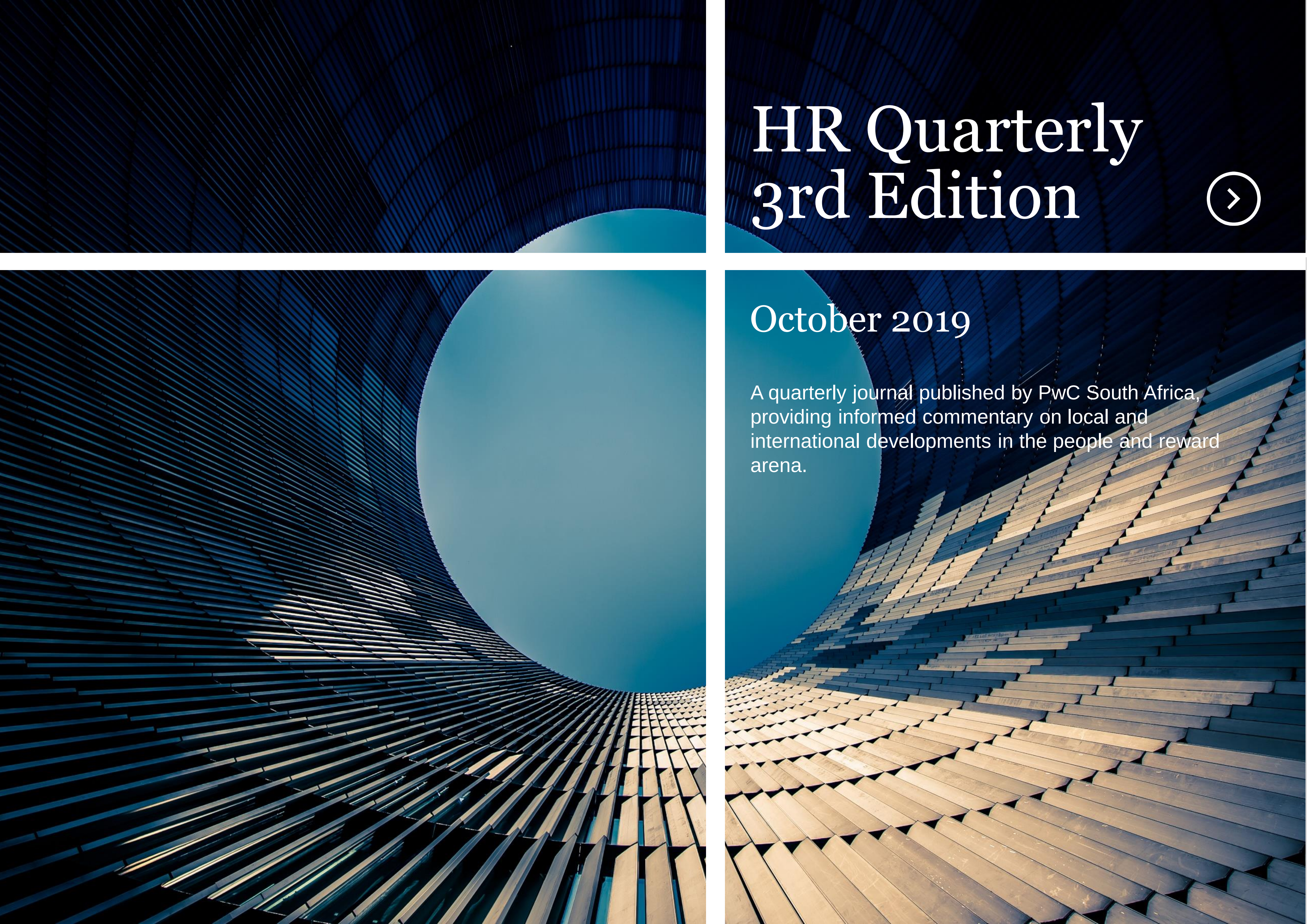
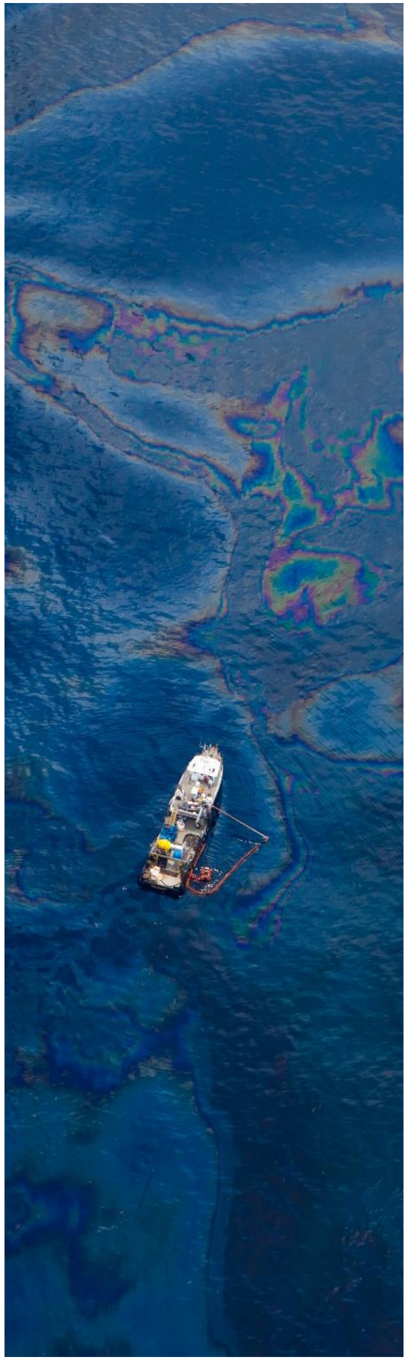


HR Quarterly 3rd Edition

October 2019

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

Imagine that you're one of millions of people whose job is threatened by digital technology. You're the compliance officer at a bank, an operations manager on an assembly line, a technical writer, a programming debugger, or a lighting coordinator for a photographer. Sometimes your job is so bound up in routine you joke that it could be handled by a computer. Then the joke becomes reality. You are asked to help design the automated processes that will replace your position in a year.

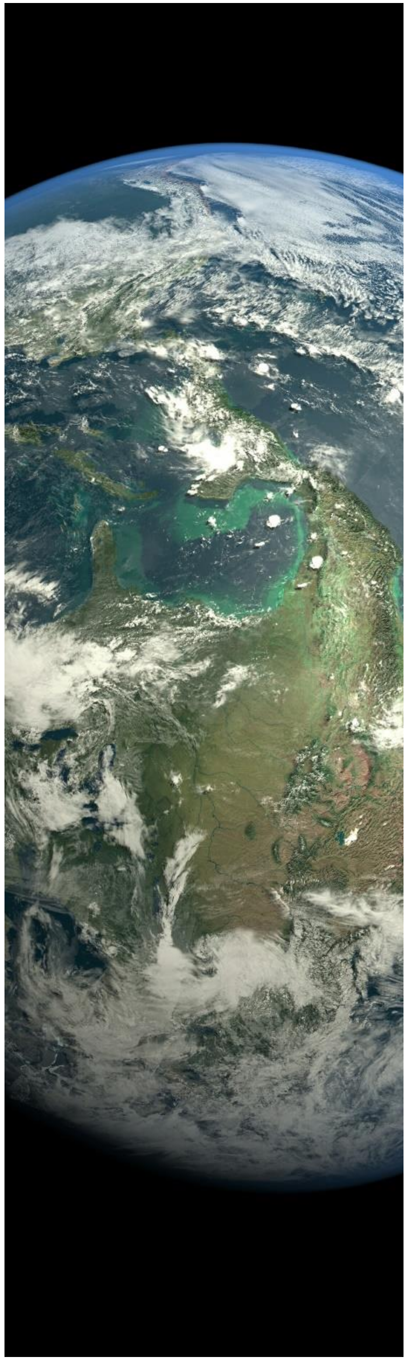
The industrialised world is facing a skills crisis. On the one hand, automation is threatening many existing jobs. Hundreds of millions of young people around the world are coming of age and finding themselves unemployed and unemployable, while many older, long-established employees are discovering their jobs are becoming obsolete. A study published by the Organisation for Economic Co-operation and Development in 2018 estimated that 46% of all jobs have at least a 50% chance of being lost or greatly changed. A 2016 report from the International Commission on Financing Global Education Opportunity estimates that 30% of young adults will not graduate from secondary school with the skills they need to hold most jobs.

On the other hand, there is a severe shortage of qualified talent for the new digital economy. Jobs requiring knowledge of artificial intelligence (AI), robotics, and the Internet of Things are going unfilled in ever-greater numbers. Estimates suggest that U.S. software-related jobs (pdf) are growing at 6.5% annually – almost twice the rate of jobs in general – and that in Europe there will be a high-tech skills gap of more than 500,000 unfilled positions by 2020.

PwC will be focusing on upskilling and the trends in the market to ascertain how organisations are dealing with the challenges created by these changes. We will regularly provide insightful research and thought leadership in the coming months and we hope that you enjoy the third edition for 2019 of the HR Quarterly.

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



New world, new skills

The world of work is changing and challenging. On the one hand technology is developing at lightning speed and promises to dramatically improve processes and experiences. But as we all know, technology is only as good as the leaders who identify its opportunities, the technologists who deliver it and the people who work with it every day.

That's where companies can come up short. Their people may lack new skills to harness the benefits of the technology and employers are realising that these are not skills that can easily be hired.

Our challenge in South Africa is unique: most new entrants to our job market in South Africa are coming off a disadvantaged base, with challenges relating to literacy, language, access to the internet as well as limited access to tertiary education to name but a few. The quality of our basic education is known to be poor, and there is a lack of resources and qualified, motivated educators. This is the profile of the person who arrives at your organisation on Day 1.

So perhaps the solution lies within the current workforce? But when we reflect, we know that a large percentage of our current workforce has traditionally been involved in highly repetitive, labour-intensive roles, as they have experienced similar challenges to the new job entrant. We know that it is these roles and people that are most at risk with the introduction of technology.

Wherever you look you see reference to our changing world of work, the need for digital skills and the fact that many jobs as we currently know them will be augmented or will fall away completely. On the positive side, there are new jobs that are emerging and will continue to emerge, requiring new and different skills.

We asked over 22,000 people in our global survey how they felt about the impact of automation. The good news is that 61% felt positive about the impact. 52% of the people surveyed see that their current roles will be affected by technology and 60% of them see this as a positive move.

The most encouraging statistic is that 88% said they are open and keen to learn new skills and that some of their employers are offering these opportunities.

To see how the respondents view these changes and compare your responses to the comparator group, visit our website at https://www.pwc.com/gx/en/issues/upskilling.html

If South Africa were 100 people ...

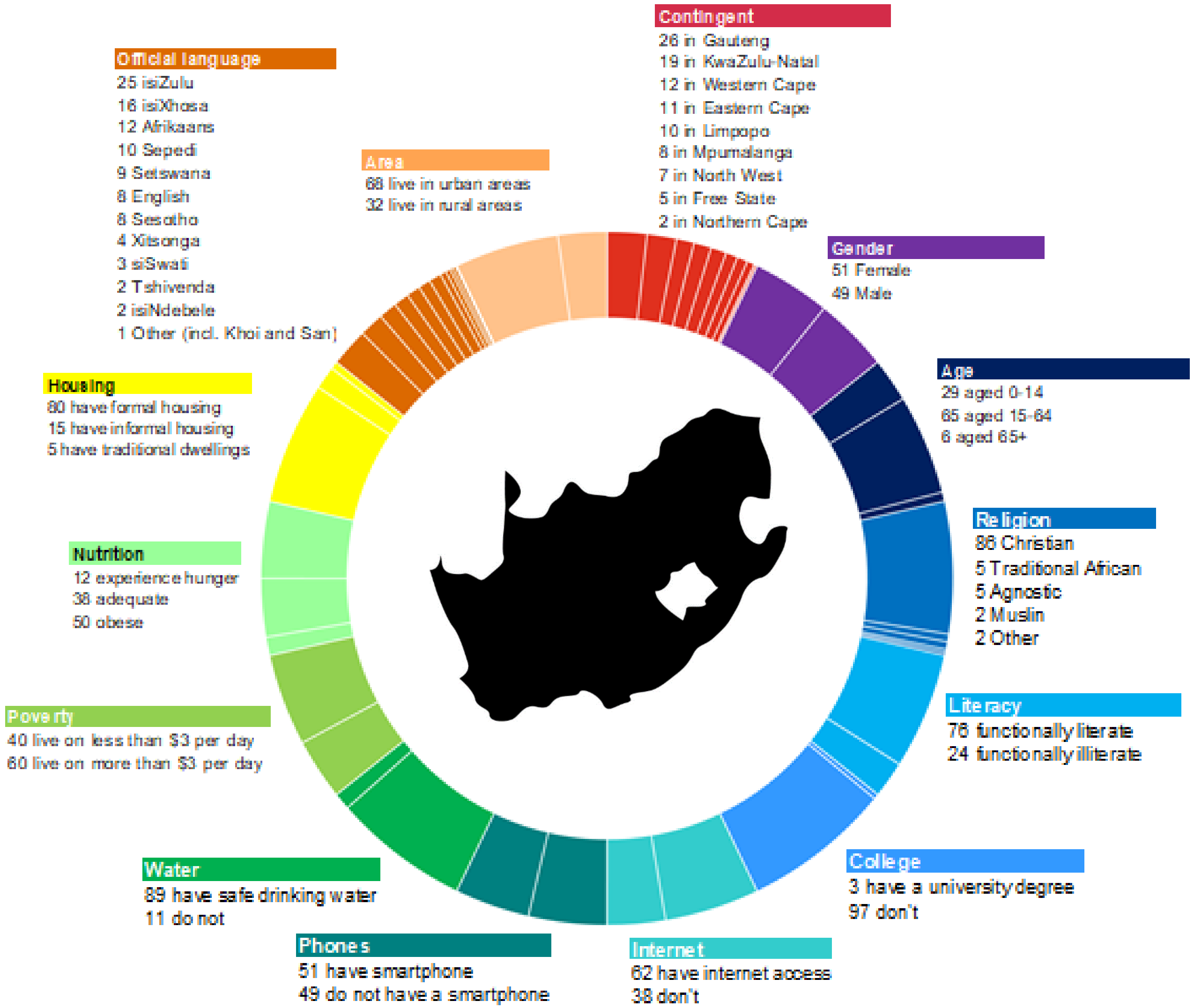
South Africa has challenges with regard to basic standards of living. In addition, we have key challenges that affect the ability to upskill the population for the digital future.

Language barrier: Only 8% speak English as a home language

Internet: 62% don't have internet access due to high cost of data and lack of coverage in rural areas

Technology access: 49% do not have a smartphone

Education: 97% don't have a university degree



Upskilling for a digital world

Top executives increasingly worry about the impact that their companies, strategies and activities will have on the environment, local communities and their employees – and how they can balance this with cost and market pressures and quarterly earnings targets.

Against this background, one somewhat intractable challenge is beginning to stand out: the size and composition of the workforce. Automation, primarily in the form of robotics and artificial intelligence (AI), brings with it the promise of improved productivity and higher profits – but at what cost to employment and, by extension, to society? What responsibility do corporations have to reskill employees who otherwise would be displaced by technology? And what value does reskilling offer an organisation?

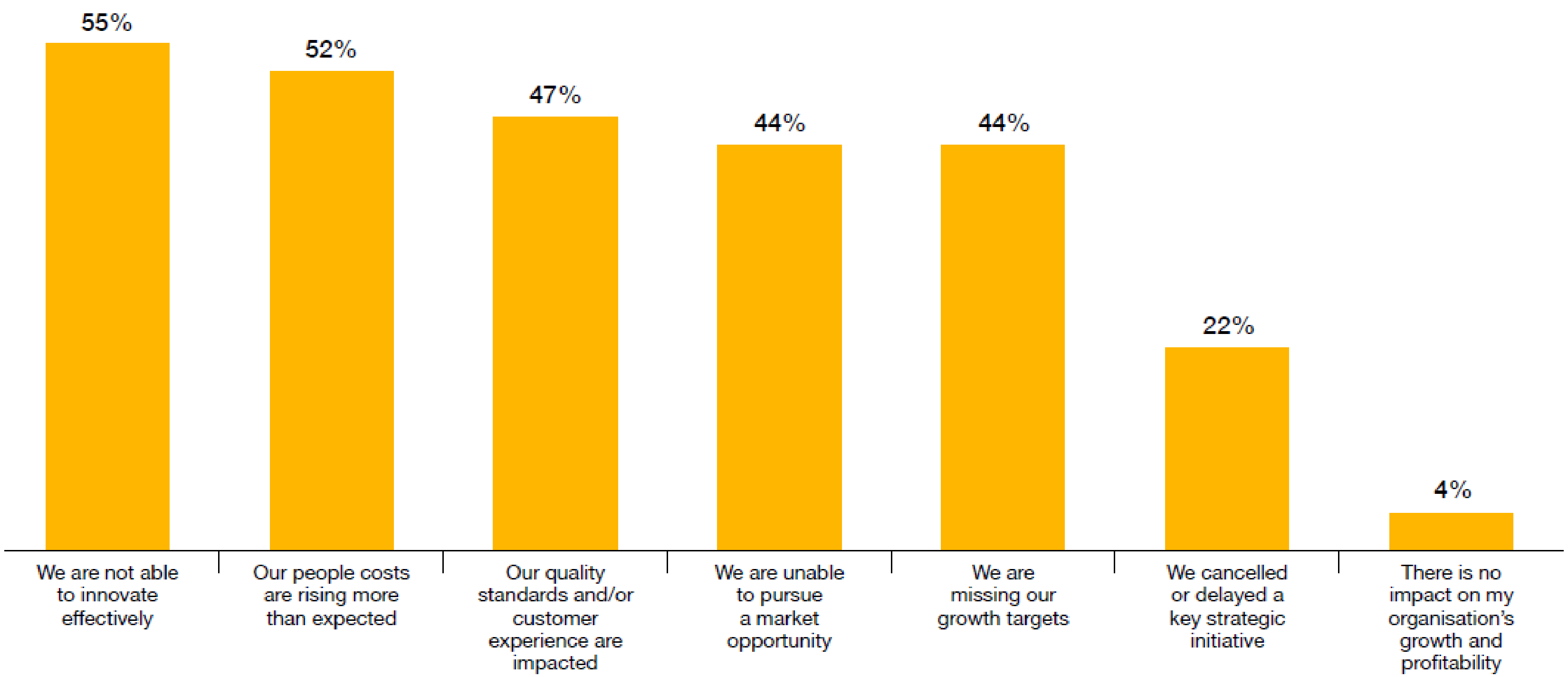
These are precisely the types of questions that keep CEOs awake at night, according to PwC's 22nd Annual Global CEO Survey. Four out of five CEOs bemoaned their employees' lack of essential skills and identified this factor as a threat to growth. That concern has risen in line with the advent of new technologies over the past five years and is voiced consistently across all regions: CEOs in Japan and Central/Eastern Europe are most worried, with 95% and 89%, respectively, naming it as a concern, whereas those in Italy (55%) and Turkey (45%) are the least anxious about it. The skills shortage stymies growth chiefly because it stifles innovation and raises workforce costs.

There has been a clear shift over the past few years in the type of skills that leaders say they are looking for. In 2008, CEOs were struggling to find people with global experience. Today, organisations desperately need tech-savvy leaders and employees. In other words, at every level of the hierarchy, people are needed who can harness innovative thinking, form the right strategies and apply the systems and tools that best fit the needs of the business.

Only then can an organisation, or an economy, maximise the productivity benefits of technology.

Question to global CEOs: What impact is 'availability of key skills' having on your organisation's growth prospects?

Our recent study, *Preparing for tomorrow's workforce, today*, found that businesses also see the nurturing of human skills, particularly leadership, creativity, empathy and curiosity, as essential if they are to take advantage of the potential benefits of new technologies.



As a result, although purely functional skills related to automation and AI are often essential for business growth, they are not enough; they won't suffice without these more 'high-touch' managerial and people-oriented capabilities.

Focus on reskilling

With the right skills in scarce supply, CEOs must find cost-effective ways of sourcing what they need. Previous surveys have shown CEOs exploring the idea of hiring people from other sectors – particularly from industries that are further along the innovation journey – and making use of 'gig economy' workers when appropriate. This year's survey sees a shift. CEOs are now focused on reskilling and upskilling their existing workforce.

The World Economic Forum estimates that it will cost US$24,000 per head to reskill displaced US workers, but when set against the alternatives – severance payments for workers who are let go and the cost of finding new workers with in-demand skills, among other things – reskilling is the more attractive option.

It's understandable that organisations are concentrating on reskilling. Given the right context, people can be highly adaptable, and the ability of organisations to harness that adaptability will be critical as the world of work evolves. The good news is that employees are more than willing to reskill. According to a PwC global survey of more than 12,000 workers, employees are happy to spend two days per month on training to upgrade their digital skills, if such training is offered by their employer.

Workforce rebalancing

Today's jobs are being unbundled into tasks that could be offshored, automated, augmented with technology or rebundled into new roles as organisations analyse how work gets done. Automation and AI will inevitably displace some workers, although CEOs aren't united on the scale or speed of that shift. Business leaders can't protect outmoded jobs, but they are responsible for the people who hold those jobs.

The process of effective reskilling, though, is anything but straightforward. Most organisations' current learning and development programmes are simply not designed for the full complexity of the task. Upskilling efforts must target fundamental skills gaps, instilling at least a baseline of digital acumen, with an eye on building a flexible workforce for the future. Rather than classroom training exclusively, the programmes should focus on changing behaviours and mind-sets on the job, encouraging people to innovate and solve problems in new ways.

Upskilling: Building blocks

Assess current environment and identify skills gaps and mismatches

- Define future workforce and understand impact of automation
- Assess current workforce capabilities
- Understand the organisational culture
- Identify skills gaps, mismatches and role adjacencies
- Validate the case for change

Build a future-proof skills strategy

- Rapidly review and refresh upskilling strategy
- Make inclusion a priority
- Improve effectiveness of Learning Organisation & Tech
- Test strategic alternatives and scale best-performing programmes

Lay the cultural foundation

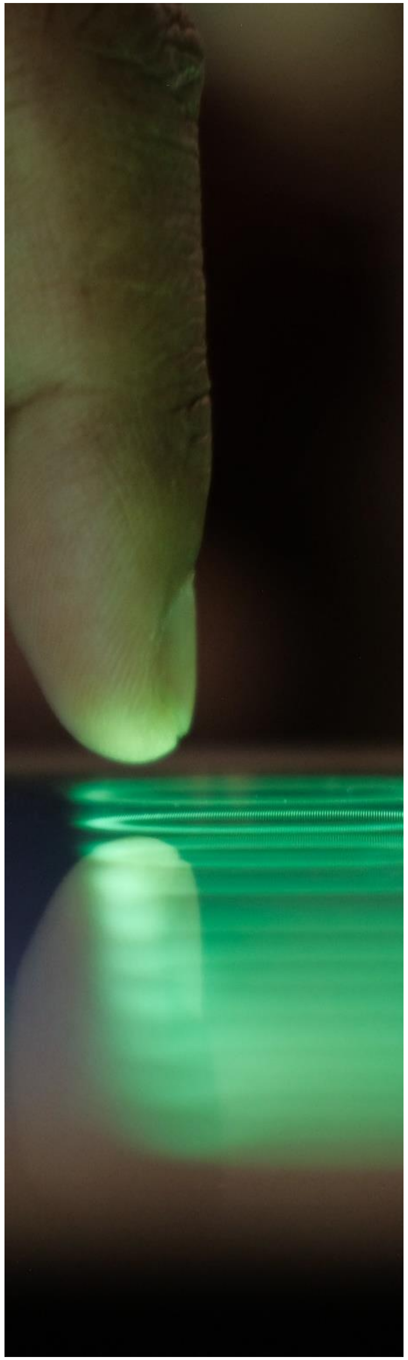
- Create a cultural shift and the right behaviours
- Inspire citizen-led innovation
- Nurture physical vitality and mental wellbeing

Develop and implement upskilling

- Create buy-in and align rewards and incentives
- Free up time for learning
- Design for an engaging learning experience
- Build digital understanding
- Focus on targeted personal transformation journeys
- Deliver training

Evaluate return on investment

- Measure return on learning investment
- Track employee engagement
- Benchmark the L&D function



The role of the Remco in a changing environment

Article written by: **Leila Ebrahimi and Mariangela Venturi**

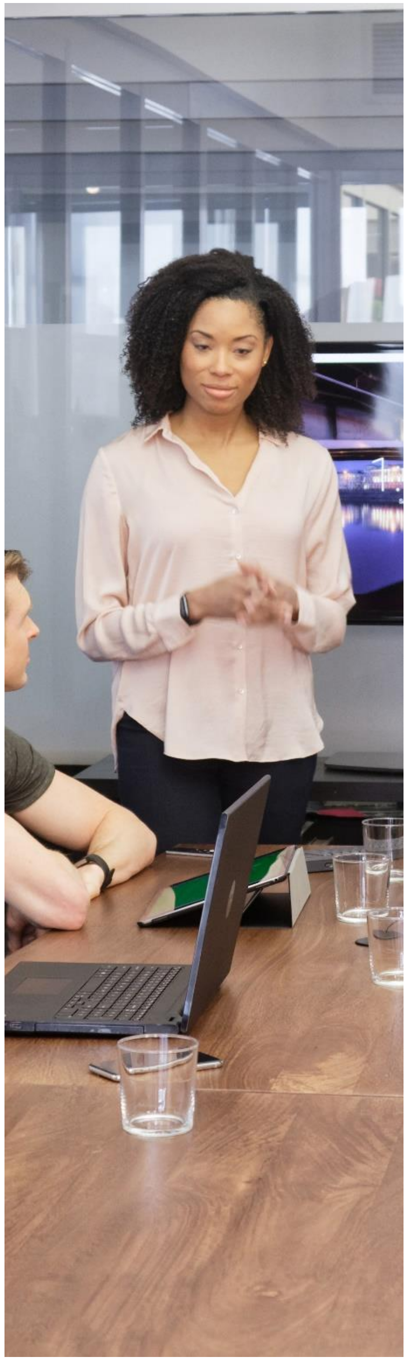
The work of the Remuneration Committee (Remco) is integral, and resource-intensive, requiring input from many different facets of an organisation, including HR, finance, legal, investor relations and PR, shareholders, and often, external consultants. The considerable volume of information the Remco is expected to sift through and decipher, together with the increased number of so-called 'corporate governance failures', places a huge responsibility on the shoulders of Remco members. While the need to maintain harmony and a unified Board is important, the sheer volume of information placed before a Board (and a Remco in particular) requires the ability to ask difficult, sometimes uncomfortable, questions. Important issues such as shareholder engagement, the introduction of minimum shareholding requirements, and malus and clawback, complicate discussions even further.

Within this context, PwC hosted a roundtable event in August for remuneration committee members, to enable committee members to share experiences and discuss current and topical issues which are being faced by remuneration committees in South Africa today.

The roundtables are intended to raise awareness of and provide thought leadership on important matters relating to the ever-increasing duties and responsibilities of remuneration committees, and to encourage the start of a knowledge-sharing community of individuals who are serving on various remuneration committees in the private and public sphere. In addition to the remuneration roundtable committee event, PwC also hosts audit committee chair roundtable events and a social and ethics committee event with similar aims.

We explored the themes in our recently released 2019 edition of our *Executive directors: practices and remuneration trends* report, and had input from a PwC psychometrist and partner in PwC legal. The following key themes arose from the discussions, some of which will be explored in more detail in upcoming roundtables:

Aim for increased transparency, but don't spend disproportionate amounts of Remco time on 'compliance' at the expense of strategy. Remco time is limited, and must be wisely spent.



The risks of 'groupthink' in the boardroom

Remuneration committees need to be equipped with the correct information to make decisions effectively and efficiently, but also need to ensure that they constantly upskill themselves. On-going general and organisation-specific training is important, and it is each member's responsibility to ensure that they keep up-to-date with topical issues and latest trends, and have the necessary skills to discharge their duties.

The need for harmony or conformity in the group can lead to a suboptimal decision-making outcome and may lead to groupthink, which is the practice of thinking or making decisions as a group, resulting typically in unchallenged, poor-quality decision-making. A committee will not always know when it is in groupthink, and should be attuned to picking up the warning signs. Some of the typical signs to look out for include:

- Are there 'illusions of invulnerability' within the committee, which may be linked to over-optimism?
- Is there pressure to conform, or a sense that some members of the group may be hiding their doubts or misgivings?
- Do members who challenge or oppose the group's ideas get treated or viewed in a negative way?

The committee should be on the lookout for signs of direct or indirect manipulation, or particularly strong relationships between committee members, particularly where executives are included. On the other hand, there is a need for strong trust relationships between non-executives and executives. It was also emphasised that the remuneration committee should not be re-performing work which has already been done by executives, linking again to the importance of how a Remco spends its time.

Non-executives should ensure that the fees they accept are sufficient for the amount of work and responsibility which they anticipate will be involved, before they accept the post. Fees are not for meeting attendance or preparation, but are for all duties and responsibilities discharged throughout the year.

Key considerations in performance management feedback

***Article written by:* Antony Kibogo**

The issue of performance management is of importance to any organisation in how it manages, reviews and measures/monitors performance against pre-determined goals. Various debates can be presented in the marketplace as to the extent to which the performance management of each role in an organisation or industry ought to include personal performance of the incumbent only, versus a combination of personal, departmental and/or organisation-wide performance, when compiling the relevant criteria and factors for the management of a role's performance.

This article doesn't delve into the weighting of the three areas mentioned above, but rather hones in on what to take into account when providing individuals with feedback on their individual performances. Feedback is typically provided annually in most organisations. However, some organisations opt to provide feedback twice a year, but rarely do they choose to do this on a quarterly basis. The following are key areas that all staff charged with the responsibility of providing feedback ought to be aware of, and at the very least be conscious not to fall into the pitfalls that the following points cause to both providers and recipients of feedback. The key problem is that if it is perceived that feedback is provided without adherence to certain key principles or guidelines, it may have an adverse impact on employee morale in the long term, and the organisation as whole, as it would not be valid or reliable feedback. The following points are important to avoid when providing feedback to individuals in order to ensure fair, balanced and relevant feedback:

Issue of recent focus (recency): This refers to when the reviewer (feedback provider) chooses to focus more on what the recipient of the feedback has done in the most recent past, and tends to ignore what was done earlier in the review period. For instance, if a review period is 12 months, reviewers may in certain cases place more focus or emphasis on the last three months of the review period as opposed to providing balanced feedback that covers the entire 12-month period.

Past focus: Counter to the above point, this refers to when the reviewer (feedback provider) chooses to focus more on what the recipient of the feedback has done during the earlier part of the review period, and less emphasis on the later part. For instance, during a 12-month review period, a reviewer may place more focus or emphasis on the first three months, for instance, as opposed to providing balanced feedback covering the entire 12-month review period.

Personality focus: It is best to avoid focusing on the recipient's personality but rather on their behaviour, as personalities are different and will not be similar or comparable. Instead, it is best to focus the feedback on behaviour, as that will be guided by some core policies and business practices.

Inappropriate use of language: It is best to avoid the use of judgmental language and rather focus on descriptive language. Furthermore, feedback ought to be specific, concrete and focus on measurable performance goals and as much as possible should avoid ambiguous or confusing language, which is typically found when feedback is provided anonymously (the pros and cons of which this article will not address). This point also talks to several other aspects, including credibility of the feedback. If the feedback provided appears not to be balanced, impartial, fair and specific, it will very quickly tend to lose credibility.

Lack of basis / lack of support: The best feedback is that which is supported by or based on data and is non-judgmental in nature. Failure to adhere to this may result in it being viewed as hearsay and personal bias. Further, feedback ought to provide the recipient with various focus areas of what they are doing well and need to continue doing, what they can do better, and, lastly, what they ought to stop doing.

This article is by no means all-encompassing, but addresses some key considerations when providing performance management feedback in a changing world.

Internal pay equity – regulators step in

Fixed remuneration: including wages, travel allowances, housing or accommodation subsidies, medical aid, pension and guaranteed bonuses

Variable pay: including deferrals and commissions, discretionary payments

Long-term incentives: which have a vesting period of longer than one year

Taxable portion of bursaries, scholarships and other 7th schedule elements provided to the employee

The Department of Labour has amended the Employment Equity Regulations to include an updated EEA4 form (Statement of Income Differentials in terms of section 27 of the Act) applicable to designated employers. It also serves as the format for an Income Differential Statement which must be submitted annually in October to the Department of Labour. The form is applicable to designated employers who employ 50 or more employees, or have a total annual turnover that exceeds the annual turnover of a small business as prescribed. Designated employers can include listed and unlisted companies as well as state-owned enterprises, the government, and non-profit organisations that fall within the definition.

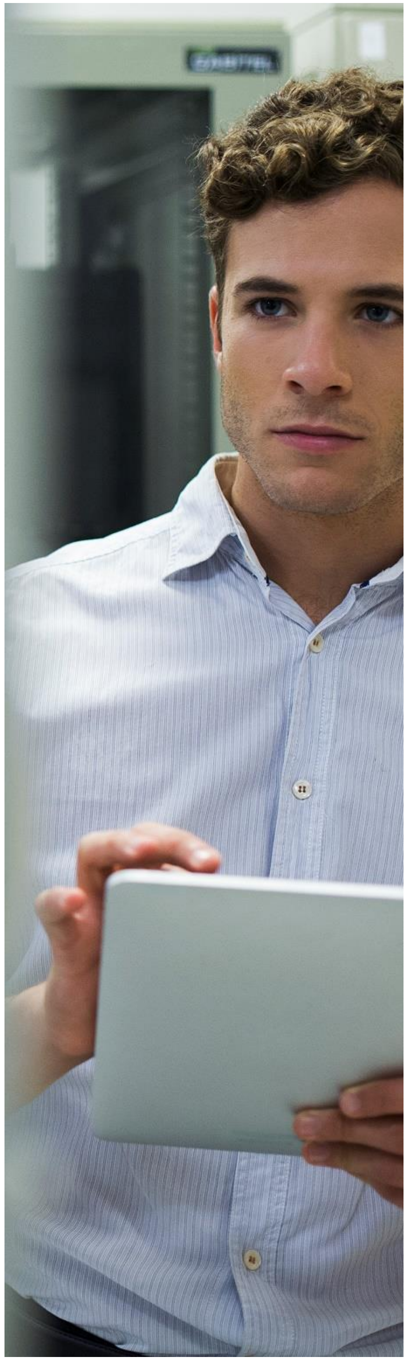
The previous EEA4 form

The previous version of the EEA4 form required the disclosure to include cash payments, housing or accommodation allowances or subsidies, car allowances, employer contributions to medical aids, etc. It expressly excluded share incentive schemes or discretionary payments. It also excluded the disclosure of temporary employees.

Key elements of the amended EEA4 form

The objective of the EEA4 form is to collect information for the assessment of the remuneration gap between the highest-paid and lowest-paid employees, and at the same time assess inequalities in remuneration in relation to race and gender in the various occupational levels.

1. All employees, including foreign nationals and temporary employees, must be included when the form is completed.
2. The form defines remuneration as any payment in money and/or in kind and includes fixed and variable remuneration. The calculation must be spread over 12 months and reflect the same reporting period as the EEA2 form (the report to the Director-General in terms of section 21 of the Employment Equity Act). Where an employee has not worked for a full 12-month period, the amount must be annualised.
3. Fixed or guaranteed remuneration includes inter alia salaries or wages, travel allowances, housing or accommodation subsidies, employer contributions to medical aid, pension, and guaranteed bonuses or 13th cheques, etc. Variable remuneration includes short-term incentives (including deferrals and commissions), discretionary payments which are not related to an employee's hours of work or performance, long-term incentives which have a vesting period of longer than one year (irrespective of whether they are retention or performance-based), the taxable portion of bursaries and scholarships provided to the employee, and dividends to the extent that the latter are included as remuneration in the Fourth Schedule of the Income Tax Act. When it comes to long-term incentives, the words 'paid out' in paragraph 6 of section B of the EEA4 form suggest that will only include long-term incentives which were settled in the reporting period, and not the value of unvested awards – however, it is unclear whether the Department of Labour will interpret this provision in the same way.
4. There are certain exclusions, e.g. gratuities and non-employment-related lump sums such as severance pay.



What do you need to disclose in future?

In addition to the tables recording the number of employees and income differentials at each occupational level in terms of race and gender, designated employers must indicate the following:

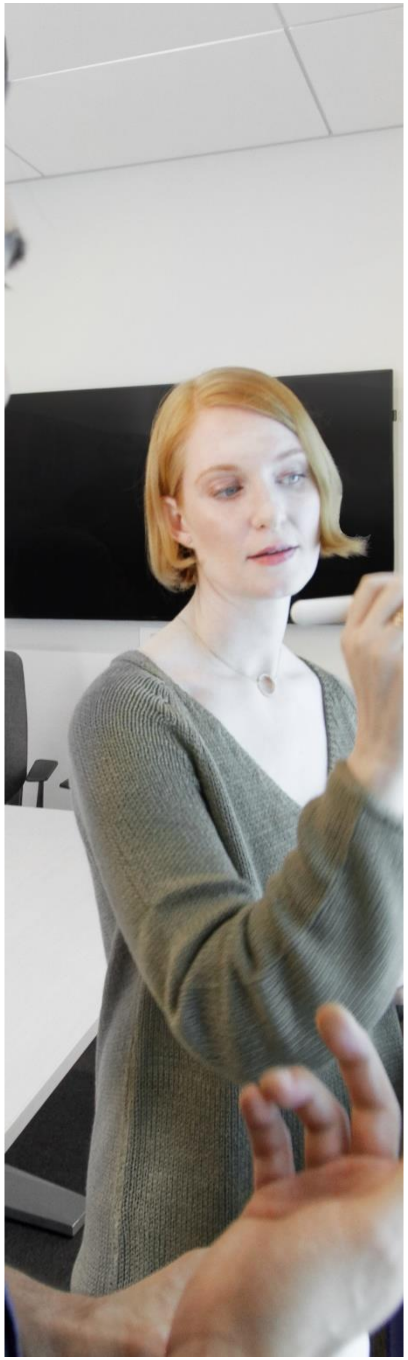
(1) The average annual remuneration of the top 10% of their top earners;
(2) The average annual remuneration for the bottom 10% of their bottom earners;
(3) The median earners remuneration in the organisation.

Organisations will be required to indicate whether or not they have a policy in place to address and close the vertical gap between the highest- and lowest-paid employees in their workforce. Against this backdrop organisations are required to:

(1) Disclose the vertical gap between the highest and lowest paid worker in the organisation in terms of the policy, expressed as a multiple; and confirm whether or not the remuneration gap between the highest- and lowest-paid employees in the organisation is aligned to the policy to address that vertical gap.
(2) Indicate whether AA (Affirmative Action) measures to address the remuneration gap are included in the organisation's EE (Employment Equity) plan.
(3) Select a key reason for the income differentials. This can include, inter alia, seniority / length of service, qualifications, performance, demotion, experiential training, shortage of skill, or transfer of business.
(4) The form must be signed by the Chief Executive Officer or Accounting Officer.

The million-dollar question: must this information be publicly disclosed?

Not in terms of the legislation. According to section 10 of the Employment Equity Regulations, an Employment Equity Report is a public document, but the Income Differential Statement reflected in the EEA4 Form is expressly excluded from this rule.



What are the implications?

Proper job profiling and job grading, which considers the key principles of equal pay for work of equal value as well as the factors set out in section 6 of the Employment Equity Regulations, can assist with this process and help organisations identify unjustifiable differentials in pay.

The information that must be disclosed suggests that where there is an income differential identified through this reporting process, it must be justifiable. Against this backdrop, disclosing the vertical pay gap and whether there is a policy to address this will require that organisations seriously consider the adoption of an internal fair pay charter or framework. That charter should clearly set out an organisation's philosophy towards fair and responsible remuneration, monitoring the organisation's fair pay barometer, and identifying the ways in which the organisation can address its internal income differentials in a sustainable manner. While listed companies have taken it upon themselves to actively analyse their internal pay ratios and develop policies addressing this, unlisted companies should also take action by identifying their internal pay differentials, develop a policy framework around fair pay, and put plans in place to eliminate unjustifiable differentials in pay.

Remuneration Committees should work closely with their counterparts in the Social and Ethics Committee and actively identify and understand how income is distributed throughout their organisation.

The implications of the EEA4 form will be explored in more detail in the 13th edition of the Non-executive directors: Practices and fees trends report, which will be released in January 2020.

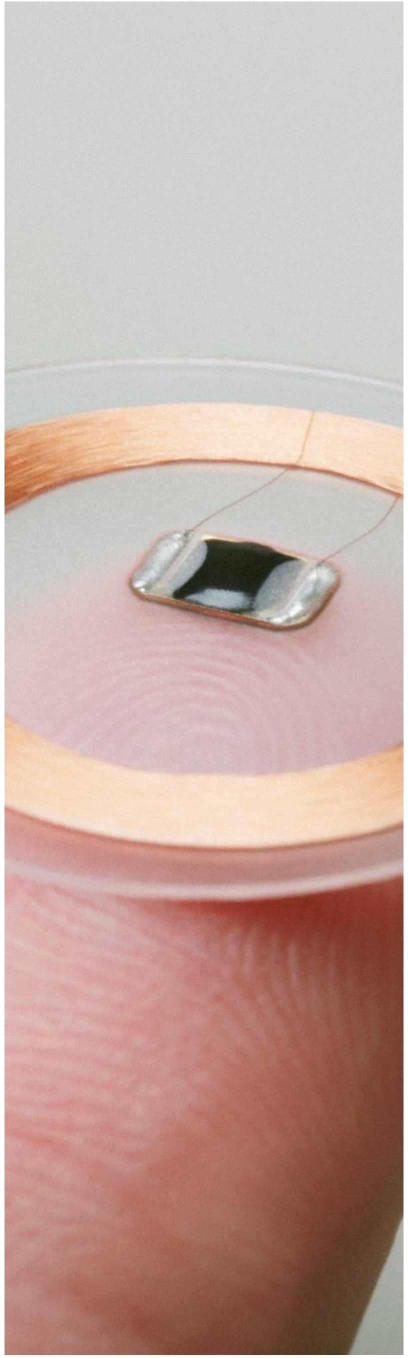
How can PwC help?

PwC’s REMchannel® subscription includes a fair-pay barometer, which gives an ‘at-a-glance’ indication of pay differentials at different levels of your organisation, based on your uploaded remuneration data.

PwC can assist with the following services:

- Wage gap analysis to determine whether there is inequality within the company’s remuneration structure through a variety of methods:
  - Gini co-efficient
  - Palma Ratio
  - Comparing CEO’s remuneration to the remuneration of the lowest employee and the average employee
  - Detailed grade-based fair pay analysis, indicating areas where race or gender-based factors appear to be influencing pay, for further analysis
- Assistance with reviewing or performing your calculations for the EEA4 form income gap analysis.
- Development of a fair and ethical pay policy which records the underlying principles, annual targets, supporting procedures as well as the tools which will be adopted to measure and monitor adherence to the policy.

Going back to basics, such as job evaluation (REMeasure®), job profiling (REMprofile®) and remuneration benchmarking (REMchannel®) offers organisations the full suite of products to ensure that strategic objectives are met in terms of the legislative employment equity requirements. For more information visit the website https://www.pwc.co.za/en/services/people-and-organisation/remchannel.html or one of the contacts listed in this publication.

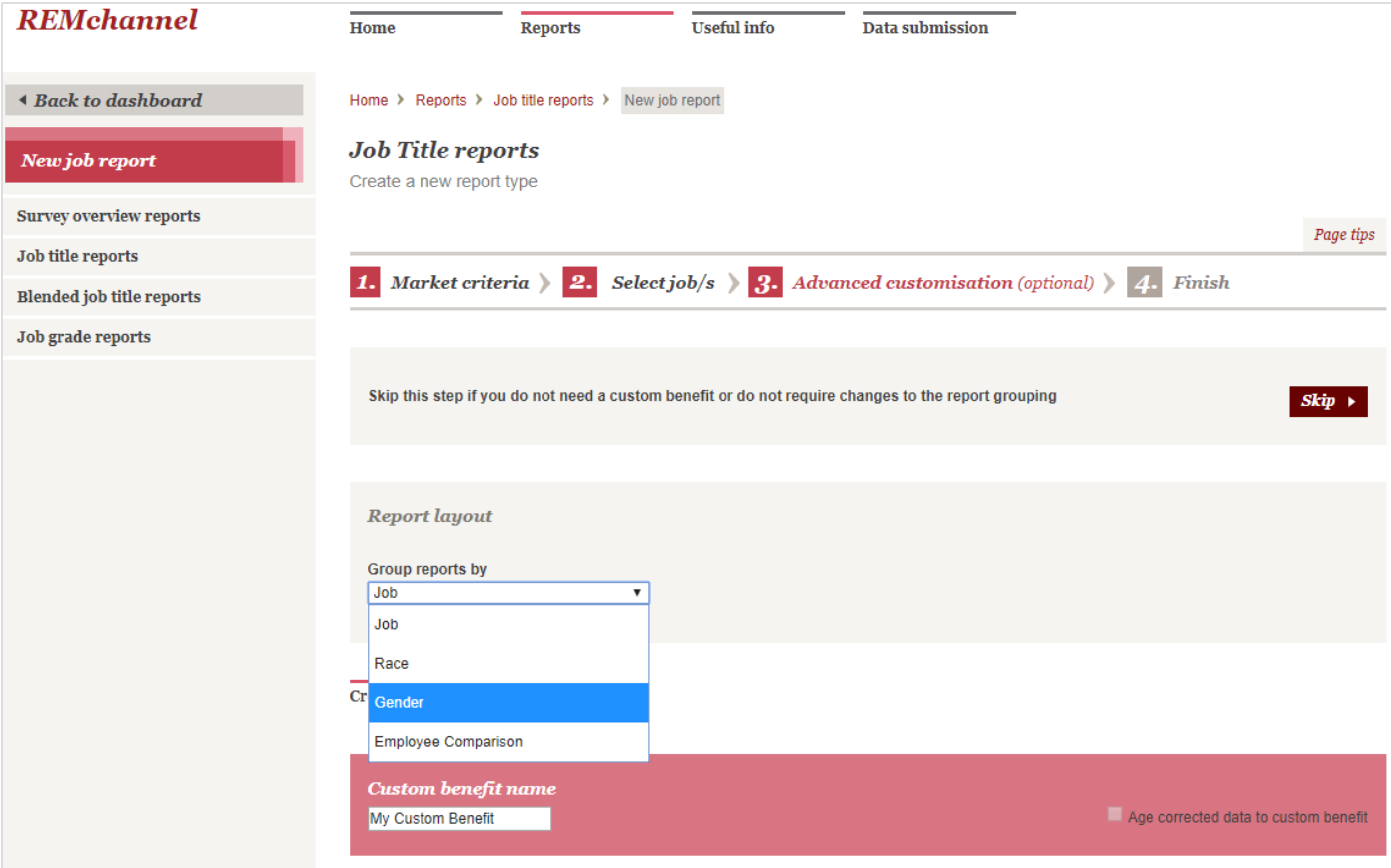


Technology news

Upcoming release in October

We are excited to let you know about our new Excel report on gender coming to REMchannel®. This will help you compare pay across male and female by job title or job grade. Also included in the release will be improved functionality to delete multiple reports at a time.

Our REMprofile® subscribers can look forward to improved user experience where you have more than one user on the system. Other enhancements include the convenience of downloading of profile reports in bulk as well as email notifications added to the workflow approval process.



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

Salary and wage movements

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

02

SA mine

This is the 11th edition of our annual publication highlighting trends in the South African mining industry, as represented by the top 26 mining companies by market capitalisation.

03

Trends in the global insurance market and implications for African insurers

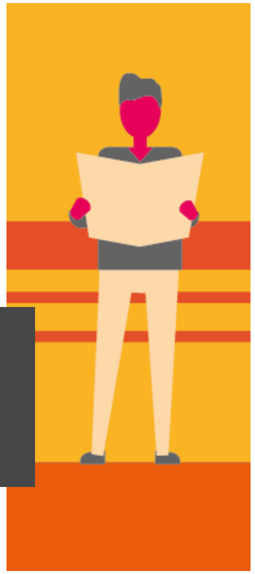
Over the last five years the insurance industry has been among the most disrupted sectors in the global economy, which created a sense of intimidation among insurers.

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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