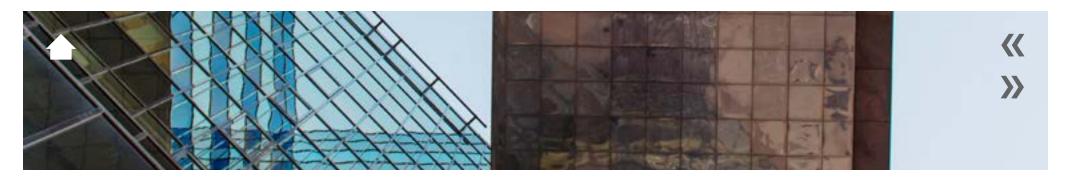
- **Retention and underlying value:**
  Will there be increased pressure on fixed pay, if there is a perception or reality of lower incentive outcomes or reduced value of equity that vested (e.g. impacted by uncertain market sentiment)?

- **Mandatory shareholder requirements:**
  To what extent will any fall in share price for a company require executives to further invest in shares to meet mandatory shareholder requirements?

It cannot be masked that this will be a difficult issue that is likely to generate significant discussion both within and outside of organisations for the FY20 performance year. However, unlike the broader population, boards and remuneration committees cannot wash their hands of the issue, and early consideration of the issues and establishment of clear principles to guide decisions are likely to place organisations in a better position come the end of year.

Technology news

We are really excited to announce that our updated REMchannel job matching module has recently been released. This module uses machine learning technologies, which will greatly enhance job matching accuracy, speed and overall experience. This will significantly reduce the time spent on job matching and most certainly contribute to more accurate information. We are also happy to announce that the Fair Pay barometer has also been updated to include a printable .pdf option.

We would really appreciate your feedback once you have had an opportunity to utilise the new functionality so that we can continuously improve your data submission experience.

Over the next few months, we will be upgrading various parts of our architecture to support new and exciting enhancements to be announced in due course.

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

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.

Global economic crime and fraud survey 2020 South Africa

The results of our 2020 global economic crime and fraud survey have turned up one major surprise, that being that the percentage of respondents who had experienced economic crime in South Africa declined for the first time in the last decade.

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

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